



BP 2Q 2022 results: Webcast Q&A transcript

Tuesday, 2 August 2022





This transcript contains minor modifications from the original for accuracy or clarification, none of which change the substance of the original. Please refer to the cautionary statement included in the 2Q22 webcast slides.

Q&A TRANSCRIPT

Gordon Gray (HSBC): With a cash balance of somewhere like \$40 per barrel, the amount of excess cash flow at the moment is huge. Your distribution policy, with 40% of that going to the balance sheet, if the macro environment stays anything like it has been in the recent quarters, the balance sheet de-levers massively quickly. Can you give us a sense of how long you think, or where you think you would like to take the balance sheet over time? Because at some point, you would imagine that 40% going to debt reduction will be unnecessary. So just a comment about the longer-term capital frame beyond this year.

Murray Auchincloss: Morning, Gordon. Thanks for the question. Just back to a financial frame if I can. Point one is that we focus on a \$40 per barrel world, and that we make sure the dividend can be funded in a \$40 per barrel world. That is critical to us.

Point two then is the balance sheet, as you say. What is critical for us there, given the scale of our trading organisation, is that we maintain a strong investment grade credit rating. That is what is super-important. We focus on the rating agencies when we think about this. S&P, in particular, right now that have us newly affirmed at A minus.

We need to continue to drive down net debt as we move forward. That is why we are allocating 40% of surplus cash flow to debt reduction in 2022. Of course, we'll update the market in 2023 when we make a decision there. But it is all about a strong investment grade credit rating.

S&P focuses on a \$55 per barrel world. So, we are focused on a lower price world and ensuring that through cycle and a \$55 per barrel, we are able to maintain that strong investment grade credit rating. I will let you use our rules of thumb to think about what that might mean relative to rating agencies. I hope that helps.

Bernard Looney: The only thing I would add is the comment that we made during the text, which is that Murray is a big proponent of this. You know, now is not the time to lose discipline. This is very, very important for us, and therefore, it is very important that we execute on the financial framework, which I hope is very, very clear in terms of its order of priorities and so on. So, we are very focused on that.

Martijn Rats (Morgan Stanley): Hello, it is Martijn Rats at Morgan Stanley. I have got two questions, if I may. They are both related to the Upstream.

I was hoping you could say a few words about the capital expenditure increase from \$1 billion to \$1.7 billion in the US shale business. Not specifically about US shale but, broadly about upstream capital expenditure. What cost of capital do you use these days to evaluate those oil projects, and how do you make the trade-offs with other types of capital expenditure?

The second question I want to ask is what you think the outlook is for your business in the Gulf of Mexico, given some regulatory changes and licencing rounds. I have to say, I find



it a little bit difficult to read what is going on, but I was wondering if you could say a few words about that.

Bernard Looney: Very good. I think on the upstream in hydrocarbons overall, we have generally guided to between \$9 to 10 billion of investment in the hydrocarbons business this decade. We are increasing investment into hydrocarbons at the margin. So, we are probably in the process of allocating around \$0.5 billion to things like the Haynesville in the US. The Haynesville is 11 trillion cubic feet of gas; it is right next to the market, so it is probably one of the lowest cost, lowest methane emissions gas in the United States. And obviously, it is a very flexible investment, and we will allocate more capital to that.

The returns in that business at anything like strip are significant. The returns that we are expecting from our oil and gas investments – our oil investments need to make over a 20% rate of return at \$60 per barrel. So, we are very focused on where we can, making decisions that allocate capital to where energy security can be helped and to where we can make good returns. We will probably add a rig in the Gulf of Mexico this year, which takes me to your second question.

The Gulf of Mexico (GoM) continues to be a core business for bp. It is running well. We are investing in it. We have got three rigs going there right now. We are going to add a fourth. We have had one intervention vessel in the GoM. We are in the process of adding a second intervention vessel. There is some uncertainty around the leasing.

The current – what was the climate bill – now I think an inflation-proof bill or something. It is 725 pages, so I cannot say I have read it all. It has not yet passed as well, so we need to wait on that. But it gives a nod to the importance of oil and gas; it gives a nod to leasing in the Gulf of Mexico, and it is attempting to strike a balance which I think is quite sensible and pragmatic, between delivering energy security today, which is a hydrocarbon-based system for the United States, and at the same time, obviously a lot of climate provisions which will help our hydrogen business, our offshore wind business and our EV business in the US. Murray, anything on this?

Murray Auchincloss: Just very, very strong seismic that we have recently seen lighting up new exploration opportunities that we did not think we would have in the past. Seven targets around, Thunder Horse is an example. They are targets that we would not have seen in the past, but new algorithms and new seismic have been done, and so there's interesting stuff there. So I think along with a very solid base of four moving to five big hubs, we are now starting to see further exploration opportunities that I hope allow us to maintain the Gulf of Mexico through the decade and maybe beyond. It would be fantastic.

Bernard Looney: Certainly, one of the six core regions, as you might imagine and definitely will be a core region in 2030 just like it is today.

Chris Kuplent (Bank of America): Thanks. I wonder whether you can talk about your outlook on Henry Hub in particular. You have already mentioned the Haynesville offering some very exciting returns at the margin. And alongside that, perhaps comment on your hedging strategy regarding your exposure to Henry Hub. Haynesville seems to me in a great place in terms of takeaway capacity, how you view the world, as you refer to it, Bernard, the energy trilemma seems like it is locking Europe into a higher for longer gas price



environment. What is your view? How long will it take for that to translate to a higher for longer Henry Hub price environment? Your strategy around that would be interesting.

And another one on North America. Briefly, your Husky Energy deal or swap, I do not think either of you has announced any financial flows, but I would be interested to hear how excited you are about opening up effectively, potentially a new core region offshore East Canada and how that fits into your high grading strategy that you laid out Bernard. Thank you.

Bernard Looney: Very good. I will let Murray talk about hedging in the US. The outlook for Henry Hub in the US, as with all commodities and commodity markets right now, is probably largely uncertain. Gas, I think in particular globally, we expect to remain elevated and for there to be quite a bit of volatility.

Storage levels, I think, are probably particularly low in the United States right now. There is limited capacity to turn on coal compared to the past because a lot of coal has been retired. On the flip side, Freeport is down, so that is relieving some of the pressure; there's been a heatwave across the US, which has drawn hard, and you are seeing prices up at \$8 today. So I think it all depends. Freeport needs to come back; we need to see what the winter looks like in terms of cold weather. Storage could probably do with being a bit higher than it is today, but those investments that we are making in the Haynesville will be very, very quick payback investments without question. High quality, low emissions, and it seems like a robust market for the time being. Murray, hedging and anything you would add on the Haynesville, then you can go to Husky.

Murray Auchincloss: Yes, I think on bpx and our hedging strategy, generally we are trying to ensure cash flow and ensure that we get a dividend so we can pay back the acquisition price of a few years ago. So we are hedged out about 18 months right now, a year and a half. We are happy with that and along with the increase in capex that Bernard mentioned, we are still getting a dividend out of bpx, about \$1.2 billion this year due to the hedges. So, we feel very comfortable continuing with that strategy of locking in returns, locking in cash flow and making sure that we pay back the original purchase price that we had a few years ago from BHP.

As far as Husky, yes, we are very excited about Bay du Nord. A fantastic discovery. We are looking forward to opening that up. I think maybe we'll describe it as another hub in an extended Gulf of Mexico over time. I am winking at you as I say that. So, we are very excited about it. It is a lovely reservoir. We are happy to take the 35% interest in that and work with the operator Equinor. We'll talk to you more about it once we close because then we can actually say stuff; right now, we are on the outside.

Bernard Looney: Good. Great. Just because we are going into oil in Canada does not mean we are going to go exploring in Ireland, I would add.

Lydia Rainforth (Barclays): Two questions if I could. The first one is just coming back to the idea that it is probably the largest gap I can remember between planning assumptions and where existing macro prices are. So, what challenges does that present to you as an ex-co? Do you actually end up talking through other things you should accelerate or things that you risk missing out on? Or are there opportunities to accelerate? So just how does that create challenges or if it does at all?



And then the second one on cash returns to shareholders. I appreciate this is a little bit of a difficult question in the context of also a cost-of-living crisis as well. How far can those cash returns to shareholders go? You have obviously increased the dividend this time around. What is the threshold for looking at further dividend increases? Why the \$3.5 billion for this time, and just in terms of going forward, where that number can go to.

Bernard Looney: If Murray will take the planning prices, Lydia, I will have a go at the second question, and he will correct me. I mean, in terms of cost of living, I think we all have to recognise that it is a very, very difficult place for people, not just in the UK, but right across the world right now. We understand that. We get it. Our people inside the company get it; they want to help.

And so, the question becomes, what can we do to help? And of course, what we do here in the UK is we are backing Britain. We said we were going to invest up to £18 billion in Britain this decade. We are going to continue to do that. The majority of that is going to be in the energy transition, but there is also going to be a lot going into energy security for today and hydrocarbons. That is with the Murlach Development that we are taking to the next stage in the North Sea as one example.

The second thing that we do is we are trying to create jobs. So, we think we'll create over 10,000 jobs in Britain over this decade through those investment plans. Net zero Teesside power project alone will create 3,000 jobs during construction and 1,000 during operation. We just announced this week that we are going to put our global R&D centre for battery research in Britain in Pangbourne. And the third thing we do is we pay taxes. When prices are higher, rightly so, we pay higher taxes. Now we have an energy profits levy which means that we'll pay even more taxes on top of what we had already planned, and that is what we will do.

In terms of cash returns to shareholders, of course, we have to remind ourselves that it is just two years ago that we had to cut our dividend and take the difficult decision to cut the dividend by 50%. If you look at the numbers today. The \$3.5 billion that we have announced in buybacks for the second quarter takes us to exactly 60% of the cumulative surplus cash that we have had since beginning this programme. I think it was \$17.1 billion of surplus and the amount today takes us to exactly 60%. So, Lydia, on that, we are simply following the math and on the dividend increase, what you have seen is that, number one priority, resilient dividend, we want it to be anchored in that word resilient. Therefore, we say \$40 per barrel world because we think that is a prudent way to plan our company. You have seen the reduction in share count, which means a reduced dividend burden. Murray has also taken down gross debt which has taken down our interest expense. The balance of all of that is that we can then afford a 10% dividend increase while importantly keeping that balance point constant. Given the operating performance of the company and all of the things that we look at, we felt that was a prudent thing to do.

So hopefully, I have not explained any of that incorrectly. You can correct me or move to the planning prices.

Murray Auchincloss: Brilliant answer, Bernard. On the planning prices Lydia, it is important – we like to look through cycle. So, if you look back two years ago, the oil price was negative. We did not change how we did things. Prices are higher now; we are not



changing things. So, we look through cycle. We have our returns hurdles; we invest into those.

On the margin, where does planning change on the margin? You will pursue options faster in fast payback. So you will look at adding well-work rigs, like Bernard talked about, in the Gulf of Mexico, you will look at accelerating some short cycle stuff inside bpx as well. However, that is really on the margin relative to the overall shape of the business. We focus on through-cycle and a \$60 per barrel world for us seems a sensible thing to focus on through-cycle.

Jason Kenney (Santander): Hydrogen, phenomenal positioning, Bernard. Massive scale, particularly in Australia, also Spain, Portugal, the UK. When do you expect to first outline your investment frame for that theme? What kind of money is it going to take? What kind of earnings are you going to generate? The kind of contribution to the bottom-line, when do you see you being able to define that?

Secondly, on the transport solution, obviously, Australia is particularly significant, but you need to get those green hydrogen molecules to other parts of the world. There is a rising debate about the toxicity of ammonia and other transport mechanisms. I am wondering if you are looking into solid state transport opportunities.

And a third one, if I may, just on new businesses. I think four of the large cap integrated, have now invested into fusion start-ups. Is it something that bp could be interested in as well?

Bernard Looney: Very good. Okay, Jason, I think very quickly, I think on hydrogen, I will collapse both questions into one. Anja has joined us, she has been working hard on what we have got, what our plans are. And one of the things coming out of that, is that there will be a real focus on offshore wind and a real focus on hydrogen in the low carbon energy space, so you will see that coming.

In terms of when we will talk about the transport solutions, and you are right, transport is one of the big challenges for green hydrogen to create a global market in the long run. Not everybody wants ammonia. When it arrives at the other side, some people need hydrogen. That has got to be re-cracked into hydrogen. There are lots of different challenges, the teams are looking at that.

In terms of when we will update on that, on our financial frame on our outlook, that will be in February of next year when we do our annual update, and Anja will be joining us then to share her insights and her updated look at things.

In terms of new businesses, I think one of the things that we are trying to do, is get very, very focused. We have talked about our five transition growth engines. That is where the energy of the company is and needs to be. We may do some knowledge investing, if you call it, at the margin through our ventures business. But there is a world of opportunity out there and one of the ways to slow down the transition is to do too much. So, we are very focused on those growth engines, those five, and we need to deliver on those, and they are the things that matter to us. That is really where we are focused, Jason, on those five.



Oswald Clint (Bernstein): Thank you, good morning. Thank you very much. Firstly, just on customers and products, I think you called out in the release, inflation impacting margins and costs and actual customer purchasing behaviour. You do have 200 more strategic convenience sites year-over-year. I wanted to get a sense of what the change in purchasing behaviour is, if you could flesh it out a little bit more? Is it North America, or is it affecting your India growth strategy here? That would be interesting on the first side.

And then, secondly, I know you don't believe in carving out pieces of the business for additional value, but it is interesting to note Aramco buying Valvoline this week, it looks around 8x EBITDA. bp is trading on 2.5x EBITDA. That would put your business on \$10 billion, if not \$20 billion, closer to 2030 for a business you have number one position in China and India. So, I am just curious, does your thinking evolve in any way when you see such transactions? Or should we just assume we let it all come together, it comes out through the DPS line, the buyback line over time? Thank you.

Bernard Looney: Great. Murray, I will let you take the Castrol question.

In terms of customer behaviour the reality, Oswald, it is a relatively complex picture as you look across the various customers' pools that we have. I think gasoline sales are down relative to pre-COVID, down relative to 2019. And, of course, it is very hard to get a true sense of what is driving that. Is it price? Is it changing customer behaviours and patterns? Is it the impact of people worrying about inflation and a recession today? We are seeing that on gasoline.

On the other side, diesel sales are up 5% in the United States. So, diesel is quite resilient and our refining system is actually biased towards diesel, which is one of the reasons that you will have seen some strong numbers today in the refining side. Diesel tends to be a bit more recession-proof than others. So, diesel sales in the United States are up.

Aviation fuel is way up quarter-on-quarter. It is up over 60% quarter-on-quarter. So, aviation is really rebounding but is still not back to pre-pandemic levels.

The convenience business is actually doing relatively well. And as you said, we have added strategic sites. It is actually doing relatively well. If you adjust it for forex, it is one of the strongest quarters that we have had. We have now I think 16 million loyalty customers. The BPme app had the greatest number of transactions in May as it has ever had, and those customers come back more and more, and we are seeing basket sizes on the up.

So, it is a mixed picture and it is very early to draw too many conclusions, other than that this integrated business – and maybe Murray will talk about that in the Castrol question, this integrated business where we can see value shifting up and down the value chain, remains a very, very important part. Hopefully, that gives you a little sense on the customer side.

Murray, Castrol.

Murray Auchincloss: Yes. I think, Oz, nice to hear your voice. You know that we think integration is the way to go, and that we create more value that way, that sits with each of the businesses we have right now. Castrol, in particular, has lots of integration value with EV fluids, as those emerge, including the manufacturing side as well. Additionally,



Castrol has tremendous upside. It has got huge headwinds right now on base oil price. Because of the price of oil, passing that on to customers has lagged. The additives shortage is starting to move behind us. We have the opportunity to high grade the warehouses around the world. We have the opportunity to decrease SKUs massively. That will drive efficiency into the business. And as markets rebound, especially in Asia, from COVID, we will get back to advertising and we should start getting more market share.

We see a tremendous opportunity for profit growth in Castrol that is built into the numbers that we talk about and we think we will create value by having it together with BP. So yes, the answer to your question is yes, you will see that through dividends and share buybacks.

Bernard Looney: Interestingly, Murray, I think it is an extraordinary number, I think between 60% to 70% of the vehicle manufacturers in the EV space are recommending and filling Castrol ON products into the system on day one. 60% to 70% in this new emerging market of coolants for batteries. It is a pretty extraordinary number and I think says a lot to what the team has done, which is why we are doubling down on the R&D in that space because obviously it is a source of growth and we are seeing that in the EV charging business.

Irene Himona (Société Générale): Thank you. Good morning. My first question, if I can just clarify a couple of numbers, what was the provision relating to the Freeport LNG outage in these numbers? And what is your estimated cost this year of the UK windfall tax, please?

And then my second question was actually on Russia. You exited and the West on mas is trying to exit and unplug Russian energy. As a major oil and gas producer, can you try and explain to us, what are the challenges you are facing in the situation, whether that be logistical or operational or financing, just to try and understand the gravity, or not, of what we are trying to do here? Thank you.

Bernard Looney: Very good, Irene. I think only you could put Freeport and windfall tax in one question, but you get full marks for ingenuity on that. Murray, maybe have a go at Russia, but we can do it together.

Just on Freeport, we are not providing a number. But what we are saying is that management's best estimate of the full impact of the Freeport outage is in today's accounts. So full impact, our best judgement is in today's accounts.

And secondly, on windfall tax, you will have seen a number in our accounts. That is not the estimated cost of the windfall tax. That is an accounting issue around deferred taxes and the changes in valuation, and so on and so forth. You will have seen our estimate of tax increase for the second half of the year, and we will provide what the number is when we report our taxes at the end of the year.

Murray, you are a tax expert, you can correct me on that. And then talk about Russia.

Murray Auchincloss: Russia, challenges in the system is obviously energy provision. Russian oil is about back to where it was prior to the conflict. Products remain lower. So, products coming out of Russia, especially diesel, are a challenge for Europe and the rest of the world. And then, obviously, natural gas, with flows of natural gas being down, at I think around 20% of historic levels. Those are really the biggest impacts and that is just



creating volatility inside the market with low supplies. So that is really the principle impact that we see across our portfolio and really the world right now.

There is a bit of loss of other products like iron ore, et cetera. We are well diversified in sources of that, so that is not really impacting us. I think it is principally products and natural gas are the key impacts that we see at this stage.

Lucas Hermann (Exane): Thanks very much, Bernard and Murray, congrats on a very strong result. Trading, I wanted to ask about if I might, Murray. Trading has obviously had a very good six months. Typically, you talk about 2% add to return on capital as a consequence of trading. Can you give us some idea what the run-rate might actually be, if we looked at first-half trading income and how it has impacted numbers? And just staying with trading for a moment, volatility has been pretty extreme. Back end of last year, within LNG as an example, you elected to take down volumes, take down trading in that business to some degree. Just how volatility is impacting the way you think about the trading business at the moment because not only are the opportunities large but obviously the risks are pretty substantial as well.

And then, secondly, Bernard, could you just give us a wrap on projects? You did not mention Mad Dog. You did not mention Tangguh. I presume that was just an oversight or an omission rather than anything else. But, where are we, in terms of progress? And on projects, when are you expecting to take first cargoes from Coral?

Bernard Looney: Very good. Great. Murray, trading.

Murray Auchincloss: Yes. Lucas, I am not going to guide on run rate. We will give you our exceptional and average quarter for oil and gas. And, of course, you had double exceptional in the first half. Obviously, it is above the 2% impact that we talked about. I will let you decide how you would like to model that, but we do not guide that specifically, apologies.

Volatility, you are right. Natural gas volatility is the big challenge with trading right now. The way that we really think about it, is our job is to provide energy flows, first and foremost – 100 cargoes in Europe to help, and as you do that, you hedge those cargoes to make sure that your profits are sustainable as you go through this. Obviously, liquidity is not particularly high inside the traded markets right now. You are seeing that in many of the press announcements you see from other companies. So, the principal risk that we really manage is liquidity risk and making sure that we have enough liquidity to move through a volatile price market. That is why you see our cash levels are so high – to manage that liquidity as we move through this difficult time through the winter.

It is volatile and that demands liquidity and that is why a company like ourselves can work its way through that particular system.

Over to you, Bernard, on projects.

Bernard Looney: On projects, the intent was not to go through all the projects, Lucas. We said seven projects by 2024. I think we could have talked about any number of them. However, I will give you an update, as you asked, on Tangguh and on Mad Dog.

Tangguh has been very, very challenging from a COVID perspective, as you might imagine, over the last couple of years. You can imagine a site with 10,000 workers at the time, with

medical facilities for an accident or somebody getting hurt, but not medical facilities for a pandemic, and having to de-man that site and then ramp it back up. And we are actually back at 12,000 people on-site today in Tangguh. It is going well. The team is doing a fantastic job and we would hope to start that up by the end of next year.

Mad Dog phase two, on location Argos, the topside's commissioning has gone well. It is all done. That is looking good. We have encountered some issues with two flex joints on the riser, on two risers, in Argos. We are evaluating those at the moment. The guidance remains as the guidance and as soon as we know more, we will update. Loads of other projects, ACE, Tortue, the list goes on.

On Coral, it is before the end of this year.

Murray Auchincloss: It is right around year end.

Bernard Looney: Yes, right around year end for first lifting.

Amy Wong (Credit Suisse): Morning. Two questions from me, please. The first one is on your effective tax rate which is you've guided down now, and you said that it is due to a change in the geographical mix of the profits. So, could you elaborate what some of those moving parts are in those geographies and what has changed relative to when you first guided on the effective tax rate?

Then the second question is unrelated, apologies for that, but it is on carbon offset markets and it is a fairly new area and not core at the moment but nonetheless a very important topic in the industry. So, love to hear more about an article that appeared recently about your practices in Mexico, your response to that and some talk about compensation prices and how that is all evolving. Thank you.

Bernard Looney: Great. I am happy to take the second one and our tax expert will take the first one. You did start in tax didn't you?

Murray Auchincloss: Can't live that down.

Bernard Looney: No, it is true. On carbon offset markets and the article in Mexico, the frank answer is we think the article is misleading. We actually went into Mexico – I do not have all the details – but created a grant to get the market established. We did a contract or whatever and we did a contract at the price at the time that the market was. We are, obviously, adhering to the carbon market offset principles here around making sure that communities and so on get fair share and all of that. So, all of the things that you should expect from a company like ours.

So, we went in and made a grant to establish it. We did contracts based on the market price at that time. Prior to the article being published, we recognised that the market had increased and are in the process of renegotiating that to make sure that there is a fairer and more equitable outcome based on today's prices, which I think is a thing that maybe not everyone would do but we are doing.

So, overall the tone, we would say, is somewhat misleading and you should expect high levels of integrity from a company like ours and what we do in carbon offsets and in that



particular situation I believe is no exception. So, thanks for asking the question. It gives me the opportunity to clarify our position.

Effective tax rates.

Murray Auchincloss: Yes. Hi, Amy. First half of the year is 30%, give or take effective tax rate; second half of the year back to normal 40% tax rate, hence the full year guidance 35%. What we did not plan for at the beginning of the year was a much stronger refining market that we did not plan for, nor did we plan for exceptional trading results. So, if you take account of those things, that is what drives effective rate lower. It is possibly the hardest thing to guide on is trying to guide on effective rate. We never really do seem to get it right but we think we will be back at 35% for the full year.

Jason Gabelman (Cowen & Company): Thank you for taking my question, I have two. First on the refining business. I think you and your peers have been discussing lower intake of third party natural gas in your refineries in Europe to minimise cost. Can you just discuss how that impacts refining output on the yield side? I am assuming less NGLs being produced but does that impact gasoline, diesel margin capture? That will be helpful.

Then secondly, just on capex cost inflation. We have heard from your peers that within the oil and gas business they seem to be managing that well, just given established relationships with suppliers. But I am wondering more on the renewable power side, how you are managing through the inflationary environment as you build out that portfolio. Thanks.

Bernard Looney: Thanks, Jason. I will take refining. I will let Murray take the second one. On refining in Europe, we have managed to reduce our natural gas usage by almost 50% which I must say surprised me when I saw the number. I think the teams have been working very hard on trying to find different ways to power the facilities and use natural gas. And they have been doing that and optimising the refining system as they try to help their own countries. We have refineries in Germany and Spain and in Holland.

Thus far, it has not impacted output in any way. In fact, our refineries' utilisation, and if you look at that compared to some others, is exceptionally high, running at over 90% utilisation, Jason, which is one of the highest for quite some time. So, we are managing to maintain strong utilisation, some of the strongest around, I think, reducing natural gas usage but no impact at this stage on the output of the refining system.

Murray, inflation on renewable power.

Murray Auchincloss: Yes, and, Jason, thanks for joining us so early from the US. On renewable power, probably the same answer that I gave last quarter. Nothing has really changed since last quarter. Year-on-year we have seen 30% inflation in solar panels due to different rules around the world but power purchase agreements are going up by a commensurate amount so returns are not changed, especially in the United States. And then in offshore wind, we have seen 5% increase in the overall cost of the offshore wind programme. That is mainly reflected in steel and iron ore prices. That is theoretical. It is a theoretical measure because we are not locking in right now but, of course, in the latest contract for the difference rounds, you are seeing a commensurate rise in power price that offsets that as well so the returns stay relatively stable.



The thing to watch is iron ore prices, steel prices, etc., starting to deflate with recessionary talk and you can all see the indices and what those are doing in 2023. So, we will be trying to make sure that that flows through into these types of businesses and we capture some of that deflation as we enter 2023.

Paul Cheng (Scotiabank): Thank you. Two questions please. First, on the dividend increase, you guys are still talking about 4% annually, that is through 2025, but you are also buying back a lot of stock and so with the share base shrinking, it seems you would be able to afford more than 4% because you are probably going to buyback more than 4%. So, how should we take that into consideration when we are looking at the potential increase, the pace of the increase? That is the first question.

The second question, I want to go back into your refining system in Europe. Even though you reduced your gas consumption by 50%, but with the much higher natural gas price in Europe versus the US, there is cost differences or disadvantage, can you quantify for us how big is that cost disadvantage right now between your US and the European system in the refining due to the much higher natural gas price over there? Thank you.

Bernard Looney: Thank you, Paul. Murray, maybe, help me on the second one a little bit. On the dividend, it is what we said earlier, is it not? It is the guidance for 4% is at a \$60 per barrel oil price. The fundamental factor here that we are dealing with is we want to maintain a strong balance point. We want to anchor on that \$40 per barrel. We think it is the right way to run our company. As you quite rightly pointed out, we have purchased a lot of shares, that has brought the share count down. We have also repaid a lot of debt in a gross debt sense, that has brought our interest expense down. That means that this quarter, given the fact that the company is running well, and the outlook for the environment, we are able to raise the dividend by 10%, and do so while maintaining a \$40 per barrel oil price breakeven.

So our guidance remains what the guidance is, first call on capital, resilient dividend, resilient, meaning \$40 per barrel breakeven, and 4% at \$60 per barrel, and you have seen today what we have managed to achieve in the current environment, and I should leave that at that.

Murray Auchincloss: Great. On European refining, I think, Paul, what you are mentioning is that the price of natural gas in Europe is much higher than the United States, and so does that impact the European refineries? Of course, it makes them much less profitable. But carbon taxes are different between nations. Demand is different between nations as well, so it is probably more complicated than that. I would say refining profits inside Europe are quite suppressed though. It is a difficult time period, and we are primarily focused on flow for society. But I think that is all we should say.

Christyan Malek (JP Morgan): Hey, good morning. Sorry, I cannot be there in-person. Most of my questions have been answered, this is going to be slightly more strategic. The \$40 per barrel balance point was a great degree of discipline during heightened periods of volatility into areas where we just did not see demand visibility and so on. But to what extent is it becoming a double-edge sword for you now, in the sense that it does feel to me that concerns around demand, recession and ultimately disbelief from a higher long-term view, I guess it gets exacerbated by the industry also pointing towards a fairly sort of lower-for-longer relatively conservative planning assumption.

So, I guess my question is, what does it take for you to raise that balancing point? And I the focus of that question because people always focus on cash breakeven as a very good degree of efficacy of cash flow. But just wondering if you are going to need the market to believe that this is a sustainable macro environment beyond the next one to two years, what does it take for you to do that? And then I guess the corollary from that is, would you then consider thinking about maintaining or managing your oil volumes over the medium term, as opposed to decline? So, there is more of a series of questions, but just want to know your thought process and what are the key pace determinants around it. Thank you.

Bernard Looney: Yes, Christyan, thank you. So, I think just a couple of things to say on this. So, first of all, I think we all know the history of our industry, which is that I am not sure a lot of value was created when we chased price. So, we, at bp, Murray and I, feel like that is a lesson that we have learned. And the comment in the script today was meant with that purpose in mind, which is now is not the time to lose discipline.

So, that is the first thing to say, is that we are anxious not to get drawn into this, into believing that this new world will be this new world forever, and we are cognisant of the industry's history. So, that is point number one.

Point number two, is that the first call on capital in our financial framework is our dividend. And we talk about it being a resilient dividend, which means that we want to protect that dividend given our experience of having to cut it, just two years ago. So, we are very focused on making sure that our investors and our owners can rely on that dividend. And, therefore, we believe that it remains prudent to maintain a \$40 per barrel breakeven price in light of the fact that prices are much, much higher today. But we believe that that is the right thing to do.

In terms of production and so on, you have heard us talking today about allocating about \$0.5 billion, potentially more, towards energy security today, which is about hydrocarbons, in particular, natural gas in the Haynesville. And we will continue to make those adjustments at the margin where we can get the returns for our owners, that we feel are good returns, and where that capital is relatively flexible.

So, we believe this is the right thing to do, and the right way to run the company. And I understand the question very, very well, but that is what we have concluded. Murray, anything to add?

Murray Auchincloss: Discipline is our focus, yes.

Bernard Looney: Discipline is our focus.

Peter Low (Redburn): Hi, thanks for taking my question. Yes, so I just had one on your target to develop 20 gigawatts (to FID) of renewables by 2025. To what extent is that now already underpinned by your existing pipeline, or to what extent do you still need to acquire existing opportunities to deliver that?

And then perhaps linked to that, how are you thinking about the split between PPAs and merchant exposure within that renewables business? It feels like an increasingly volatile energy price environment, you are showing the advantage perhaps of having more merchant, especially where you are not reliant on PPAs for financing? Thanks.



Bernard Looney: And it also, Peter, shows the benefits of being an integrated company because I hope the point about the 10 gigawatts of [installed capacity] that we will have from our own EV charging network versus our five gigawatts of offshore wind capacity, was not lost on there being a real connection there. But I will let Murray take the PPA and the merchant thing.

On the 20 gigawatts (to FID), I think, either largely underpinned by existing, or expectation that it will be underpinned, we are at 4.4 gigawatts today. The pipeline is well over 20 gigawatts (to FID). It is 80% solar. Lightsource bp continues to be a very effective solar development machine. And, therefore, I am very comfortable that we will reach 20 gigawatts (to FID) by 2025 in a way that satisfies our returns, and does not mean that we are going to have to go and buy something to get there.

So that is what I would say on that. Murray, PPA's, merchant.

Murray Auchincloss: The way that we think about it, is in a portfolio sense, and we start to think about what are the different sales that we have that we can anchor electrons into. So, if you think about the different parts of the business, Bernard has already mentioned the fast on-the-go charging with 10 gigawatts installed capacity and the potential demand. We will have fleet customers that are not inside that number that will have their own demand like a Royal Mail. We will have the big corporate deals that our marketing teams have done with Microsoft, et cetera that you have seen publicised.

You will have natural sinks such as net-zero Teesside, if we put a green hydrogen plant in there, which I think we will. That will be a natural sink. We will have other green hydrogen opportunities across all of our refineries, globally. So, we have a very, very large natural sink that we can plough these electrons into. And then on-trade, which is what we have done with natural gas for four decades, we established natural sinks for our natural gas, and we then on-traded through trading to arbitrage.

So what percentage do we do? I do not know. That's something that we are continuing to evaluate. We'll make those decisions as we get close to sanction on each of these projects. But certainly, as you can see, the importance of that integration is very, very high. And to Lucas's question, the returns are enhanced when you can do this given the optionality you create inside the portfolio. So, we will update you in the years ahead, I think, is what I would say, as we do each of these big investment programs in the offshore wind space. And I think you will see a very different type of company, ourselves versus the pure plays, where they will be having fixed returns, and we will be having returns that play into volatility.

Henri Patricot (UBS): Yes. Thank you for the presentation. Just one left on your EV charging EBITDA target, \$2 billion by 2030. And you provide a 2025 target in terms of charging stations. I was wondering in terms of the EBITDA evolution over the course of the decade, does it follow closely a number of charging points, or is there an inflection point in the second half (of the decade)? Maybe expand on the drivers here?

Bernard Looney: Yes. We do not have an EBITDA target for 2025, but we have shown you what the EBITDA number today is, for 2030. I think you will see that it will start to kick in, in the second half. I would not say the late second half; I would say the early second half



of the decade. We are actually seeing some of our sites already being EBIT positive, Henri. So, this is a question of driving utilisation.

And on average our top 10 sites in Britain today are at double-digit power utilisation already. Our top 20 sites in China are over 20%, and I think we are beginning to see a real tipping point coming in terms of the EV sales representing globally, I think, about 5% now, and we are starting to see that being a real tipping point based on history.

So, very optimistic actually in this business, very optimistic. It is exactly what we should be doing. I always say, if you wanted to start a company tomorrow, if you wanted to do a start-up, to do EV charging, the biggest issue you would have is access to land. 550 million people live within 20 minutes of a bp site.

So, right there and then, we have this enormous incumbent advantage. We have a brand, we have a convenience offer, we have a loyalty scheme, we have all these things that are crucial, and we are focused on rapid or ultra-fast charging, and we are focused on fleets. When we come back next time, we will maybe talk about what Amply is doing in America, the company that we recently bought and the management team there, which is focused on software as a service, charging and hardware as a service.

So, huge excitement, quite frankly, about what is possible in this space. And of course, with the price of energy today, EVs look even more attractive. So, we shall see. We are all in on that space. We are expanding Royal Mail here in the UK, continuing growth with Uber, we are now with Hertz in the United States. It is a very exciting business.

In fact, to close, I was in Stuttgart a couple of weeks ago, and I was on an electric truck, which was a 28-tonne truck, which is not a prototype, it is available for sale today. And it is extraordinary. If I showed you a picture of this truck, and I said that is an electric – that is a battery truck, and it's for sale, and people are buying it, not at huge quantities yet, of course, but they are buying it, that would have been unthinkable three or four years ago. In fact, Martin Dome talked about shutting down that program in 2016, because he felt it was going nowhere. And yet, here we are in 2022, and they are building those trucks in Stuttgart. Incredible the size and scale and pace of acceleration in this space.

So, we are excited, as you can tell, about EV charging. It is one of our five growth engines. It is not the only one, but it is certainly one of the ones that is going to show up in an earnings sense this decade.

So let me, I think leave it there, if that is okay. Let me just close with how I closed the main session, which is, I think the company overall, always things to deal with, as you might imagine, but overall, our company is running well. It continues to strengthen, and I and Murray are enormously grateful to our teams around the world, who are the ones that do that each and every day. So that is the first thing.

The second thing is, we are making good strategic progress. We are doing the things that we want to do, which is about providing the world the energy that it needs today, which is mainly a hydrocarbon system, while at the same time, investing to accelerate the energy transition, and we are making real progress on that strategic progress.



Thirdly, the financial frame. I think it is one of the things that we can say about bp, is that I hope you all think that it is clear, it is consistent, it is unchanged. And it is doing what it is supposed to do, which leads me to the fourth point, which is obviously, we are also growing distributions to our owners. And you have seen the results of that, today.

So, as ever, thank you for your interest in our company, and in what we are trying to do. We're doing our best. We are keeping going. And if you have not had a break, I hope you get a break over the holidays.

So, thanks very much. Thanks for being here.

[END OF TRANSCRIPT]