bp 1Q 2021 Results: Webcast Q&A Transcript

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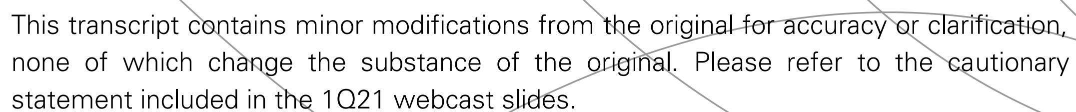

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Q&A TRANSCRIPT

Michele della Vigna (Goldman Sachs): Thank you very much and congratulations on the strong result. I really had a question on dividend and cash return to shareholders. You are about to embark in a major buyback programme which, if we take into account the current share price, the current oil price, could effectively reduce the share count by about 20% by the middle of the decade. I was wondering in this context, why keep the dividend per share (DPS) flat? Why keep it static? I can understand why an oil and gas company would not want to actually grow the commitment to the dividend payout. But on the other side, as the share count shrinks, I was just wondering why not grow the DPS without actually increasing the dividend burden for the company? Perhaps you need a bit more time to start reducing the share count now that you have reduced the level of net debt, but I was thinking is there an opportunity where the dividend comes back to growth?

My second question is actually simpler, is what are the key macro assumptions you are currently implying into your guidance for the second quarter? Thank you.

Bernard Looney: Michele, good morning to you, and I hope you and your family are well. Good morning actually to everyone on the call, good to at least hear you all and see your names on the screen if we cannot be with you in-person.

Murray will dive in and help me here. Look, I think it is important to realise we just laid out our new financial framework on 4th August last year, so we are six- or seven-months in. There were two stages to the framework - phase 1 and phase 2. Today with net debt coming down, in fact, it is now down $18 billion over the pandemic period, we move into phase 2 and we start that buyback programme.

Just two things I would say around the choices that we made around the dividend and around the buybacks. Number one, we want people to be able to rely on and trust the dividend, that is why it is the first call on cash in the financial framework. There are five potential calls on cash and the dividend is the first call. That is why we call it a resilient dividend. We want to make sure that people can rely on that and depend on that, and that is what it gives us.

Secondly, we want to give them the upside that they deserve through the buyback programme, and with equity prices where they are today, we think that makes a whole lot of sense, buying back our shares at this price. That is why we are very delighted actually to announce the buyback programme getting kicked-off in the second quarter.

No change to our financial framework. The dividend policy is as stated. The buyback programme has now kicked-in, and we believe, and believe quite strongly, that in a moderate price world, as we look over the next year or two, investors can get back to that pre-pandemic cash distribution levels, and that's very possible as we head into next year. That is really where we are at, and I would not say anything beyond that at the moment.

Murray, anything you would add on that, and maybe the second question around the macro assumptions?

Murray Auchincloss: Yeah. I think maybe, Michele, that the thing that we have to hold in mind is there is still an awful lot of surplus oil that OPEC+ is managing right now, and

there is still a lot of uncertainty in the environment with the pandemic, so prudence is on our mind, as we think about decisions quarter-on-quarter.

As far as your question on 2Q21 and what our macro assumptions are, obviously, you can take a look at what has been realised to date. I think the March and April pricing is in the $60's/bbl for Brent and RMM is starting to move up a bit. We will not realise as much of that in the second quarter, given a lot of our refineries are focussed on jet fuel. And, of course, the WTI-WCS differential in North America is remaining quite narrow.

However, if you think about will we have a surplus in the second quarter, the macro assumptions around that, I think it is just best to look at what has happened already through the quarter. You can look at the markets to understand that for March and April inside the oil business and we publish our RMM on the website. Thanks.

Thomas Adolff (Credit Suisse): Good morning guys, just two questions for me as well. The first one is just to get a better sense for the discretionary buyback. You have mentioned you will give us guidance with the 2Q results, looking back at the first half but also looking forward. Are you saying with the 2Q results we will get the annual 2021 discretionary buyback announced? That is question one.

Question two is on the disposals. You are aiming for $5-6 billion this year, and you have done almost $5 billion in the first quarter, and you have got another $10 billion to go over the next few years. I guess the question I have is why not more than the $5-6 billion, since you have done already $5 billion, and how should we think about the rest between downstream and upstream? Thank you.

Bernard Looney: Great, thanks Thomas. Why don't I take the one around disposals and I will let Murray take the one around the forward look on the buybacks?

Look, I think the team has done a fantastic job accelerating those proceeds into the first quarter. Things came into place for us in a few places that we had not thought would go so quickly. It took a lot of work, and it meant that we did get almost $5 billion of cash in the door in 1Q, which we are very, very pleased with. We have upped the target for the year to $5-6 billion. The key thing going forward around divestments is we are not in a hurry. We are just not in a rush. Particularly now with net debt down $18 billion through the pandemic, down $5.6 billion in the quarter – now $33.3 billion, which is below our $35 billion target – and with the buyback programme, we will continue to allocate 40% of surplus cash to balance sheet.

The main message is there is no real rush. There is no real panic. We have got four to five years to do the next $10 billion and will be driven by value. If we get great prices for assets, as we think we did in Oman, and what we did with Petrochemicals, that is when we will execute those transactions. There will be a whole variety of things – there will be upstream assets, downstream assets, there will be infrastructure assets. However, the main driver is going to be making sure we get value for the good assets that we have in our company. No rush to do so, and as the environment improves and things begin to stabilise over the coming months and years, I also think we will probably find a healthier M&A environment.

The main message is - comfortable with where we are at; continue to focus on the balance sheet; continue to focus on value from the divestments; but, importantly, no rush - value-driven.

Murray, Thomas' first question.

Murray Auchincloss: Hi Thomas, good to hear from you. Just three points around this really. First of all, we had a surplus of $1.7 billion in the first quarter. Second, we have said we will have a deficit in the second quarter. In aggregate, our sense is we will have a surplus in the first half of the year, but let's see how life goes. Then for the second half of the year, the guidance we have given you is that we are breakeven above around $45/bbl Brent oil, $13/bbl RMM, and $3/mmbtu Henry Hub. And that is on a glide path down to the 2021-25 breakeven target that we talk about –$40/bbl Brent oil, $11/bbl RMM and $3/mmbtu Henry Hub. So you can see we are making good progress; it is just going to take time to continue to take costs out, to continue with capital discipline and obviously get new projects online, like Mad Dog Phase 2, Tangguh, and growing the Customers & Products business.

That is a little bit about the guidance point that we have given so far. We feel pretty pleased about that progress.

As far as how we will think about the second quarter, what we have said is while uncertainties remain - and those uncertainties are the overhang on oil supply and the pace of vaccinations and COVID - we will only be guiding one quarter ahead. We just think right now that we need to be prudent with the balance sheet. That is our number two priority once we have paid the dividend. We are just going to announce one quarter ahead. So in 2Q, when it comes to making the decision with the Board, we will think about that first half surplus, we will be thinking about the 60-40, and will have an eye towards the future oil price and the environment and refining conditions we see in the second half of the year. Hope that helps, Thomas.

Bernard Looney: Very good. I think the only thing I could add, if I could, Thomas and Murray, a question I got on the media this morning is somehow a suggestion that these $500 million of buybacks in the second quarter are not really buybacks, or words to that effect. Of course, they are real buybacks. We have been issuing shares for employees over the last decade. In fact, the shares we will be buying back in the second quarter were issued in the first quarter. I think an equity investor would look at that as a very positive thing, and I just wanted to clarify that, but I know you are all very aware of that on this call.

Jason Kenney (Santander): Thanks and congratulations on gas and marketing trading results and the delivery of Raven 2. Can you remind us about the overall support for cash flow from new project start-ups, including Raven, by 2022 versus, I think it was 2019 when it was first announced, and the upsides thereof because of the stronger oil macro and year-to-date?

Second question, is bp looking at or has it considered, turning its access to mature or late-life upstream resources into in situ clean hydrogen production assets, and if not, is there a reason why?

Bernard Looney: On the projects one, I think Murray dive in and help me out, I think we said we do 900,000 barrels per day of new production by the end of 2021; we are at about 770,000 barrels per day today. Raven has just come online, it is running at about 600 million standard cubic feet per day today, on its way to 900to 1 billion standard cubic feet per day through the rest of the year. We got the second project on in India, satellites project; Reliance has done a very good job there. They are the operator, so that has come online. That is a good piece of business for us. Out to the end of 2023, we have got 14 more projects to come online – there are some big projects in there, not least, Mad Dog Phase 2 in the Gulf of Mexico.

You will have seen the photograph of the Argos facility having made its 16,000-mile trip around the world and ending up in Texas in the last few weeks- a big milestone. All the wells are pre-drilled there. That is a 65 mboed net type of business, so helping the GoM approach that 400,000 barrels a day from the GoM that we talked about some time ago over the coming years. Tangguh expansion. Some great projects to come on in the next couple of years as well, all supporting an increase in cash, and Raven in particular quite leveraged there. Mad Dog, Tangguh expansion obviously very, very leveraged as well. You can clarify if that helps you or not but a good suite.

Murray, anything you would add on the projects?

Murray Auchincloss: Yes. Jason, I do not know if you were thinking about the 35% higher margin that we have talked about from our major project suite? You have to go way back in time, back to 2015, where we talk about this 900 mboed of projects coming online at 35% higher margin than the existing base business. I think we upped that to 2016, and Craig can clarify that after, but the 35% higher margin continues. Particularly this wedge coming through now of Raven, Mad Dog Phase 2 and Tangguh Phase 3 - three very large projects with very high margins.

Bernard Looney: On hydrogen or your left field question, as you called it, I do not think it is left field. It is a good question, Jason. We look at all options for all of our assets and clearly if we can take advantage of a traditional asset and a late-life asset and somehow take advantage of the transition, then we will do that as those opportunities arise. You can certainly see that potentially in the case of carbon capture, use and storage where in many ways we will be doing in Teesside here in the UK what I call taking the carbon back. The carbon that was taken out of those reservoirs we will end up putting it back into some of those reservoirs and hydrogen will be part of that solution. We continue to look at sort of all options and all uses for the assets that we have and are particularly interested if we can take advantage of the transition. What you see us doing here with hydrogen and carbon capture in the UK is one such example in the southern North Sea. Hopefully that helps, Jason, and good to hear your voice.

Jason Kenney: Yes, thanks.

Lydia Rainforth (Barclays): Thanks and good morning everyone. I have two questions, if I could. The first one on Capex, as you move into phase 2 and clearly the Capex numbers were going to move up as well to that $14-16 billion, I am wondering how you are thinking about that and whether you see opportunities that you want to accelerate because of where the net debt numbers have got to?

Then secondly, on the US side and the electricity side, I think there were reports yesterday that bp had applied for a retail licence there. In terms of that, is that a change to you actually wanting to have customers now on the electricity side? I think in the past you have said that it was not something that you really thought you needed. Thanks.

Bernard Looney: Lydia, good morning, good to hear your voice as well. Yes indeed this Federal Energy Regulation Commission (FERC) application has raised some chatter in the media and amongst people. I guess the first thing to say is there is no change in strategy. We are certainly after customers, but our focus is predominantly on commercial and industrial customers. That is where our focus has been and that is where our focus will remain, so zero change in our strategy and our approach.

You should think of this as a local team taking a local option. I actually was not personally aware of the application. That gives you a sense of the significance of it inside the company. One of many things that I am sure are happening around the world each and every day. Just think of it as optionality but not a change in strategy in any dimension at all. We can talk more about that later if you want to, but no change to our strategy with commercial and industrial being our focus on customers.

Secondly on capital, we have moved to phase 2. Phase 2 does imply $14-16 billion of capital guidance. I think the key word that I would draw our attention to is 'discipline'. I think it is desperately important for us that we both exercise internally, and demonstrate to the market, discipline as we go through this transition. Of course uncertainties remain, as Murray said, and the world recorded its largest number of COVID cases ever on Sunday, so while those of us here in the UK and the US may think we are coming out of the pandemic that does not mean that the world is coming out of the pandemic. That is why we made the decision to not change our capital guidance for this year. It remains at around $13 billion, and as we look to next year we will assess the situation as we approach the end of the year and make a choice within the framework that is out there. We are very, very focused. Murray used the word prudent; I used the word disciplined, on managing this business carefully and well. Taking care of cash returns for the shareholders, taking care of that balance sheet, while at the same time being able to transition the company. I hope that is what people have taken from this morning's results. Hopefully that helps, Lydia.

Lydia Rainforth: Brilliant, thank you.

Paul Cheng (Scotiabank): Hi, good morning, thank you. Two questions. First, can you guys discuss a little bit more about the economics of your e-charger business? And also in the configuration that I think most of them that you say are included in your existing service stations. So how many e-charging in each station? That is number one.

Second question is on your gas and low carbon business. Obviously very, very strong and you indicate that you saw exceptional trading. I am trying to understand what is the underlying oil and gas operating performance within the context of the first quarter when

you earn $2.3 billion. Is that $600 or $700 is on the underlying oil and gas operations results? Thank you.

Bernard Looney: Thanks so much Paul, I am going to give the trading question, to deftly avoid saying what the trading number was, to Murray in a moment but thank you for your question.

On charging, last year we had about 7,500[1] charge points in the company. We have an ambition to grow that to 70,000 by 2030, maybe about 25,000 by 2025. Today we are at a little over 10,000 charge points in the company. The majority of them in the UK, around 8,500. We have got a couple of hundred in Germany on our retail sites and we have got about 1,500 in China which is around the DiDi joint venture. Reminding you that DiDi is the world's largest mobility provider and the world's largest owner of electric vehicles. That joint venture is going incredibly well as we build that out.

We hope to add about 500 ultrafast charging points to our Aral network in Germany by the end of the year. I think we will get up to about 30,000 in China by the end of the decade and our focus in the UK is around ultrafast charging adding about another 1,000-2,000 by the end of the decade here in the UK.

We are also working with fleets so it is not just on-the-go. We are working with fleets here in London with Uber. We are their partner here in London, we are also their partner in Houston.

The economics of this game are obviously in their early days, but what is going to drive this ultimately is utilisation in terms of the economics of the actual transaction itself. Of course we will add to that the economics of the convenience business that we have around it. Utilisation is driven by getting people to your site. That is why we have done a deal with DCS (Digital Charging Solutions) which is all about the in-car dashboard software for vehicles. We want to be in that dashboard. We want to be pointing people to the bp charge stations and that is what that does.

The second thing that it relies on is making sure that there are electric vehicles out there. For there to be electric vehicles out there you need the infrastructure to be out there which is why we did a deal with Volkswagen which is looking at 6,000-8,000 charging points across Europe over the coming years. Again, putting us in the dashboard of Volkswagen. Utilisation is key, building the convenience offer around the charging is going to be key, and obviously it is key on fleets as well. That is a little bit of a summary of our charging plan for the next couple of years. Personally, I have to say very excited about it. Very excited about these partnerships with BMW, Daimler, and Volkswagen Group, huge opportunity for us there.

Murray Auchincloss: Hey Paul, I am not going to satisfy you because I will not give you a number because we do not disclose numbers on trading. I will give you the secret key that we use: it is average, strong, very strong and exceptional. I think from memory we have had three exceptional quarters over the past decade or so. The last exceptional quarter we had was second quarter of last year in oil, and obviously we have an exceptional quarter on the gas trading side this quarter. We just do not provide numbers. It is a choice that we have made as a Board and a Management Team. I think if you just look at the run of quarters on gas and low carbon from the disclosures we have put in place, you will be able to draw your own conclusions from that.

(1) FY2019: >7,500 FY2020: 10,100

Bernard Looney: In terms of the underlying business I guess, Murray, a way to look at it is the fact that in a normal trading environment, so we are not relying on exceptional trading going forward, this business is breaking even at $45/bbl in the second half of the year, $3 Henry Hub and $13 RMM. That gives you a sense of we do not rely on exceptional trading to deliver the cash performance that we are delivering. We take that out of the equation when we factor in our breakeven for the second half of the year.

Murray Auchincloss: Maybe the last disclosure point we can help you with Paul, as we talked about on 16th September, is that our trading business makes about 2% on top of ROACE for the business. So hopefully that helps you understand scale.

Biraj Borkhataria (RBC): Hi, thanks for taking my questions. Two please. The first one is on the $500 million for the share awards. Could you just highlight whether that is the typical run rate for each year? I recall an announcement a couple of months ago around the new strategy and offering a special round to the employees. I do not know if this is part of that or whether we should expect some roughly $500 million a year for this. Just wondering how to think about the run rate there.

Then the second question is on some news flow overnight. Flows for Shah Deniz have been halted according to some reports due to a contract issue. I was wondering if you could shed some light on that and what is happening there. Thank you.

Bernard Looney: Biraj, thank you. On the share awards, what we are referring to is the ongoing equity that is issued on an annual basis. What you are referring to in the announcement a couple of months back is what we call a reinvent share plan. That will not become equity until 2025 I think, Murray, so this is not in relation to that. We have been issuing shares as part of our equity plan every year for the past decade and this is the point in time where we have chosen to buy back those shares and prevent that dilution. It is not associated with the reinvent bp share plan which will become a factor in 2025 and will depend on the price and so on and so forth on that day. Shah Deniz, Murray, anything you have on that?

Murray Auchincloss: Nothing I am aware of. We will check back in with you in a minute.

Bernard Looney: We will follow back up with you, Biraj, on that.

On the previous question around gas and low carbon as well, you will also have seen production growth in the quarter coming out of maintenance but importantly as Raven has ramped up. You will also see lower costs in gas and low carbon in the quarter as well. Not just the trading story but an underlying business improvement story as well as an exceptional trading result in gas and low carbon. Murray, back to you on Shah Deniz.

Murray Auchincloss: Yes, Biraj, I do not know exactly what you are referring to but we do have a contract for stage one of Shah Deniz that ends with Turkey. That might be what it is talking about and of course that is being renegotiated and extended. Maybe there was a press article on the contractual situation, but Shah Deniz is flying as far as we know. Thanks.

Biraj Borkhataria: Thank you.

Irene Himona (Societe Generale): Thank you, good morning. My first question - and congratulations on beating your net debt target nine months early - but having done that you say that you now intend to devote 40% of the new definition of surplus cash to the balance sheet. How should we think about what you are trying to achieve with the

balance sheet going forward? You do not have a gearing target any longer. I was wondering how far you intend eventually to de-gear the balance sheet.

The second question, you used to disclose cash flow and working capital excluding Deepwater Horizon. Is that still available for us to see, please? Thank you.

Bernard Looney: Very good, Murray second question?

Murray Auchincloss: Yes, on Deepwater Horizon, Irene, it has gone to such a level that it is not material anymore. In the second quarter when we make our annual payment we will give you a disclosure on that payment. I think you know that payment cycle of $1.2 billion pre-tax, but the overall levels declined to such a level that we do not disclose it. It is probably somewhere around $150 million would be my guess. It is just an attempt to clean up some of our disclosures.

Bernard Looney: Great, and Murray why do you not take Irene's first question as well around how far to de-lever?

Murray Auchincloss: Yes. Irene, I think it starts from a place of prudence, making sure that we protect the balance sheet and protect our ratings. As Bernard talked about, our first priority is that resilient dividend. Our second priority is ensuring that we have a strong investment grade credit rating, having reached our $35 billion net debt target. We obviously work with all three ratings agencies, Moody's, Fitch and S&P. They all describe strong investment grade credit rating or ratings. The mechanism for calculation are all quite different so it is very hard to give a specific calculation that would emulate what they do. Instead we are just trying to focus the market on maintaining strong investment grade credit rating across those ratings agencies.

We believe out of an abundance of caution due to the oil overhang and the unfolding situation with vaccines and COVID, that it makes sense to continue to de-gear the balance sheet. We have stated with the Board this week that 40% of surplus cash flow will go towards the balance sheet and that is the disclosure we can make at this moment in time.

We are not guiding on what future targets might be. We just think, given the uncertainty in the world, it is very, very sensible that 60% of the surplus goes to shareholders and 40% continues to go to the balance sheet. We will re-evaluate that at year end and communicate it appropriately at year end.

Bernard Looney: Great, thank you, and I 100% agree.

Jon Rigby (UBS): Can I just go back to the gas trading figure, or, rather, the occurrence? Can you just talk a little bit about what happened? Is it just basically serendipity? It just happens to be the way you are positioned structurally benefited from Uri or was there, in the moment, adjustment to capture excess returns? If there is, and this is probably the crux of my question, is that always going to be asymmetric, i.e. that you can always gain, but you can avoid the same kind of exceptional losses? I guess what I am really concerned about is how much risk and how you are managing that risk in the gas business.

The second question, just on the comments that you made about electrification, there are two things. One is a question on the relationship you have with the OEMs. Is that something that is unique to you or can they be replicated by competitors? Then, just picking up on that and then the bp Pulse comment, it just occurs to me that when you

look at those things, if indeed these are common agreements, how can you differentiate the supply of power to cars and not just see it commoditised if, indeed, you have the same relationship with OEMs and you are providing power to cars without the non-fuel side of the business? I am still struggling with this concept that the electrification of the transportation fleet leads to you being able to expand your margin in the convenience space. Thanks.

Bernard Looney: Thanks, John. I will say a few words on Uri and North America and let Murray talk about the specifics around risk and so on.

On electrification, the deal with Volkswagen places bp in the dashboard and no one else, so that is very, very clear. That is where you will get directed to a bp charge point in Europe. That is true of Daimler today, or Mercedes Benz actually, here in the UK today, as well, so these deals are differential in that regard and the deal with DCS (Digital Charging Solutions) will obviously put us in a prominent position on where you get directed. That is number one.

How do you differentiate an electron from an electron on the back of that? You differentiate it by the experience, quite frankly. If you can charge your car to go 100 miles in 10 minutes, I think that is a differentiated experience. That is why we are focused very heavily on ultra-fast charging. If you have a digital solution that is end to end, that is easy to use, that allows easy payment, that will differentiate you. If you have a loyalty mechanism, which we have and we are growing, that will bring you back, that will differentiate you. If you wrap that around a convenience offer which is differential, as we think we have here in the UK with Marks & Spencer's and as we have in Germany with REWE, that will differentiate you and that is what gets you the utilisation, which, in turn, gives you the return. I hope that gives you a little bit of a sense.

Is it going to become more competitive over time? Absolutely. No question about it, in my mind, and the rent will move around from, maybe early on it will be the electrons and, over time, will shift to the total offer. So it will become more convenient and we are preparing for that, without question, but I absolutely believe that there is an opportunity to provide a differentiated service in this space. So that is a little bit on the thinking around electrification.

On the North America position, I think it is important that people understand that, first and foremost, Texas is not just a market for us, it is our home in America and we have thousands of employees, many of whom went without water or power for many, many days, and our first priority was to take care of them, as we did, putting some of them up in hotels, providing them with supplies and so on and so forth. Having done that, we then focused on how we can keep power flowing and gas flowing in North America or in Texas, in particular, during that time, and our teams worked, quite frankly, heroically, 24 hours a day, driving around the city trying to find wi-fi at Starbucks stores to keep the machine running. Calling tens, if not 100 utility companies to find out if we could offer more ways of getting power and gas to them. The whole focus was on maintaining as much supply to our customers as we could, operating within the market and, obviously, doing everything with the utmost of integrity. That was very much the focus during the period. I have to say I am incredibly proud of how hard that team worked to do what they did, but your specific question around risk and whether we are taking on too much risk and was it serendipity and so on I will leave to Murray.

Murray Auchincloss: Yes, Jon, I think the way to think about it is we do not take short and long positions bare or naked. We have offsetting shorts and longs, and the moments in time we are trading – so I am escaping here to the highest level on oil and gas trading – we make money when we can arbitrage, so when the price goes up in, say, Asia, we redirect cargoes from one place to the other and we make arbitrage by moving across the different shorts and longs we have. That business is risk managed constantly – you can imagine the complexity of the mathematical models around it – and monitored. Daily, I get the note that shows us what risk exposure we have and how we are placing risk on and off, so it is pretty finely managed. We make sure we do not get too short or too long in any particular product, for the concern that you just voiced, and I think we have a very, very strong, long history of knowing how to manage these disruptions and doing well, and of course we had disruptions in the first quarter in Asia and the United States.

Bernard Looney: The only thing I would, Jon, is and very clear delegations from the Board in the matter of risk in this space, as well, which are actively managed, as you would expect them to be. So there is very strong governance in place around things like MVAR (market value at risk) and so on. Hopefully, that helps, Jon.

Jon Rigby: Thank you, yes.

Christyan Malek (JP Morgan): I am just going to go back to Q3 and 2H buyback calibration. When you look at the variables to calibrate the buyback quantum, I think it is fair to say it is heavily pro-cyclical. If oil prices moved to, say, $70 a barrel, and that suggests you can return up to two-thirds of your market cap by the middle of the decade. While that is clearly nice to know, to contemplate, I cannot help but wonder whether, in reality, would you prefer to reallocate excess funds into debt reduction or further debt reduction or accelerating transition Capex? I am just trying to get a sense of how free your free cash flow is against that slide that you put up on upside around the buyback.

The second question, on trading, I get that you can't quantify, but given the outsized contribution in Q1, what are the indicators you will be looking at to get a sense of how the business will perform in future quarters, so where contango versus backwardation curve structures or price spreads, just to get a sense of the standard deviations, given clearly it was outsized in Q1? Thank you.

Bernard Looney: Murray, I will ask you to comment on trading and maybe help me out on the buybacks. Look, guys, it is great that I think Michele talked about 20% of our share count, I think Christyan is talking about two-thirds of our market cap by the middle of the decade. I think it is sort of great that people are thinking like that and, equally, the world is still in the middle of a pandemic. There is a supply overhang and there is a lot of uncertainty around.

So we are delighted that we have started buybacks today on the back of the hard work over the team over the last 12 months. They have been very, very focused on this and, today, we see some of the fruits of that work, but we are also very conscious that we have just laid our framework out, on August the 4th, and therefore it is far too early, in our minds, to be considering any change to any part of that. It is very, very clear, the capital framework, Christyan, within that is very, very clear.

And what I am particularly comfortable with is that even at $13 billion of capital this year, which we will stick to and not increase, we have the ability to do the things that we need to do to transition the business while generating the surplus cash that enables the

buybacks to be, I hope, quite healthy. We are taking it day by day. We are taking it quarter by quarter. We have announced $500 million today. We will check back in at the end of 2Q results and will announce our plan for the third quarter and so on. So while those uncertainties remain, we remain very focused on taking those decisions on a quarter-to-quarter basis and, secondly, we are not tempted to move from the financial framework that we have just set out. It is a good framework, we think, it gives us what we need and we are now going to execute on it.

Murray, anything you would add on that?

Murray Auchincloss: No, that is very good.

Bernard Looney: Then on trading?

Murray Auchincloss: Christyan, I will be careful in what I say here. I do not really want to give up commercial advantage. We have short and long positions when market disruptions occur, we arbitrage between them on a temporal basis as well as a product basis. That is the general characteristic of our trading business. I do not think I am going to go any further in describing what we do commercially. It is just not helpful for the traders if I do that, so I hope you do not mind. I will stop there.

Bernard Looney: Yes, and I guess our traders probably would say that there is more to life than serendipity, as Jon said, but thanks, Murray for that and, Christyan, thanks for the question. I hope that helps.

Chris Kuplent (Bank of America): I have two quick questions, please. One, a bit leftfield: can you comment on Mexico, which seems to be stepping back a little bit from liberalisation of the energy industry? Have you already seen any impact, are you concerned on your growth expectations and margins in the country downstream?

The second question, I am afraid, goes back to buyback and your 60% rule. I just wanted to see whether, okay, you want to be disciplined and cautious for now, whether still the 60% pay-out rule. If I understand correctly, you have highlighted excess free cash flow of $1.7 billion; $500 of that is going to be allocated to offsetting the employee award scheme, but then you would still be left with $1.2 billion. So you could, for now, already announce a 60% pay-out of that, which would be quite substantial, so are you saying you are going to apply that sort of maths with a half year under your belt, considering your 2Q guidance? I am just checking why that rule has not yet been applied and whether and when it will be. Thank you.

Bernard Looney: Thanks, Chris. Let me see if I can have a go. It is 1H and the reason it is 1H is because we have had a very strong – whatever language you want to call it – first quarter and we have some unusual outgoings in the second quarter, particularly around the Deepwater Horizon, and we have chosen to look at it on a 1H basis and, going forward, it will be on a quarter basis, as Murray has indicated.

1H comes together at the end of 2Q, obviously, and we will announce what surplus there was and what the buyback for the third quarter is there. The $500 million, you can tie it to the $1.7 billion if you wish, but it is simply a decision that we will no longer dilute our shareholders in this way and that we will repurchase those shares, and that is what the basis for that decision is. The reason for 1H rather than 1Q and 2Q, is the unusual nature of strong performance in the first quarter and some unusual outgoing items in the second quarter. Murray?

Murray Auchincloss: Just to clarify that, Chris, so in the second quarter we will look at the 1H and the outlook for the second half of the year and make a decision. Just to be super, super clear.

Bernard Looney: On Mexico, I think there is probably a lot going on in Mexico. I will not get into commenting on the politics and what is happening there. Mexico is important, but it is not like it is the core of our growth strategy in convenience and mobility. The real area of focus really over the coming years is India, where we are going from 1,500 sites to 5,500 sites. That is not to say that Mexico does not matter; of course it is a part of the story, but it is not the story. The story in growth markets, in convenience and mobility, in particular, is in India and our plans take account of risks like that in countries like Mexico, and we have drawn up our plans with that risk in mind, Chris.

Chris Kuplent: Okay, thank you.

Peter Low (Redburn): Just one follow up, actually, on the phasing of disposal proceeds. Some of the largest outstanding payments relate to Alaska where at year-end, I think you had over $4 billion of assets recognised on the balance sheet relating to loan notes and earnout provisions. Can you give any additional colour on the expected phasing of payments from Hilcorp, because it is quite a material moving part and your guidance would imply you are not going to receive much of it this year? Thanks.

Bernard Looney: Excellent question, Peter. Murray?

Murray Auchincloss: Thanks, Bernard. Yes, Peter, nice to hear your voice. There are two components to it. There is a loan for $2 billion that I think has a five-year duration, so I think that will be a choice of does it get paid out early or does it get paid out in five years? That is obviously a Hilcorp decision. So that is the first component of it.

The rest is through a profit-sharing mechanism. I think with the strong prices we are seeing now, you should presume that the balance of payments will occur over the next three, four years. Pretty hard to predict. It depends on the performance of the field, the oil price, and there are ratchets in the sharing mechanism. So it is pretty hard to predict easily, but you are right to be prudent and a certain rateable probably over three or four years would be my gut instinct right now. But let us see how it plays out. There are quite a few variables in there, as you can imagine. Production moving up and down, efficiency moving up and down, weather moving up and down, price moving up and down, etc, etc. So there are a lot of moving parts in it. Hope that helps, Peter.

Peter Low: Okay. Yeah, that is helpful, thanks.

Jason Gabelman (Cowen & Co.): Thanks for taking my question. I wanted to go back to the EV strategy that you discussed. You mentioned that EV utilisation drives economics so I am just wondering, what kind of EV penetration are you assuming in the global markets to get a good utilisation up to levels that deliver profitability, and given the increase in EV penetration, do you continue to install EV charging points such that you kind of front-running EV penetration so that utilization stays low until EV penetration starts to flatten out. I am wondering if that is a dynamic that could play out and potentially impact your profitability in that business?

Bernard Looney: Jason, thank you. It is a little hard to hear you but I think I got your question and let me see if I can help with the answer. I mean, it is this classic chicken and egg. Without the infrastructure, the EVs will not come, without the EVs, there is no

need for the infrastructure, so to speak. But here is what we are seeing. I guess we have got three scenarios in our energy outlook: business as usual, rapid transition, net-zero transition. The rate of EV penetration today is probably one of the few things in the energy outlook that is actually proceeding at a pace that is consistent with somewhere between a rapid and a net-zero world. So it is actually not the one but one of the few that is actually proceeding at real pace, and we are seeing that in Europe in particular and we are beginning to see it on the coasts in America, and we are obviously seeing it very much in China.

So our job is to make sure that we build the infrastructure at the pace that is consistent with not having assets that sit there doing nothing and conversely, that have lines of cars such that nobody is going to buy an EV, and we think we have got that pace about right. It is important that as we do this, we are directing traffic to our charge stations, which is why these deals with Volkswagen and Daimler and DCS are so important to us, because they give us the confidence to invest. They are also why these deals with fleets are so important to us, and that is the deal here with Uber in London. We are looking at Uber in Houston as well and will continue to build out the fleet offering as well.

So we are trying to get that balance right. It is a growth business and we need to think of it accordingly. But the world is electrifying light-duty transport. I think that is now without question and we want to make sure we have got the right infrastructure with the right digital offer, with the right convenience offer and that we have got the right partners that allow us to make the most money out of that, that we can, over the coming years. And so far, so good. I hope that gets to your question, Jason.

Lucas Herrmann (Exane): Thanks very much and Bernard and Murray, thanks for adding increasing insight and coherence into integration in the way you are running the business. A couple of quick ones if I might. In terms of cash flow, working capital clearly worked against you this quarter. But you talk about offsets. I just wondered whether you could indicate whether those offsetting items are likely to reverse during the course of the second quarter.

On savings, can you give us any better idea of the profile of savings by division, by business over the course of this year and into next year? I think you alluded to $1.5 billion of savings in the oil business. But just an idea of how things split across the three divisions over time and where we are in terms of capturing those.

And Murray just a quick one, sorry, it is a very simple question. I cannot see a split at the present time of results by US, rest of the world, etc, etc. Am I waiting for F&OI or did you decide to withhold those disclosures now?

Bernard Looney: No it is coming out tomorrow, to your third question, Lucas. So that will be out tomorrow. So Lucas, thanks, we are on the same page. On working capital I will let Murray talk about it and he will probably correct me on the savings question.

Just high level, $3-4 billion of savings by 2023, $2.5 billion by end of this year. $2.5 billion by end of this year is ahead of schedule, so we will deliver it in the middle of this year and it will not be an exit run rate. So that is going well. The programme overall is going well. It is focused on the restructuring, it is focused on agile, we expect to have 14,000 people working in agile teams and production & operations, and it is focused on digital, which you are familiar with our history in that space.

The majority of the savings, as you will see from the $1.5 billion number, do come from the oil and production operations area, because that is where the majority of the workforce is in many regards and where the majority of the cost is. So it is heavily weighted there. So $1.5 billion up to $2.5 billion is coming from there and then it is probably on the remainder, it is probably two thirds -one third or maybe two thirds, fifty-fifty, between gas & low carbon and customer & products. So hopefully that gives you a little bit of a sense but the engine room of where the cost is consumed is obviously in the refineries, in the production facilities and that is where the majority of the savings and opportunity, quite frankly, comes.

Murray, on working capital and any offsets?

Murray Auchincloss: Yeah, Lucas, you spotted that little bit. So working capital did build in the first quarter, $1.2 billion extra something I think was the number. Offsetting that was things like variation margin. You will remember in 4Q we had a big variation margin outflow on the gas side; that has come back in in the first quarter as an example. So the two are largely offsetting. I would not expect too much of a working capital release in 2Q., would be my suggestion at this moment in time. And of course, Lucas you know that it is wickedly volatile, especially with oil price, gas price, refining margins moving around as much as they are right now. So in a steady state world between 1Q and 2Q you would not expect much release but if there is volatility then it will just depend on what happens with pricing, it will determine which way that goes. Hope that helps, Lucas.

Lucas Herrmann: Bernard, can I just come back on the cost savings very briefly? The delta between the savings you will achieve through the course of this year relative to the savings you achieved in 2020 i.e., the benefit you still expect, can you give any insight?

Bernard Looney: I mean there are some charges, some costs, that were deferred from last year because we could not get to turnaround or something like that, and we are taking those out of that cost-saving number, because it is a true synergistic cost saving that we are after, not simply a deferral of cost. But Murray?

Murray Auchincloss: So we had $20.9 billion worth of total cash costs in 2019, that is what we are measuring it against. We said originally we had hit a $2.5 billion run rate by the end of 2021. Bernard has just described that probably by 2Q we will declare victory on that. You can take a look at what our 2020 numbers were. I think they were $18.5 billion, I cannot quite recall. And then we are saying $3 to $4 billion by 2023 relative to 2019. So hopefully if you do the math, that will give you the 2019, 2020 and then we have given you a starting indication of what 2021 is looking like.

And just to clean up on allocation between historic Upstream, gets about 60% as Bernard talked about, 20% goes to historic downstream, and 20% to Other businesses & corporate, give or take, are the rough numbers I hold in my head for how that will shape up. Hope that helps and we can take a look at the cost inside gas & low carbon versus oil production and operations and that will give you that historic Upstream split. Hope that helps, Lucas; if not I can follow up with you on the sell side call.

Lucas Herrmann: Super, thanks guys.

James Hubbard (Deutsche Bank): Two questions. We have seen peers build solar and wind projects and then sell on stakes in various levels of aggressiveness, some in almost

private equity-like manner, and then there are other people that build and keep it. I am wondering, when you talk about your 50 gigawatts by 2030, where do you sit on that spectrum? Do you plan to build it and keep all of that, because that is your future earnings that is going to replace oil as it declines? Or will you be open at some level of aggression to taking opportunities to sell down stakes should the market allow you to make a quick return, as it were? So that is one question.

And the second one is back to EVs. It seems to me, as an electric car owner, the model that works right now is you park, you plug in, you charge for 10, 20, 30 minutes, you get a coffee, sit down, have a doughnut, whatever, go to the loo. And it does not seem that the average bp petrol station, even at the UK service stations, fits that model, where even if it is only 10 minutes, either people are going to sit in the car for 10 minutes or wander round the aisles buying chocolate for 10 minutes, but ideally they have somewhere to sit and have a coffee. I am wondering, you have obviously looked at that. Do you agree? And if so, how will you adapt to that kind of model? Or do you just think that charging will get so fast that will became redundant? Thank you.

Bernard Looney: James, thanks. I do not own an EV yet so I need to get with the experience. Yeah, I think our place is actually pretty well suited to charging, but you are obviously more closer to it than I am, but you know, the Marks and Spencer, the convenience offer that we make, people will want to go and grab a coffee and sit down and have a doughnut as you say, but they may also want to do a bit of a shop. We are seeing our gross margin in that business up 10% year on year, continuing to be a very strong part of the business, and we are seeing the same, by the way, in Germany, with the REWE offer with Aral. So I do think our experience at our convenience sites are actually well suited to going and getting that coffee, and of course if there is somewhere to sit, even better. But that is the experience that we have today and it seems to be working. Murray, add anything on that if you wish.

And then on the farm-downs, which I think is what you are referring to, it is a good question. We are not in this for a quick return, so to speak. Solar is a farm-down business, so that model is very much a farm-down business and that is what Lightsource bp does and, I have to say, does exceptionally well. The offshore wind business we feel is different. The option exists to farm down and many people suggested that we overpaid for those Elizabeth licences in the Irish Sea, and as I said to somebody this morning, if I had a pound for everyone who wanted to buy into those leases, having won them, we would be doing quite well.

So there is a very strong market for these assets. But as you suggest, there is the choice between earning a quick buck so to speak or actually retaining those for long-term earning streams and in offshore wind I think we are probably more in the latter category than in the former category, but we have that option. And of course there are strategic reasons that you may want to bring in a certain partner for a certain reason that goes beyond the pure financials. So, solar very much in that mode, offshore wind I think we have got the assets to have the discussion and the options, which is great, and more work to do down the road.

Murray, anything to add on either?

Murray Auchincloss: Maybe just on the electrification. Hammersmith roundabout is a good place to look at. I travel by it once a day, it seems like. EV charging bay is always

full, retail always full, car wash always full. I think over time the EV charging will increase in pace, you know, given technology advancements, and we think that at some moment in time you will be doing five or six minute charges, which about equates to what it takes to fill up your tank with gasoline, so it is a perfect chance to go in and get a sandwich, a chocolate bar, a coffee. So we think over time it will merge towards that. As I look at Hammersmith, it is awfully busy and I think it is a great example for all of us to go feel and touch and see why we believe we can move from fuel and convenience to charging and convenience over the coming decades in the UK and help the prime minister in his aspirations to move towards a low-carbon economy.

Craig Marshall: And I think James maybe just a couple of things from me. We are starting to roll out these ultra-fast charging hubs with convenience as well, which are much more dedicated to ultra-fast charging. So certainly I think an evolution in the model there as we think about it. You know, the benefit we have with access to the customer network as we start to understand customer preferences, needs, etc. So we will be looking at that and I think Emma Delaney and team at the capital markets day laid out a sense of how we see that model developing over time. So, as an EV user yourself, I think you would recognise this model is going to evolve. So if you haven't, go back and take a look at some of what Emma and the team rolled out at the capital markets day.

And the last thing on – I guess I will just reiterate this, I am sure you know this. The 50 gigawatts is developed to FID, which basically as Bernard said implies that we retain optionality from a value point of view as to what decision we take around farm-down, depending on the business. But that 50 gigawatts as I say is developed to FID. It is not held operating in our hands.

James Hubbard: Okay. Right, that is clear, thank you.

Oswald Clint (Bernstein): Two questions please. Convenience and mobility, just picking up on some of the stuff you have mentioned. 300 strategic sites up over the last year, 1,400 new retail sites in growth markets and the convenience margin is up over 10%. But we have also had the lockdowns and I guess a lot of people using the rest of your 19,000 footprint. So I just wanted to get a sense of how much the new locations, the new strategic centres, are really driving that 10% plus margin uplift and how you are feeling about that sustainability at this point going forward?

Secondly, just back on UK wind. I mean, it is a helpful slide you had this morning and you mentioned people saying you overpaid. You also asked for feedback but there are a lot of renewable companies out there saying yes, you overpaid. There are even other chief executives in the press saying you overpaid, which frankly is not helping you convince investors. So when I see renewable companies announcing returns on projects to one decimal place, so I am really asking why can you not just put some of these comments to rest and say what you think the internal rate of return is on such a project. It is not the trading business, why do you have to be so secretive?

Bernard Looney: Os, thanks. On the 10% increase I think, you know, retail fuel volumes are down about 9% year on year. Aviation is down 45% actually but on the 10% gross margin on convenience, it is the size of the basket but more importantly it is the value of the basket and it is also premium fuels-driven during this process. And you know, this is a business that has got a track record of growth and I think we are optimistic, Emma Delaney (EVP, customers and products) is optimistic that we will continue to grow it. So it is not necessarily just about those new sites or those new conversions, it is also about

what we are actually giving people in those sites, which is the quality of that basket and also the fuel offering, the premium fuels that we are giving them. So, more on that to come.

And on the offshore wind one, look, it is easy to get dragged into a 'he said, she said' and we are probably not going to do that, other than to say, look, we were successful. We were the winning bidder. We were not alone, we have a partner who is very experienced in this space, EnBW, so we did not do it on our own. We should also point out that we were prepared to bid on leases in the North Sea. Same team, same partnership, same methodology, obviously different environment, and we would not have won those leases on the other side of the British Isles, in the North Sea. So that should give you a sense that we were grounded in reality, so to speak. And as I said, lots of people coming in and wanting to buy in. You know, we can publish a return to a decimal point, but it is not going to be right, because I think it is simply going to – I hope and I believe, actually – get better over time. And it sort of gives a level of accuracy that is not consistent with the range of opportunities that we have, to create additional returns in that business. And therefore, I worry personally that we would end up underselling the value of the business.

When I talk about optionality, I am not just talking about the fact that we are going to bring our decades of experience and pretty strong project management experience to the offshore wind. That we are going to bring our operating experience, both offshore and onshore wind farms and our digital tools, which give us uptime. And we bring our UK supply chain and we bring our UK relationships.

But I am also talking about the point we made in the script today, which is about linking it into the charging business. That could be up to half, if not more. Murray thinks it could be two thirds of the power demand from bp Pulse could be offset there. And we just announced the hydrogen deal. So we could take power over to Teesside and build hydrogen over there.

So the sort of optionality in an integrated energy company around an anchor asset like those in the Irish Sea, is absolutely and utterly fantastic. And the more we learn and the more we do, the more it sort of builds and grows. So other than to say, look, I am supremely confident in our ability to deliver 8-10% returns from that project, personally over time I think it will get better than that because of the optionality that we have. And we are just going to crack on and execute on it and give people the steps and the milestones along the way that saying we can execute and people will judge for themselves what they think is right.

But very pleased with it, Os. And people will say what they want to say. And we are different. We leave them to it, so to speak. So I hope that helps. So we would not publish a decimal point return, I am sorry. But I know you are supportive of the transaction, but there is just too much optionality. And quite frankly, there is too much upside. And we will end up undervaluing an asset in my own view. Murray, you disagree?

Murray Auchincloss: No, that is right. The way that I relate to this thing, guys, is 100 years ago people discovered oilfields, built refineries to process it, built service stations to sell it to consumers. All you are seeing with the offshore wind is the rebuilding of that 100-year business. So the upstream is not an oilfield anymore - it is a wind farm. We can choose to go through utility. We can go direct to ourself.

The plants that we have will have be hydrogen plants. They are green hydrogen over time. And the service stations are the service stations. So I think it is the recreation of a business that we have known for the past 100 years on oil and gas. And all you can say about the businesses that were built like that is that the integrated energy companies have made material returns on that over time. And we are convinced we will do the same moving forward with this. I guess pure plays probably cannot say that.

Bernard Looney: It is different. We do have real optionality and real upside. But anyway, Os, good to hear your voice. Thank you.

Alastair Syme (Citigroup): So can you talk again about the global offshore market for wind seabed leases? It does feel like there might be a little bit of a lack of supply versus industry demand and that is maybe driven up some of the pricing. Is that a view you share? And do you think the market dynamic is going to change at any point?

And then my follow-up is just on Tortue LNG. It is a relatively recent acquisition in the bp portfolio, but it was also a big part of the 2020 impairments. So I just wanted to get a sense of what is happening there to get to a phase 2 and phase 3 development?

Bernard Looney: Alastair, thanks. I will let Murray take Tortue. On offshore wind, it is a competitive space, there is no question about that. And you have companies like us playing that used not to play. Our job is to compete. Our job is to bring something that others cannot, and therefore earn a return in a license round when others cannot. And I think the more time we spend on it, and Dev Sanyal (evp, gas and low carbon energy) has done a brilliant job in getting us into this business. We had zero nine months ago or eight months ago.

We have got seven or eight-gigawatt gross today. It is an extraordinary achievement I think in a very short space of time. And he deserves a lot of credit, and his team deserves a lot of credit. But our job is to be able to compete when others cannot. That is bringing things that others cannot, so we bring the offshore experience. And quite frankly, that is real, it is not made up. It is absolutely real. Ewan Drummond built Shah Deniz. He is now sitting on the Board of our Equinor offshore wind joint-venture in the United States.

And we have got many more people who have gone from the upstream now working in the offshore wind business, and we are going to deliver the same sort of repeatability that we have delivered in the upstream over the past several years. And we bring the integrated energy company. We have talked about the things that today an integrated energy company brings.

So all we have to do is know what we bring and be disciplined. And yes, it is competitive. But as long as we are disciplined and we do not get carried away and we are turning down as much as we are accepting, we will be fine. But that discipline is a word that we keep coming back, that is going to have to stay and that is how we will address this. So competitive, yes, we got to know our business, which we do. We have got to know what we bring and we got say no when we say no. Murray?

Murray Auchincloss: On Tortue, yeah, we did have a bit of a write-down last year, you are right, based on changing view of gas prices. As far as the project itself goes, it has been tricky with COVID. We obviously had to slow down as COVID swept across Mauritania and Senegal. We are back to work now. We saw some fantastic pictures last

week of the first pylon being loaded out of the shore basin in Mauritania and taken out to sea to start to create the breakwater offshore. So we are glad to be back at work and out of the force majeure situation and working away.

And we continue to optimise phase 2 and phase 3. We are working with our partners in the government to look at how we can take those forward.

I think in summary there is a lot of gas there. It is close to Europe, so it is close to a big market. And over time, I am sure this will be a very good investment. Bernard, anything you would add?

Bernard Looney: No. It is also about resource and marketplace and the teams are doing a very good job. So the resource is there and we will continue to work it. So Craig.

Craig Marshall: Yeah. That is the end of the questions. Thanks very much for the interest. We have run slightly over. But thanks for staying with us. Maybe on that note, let me just hand back to you, Bernard, to close the call.

Bernard Looney: Well, thanks, Craig. Thanks, Murray. And thanks to all the teams that helped us put this together. Thanks for everyone online for listening.

Just a bit of a close, if I can. As we have had many conversations with our investors over the last year and we have had many conversations, I think the key question on many investors' minds has not been so much about strategy but on whether it is possible to deliver competitive cash returns at the same time as transitioning a company like bp. And I think that is a very understandable question.

And that is why we have been focused so hard on the balance sheet, on capital discipline, on cost discipline on bringing those major projects on and growing that convenience business. And as the environment improves, as it has, I think you are beginning to see those efforts bearing fruit. And our job is to show that over time we can do both. We can transition bp for the future while at the same time deliver our investors' competitive cash returns. And that is why we have this phrase 'performing while transforming'. And I hope you will agree that I think this quarter is a great example of us doing just that.

So thanks for the time. We look forward to being in touch and following up with any other questions you have. So thanks very much. Take care.

[END OF TRANSCRIPT]