bp 1Q 2024 Results: Webcast Q&A Transcript

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Q&A transcript

Craig Marshall: Thanks everyone for joining bp's first quarter 2024 results call today. As you'll be aware, we introduced our quarterly trading statement this quarter and this morning, also published the slides and script along with a video presentation in conjunction with our stock exchange announcement. Alongside this, the results call has moved to early afternoon UK time, and we hope together these updates around our process and disclosures have been helpful to everyone.

And you have had a chance to review everything this morning and this afternoon. So, we are going to aim to finish the call at 2:00 PM UK time. As some of you'll be aware, we understand our counterparts at Saudi Aramco start their call around that time, and we want to give you a chance to join that as required. So maybe let me start there. And on that note, hand over to Murray for a few brief opening remarks.

Murray Auchincloss: Good. Thanks, Craig. And thanks everyone for joining Kate and I on the call today. To recap today's results, we delivered resilient financial performance despite the unplanned outage at our Whiting refinery. First quarter adjusted EBITDA was $10.3 billion and underlying earnings for $2.7 billion. Adjusting for the expected seasonal working capital build, operating cash flow was $7.4 billion in the quarter. We continued to make good strategic progress, and this quarter saw the safe startup of the Azeri Central East Project in the Caspian Sea.

bpx also brought online Checkmate, our third central processing facility, and in biogas, Archaea brought online its largest modular RNG plant to date and has five in commissioning. Last week, our JV Azule announced a 42.5% farm-in into an exploration block in the Orange basin offshore Namibia. You have also heard about how we are simplifying, removing complexity across the company, and today we have announced a target to deliver at least $2 billion of cash cost savings by the end of 2026. Craig, back to you.

Craig Marshall: Super. Thanks, Murray. So we will go straight to questions now and we will take the first question from Josh Stone at UBS.

Josh Stone (UBS): Yeah, thanks Craig, and good afternoon, Murray and Kate, and appreciate the slightly longer time to study the results. Two questions please. First, I want to pick up on your 2025 EBITDA targets, which you reiterated specifically in TGEs of $3-$4 billion. If I look at consensus, it feels like few people believe in these numbers and it is only now you almost 18 months away. So if I look at how the business has started, the bioenergy business looked like it started a bit lower than you might have expected. You talk about Travel Centers of America (TA) was impacted by an ongoing freight recession in the US. So maybe my question is, where do you see the biggest risk in these 2025 targets? And what do you think the market is missing on that side?

And then second question on the Whiting Refinery. And yeah, good to see back online. Maybe now the dust has settled, can you just talk about what lessons you have learned from the outage and maybe some initiatives you have put in place to prevent further issues going forward? Thank you.

Murray Auchincloss: Thanks for the questions. I will take both of these. I think on Whiting it is a bit too early for lessons learned. The teams had a full electrical outage at Whiting. It took us about six weeks to get it back operating safely. The teams have now done that - well done to the teams for achieving that. And they are now going through the process of lessons learned probably in the design space. So that is still work to do.

As far as EBITDA from the transition growth engines, as we reported last year, we made about $1 billion of EBITDA. We are aiming for $3-4 billion of EBITDA by 2025.

Where does that come from? A full year of TA, continued growth out of Archaea. It comes from EV moving to break even. It comes from real focus inside hydrogen as we focus the portfolio and move to the most likely things to move forward. And it comes from growing bioenergy and growing convenience as well. I think on the convenience side, convenience & mobility continues to grow very strongly. We continue to see 9% year on year growth and with the expansion TA, that should be very, very good for convenience.

EV remains on track with greater than 80% of all of the fast chargers are EBITDA positive now. So Richard Bartlett and the team are doing a good job driving that transition growth engine to break even.

Archaea continues to get plants online. As I said, we got a big one online and 1Q and we are commissioning five as we speak. So we should be in good shape for the 15 to 20 RNG plants online per year in 2024 and 2025. And D3 RINs prices are holding very high in the United States as well.

On the challenging side, bio, as everybody knows, the bio margins in Europe were tricky through 4Q and 1Q as mandates were rolled back across some of the Scandinavian countries. We do expect change on that in the future. But it is hard to predict. It is kind of like a macro assumption that is hard to predict. And diesel, as you say, is challenging in the United States, there is a diesel recession we feel that will unwind as well as we move towards the back end of the year and into 2025 as well. But we feel confident on $3-4 billion EBITDA by 2025 and we will just have to have to see how that goes. But good momentum operationally, good momentum on synergies and the macro is what we are fighting against a little bit right now. But let's see how that macro turns out. Thanks for your question, Josh.

Josh Stone (UBS): Got it. Thanks.

Craig Marshall: Thanks, Josh. We will turn to Biraj Borkhataria, RBC

Biraj Borkhataria (RBC): Hi. Thanks for taking my questions and appreciate the more condensed format. The first one's just on the cost cutting. When I look at the public disclosures across you and your peers if I take SG&A for example, it does look like your figures are quite out of sync. It seems like they are growing faster than the peer group, and I cannot really tell if it is all accounted for the same or not. I guess in your slides, you

do some adjustments here. So maybe the question is when you benchmark your costs and your performance, what is the starting position for bp? Is it that today you are better than average, or you are slightly worse? And particularly, where do you see the opportunity there?

And then the second question is on another hot topic, which is relisting is brought up by one of your counterparts. Where does bp sit on this? Is it a live debate? Do you see as a structural disadvantage? Unlike your counterparts, you do have a big domestic US business upstream and downstream there. So just wanted to get your thoughts on that. Thank you.

Murray Auchincloss: Great, Biraj. I will ask Kate to tackle the cost question and how different we all account for these things.

On relisting. I will be consistent with what I have said in the past Biraj, this is not on our agenda. What is on our agenda safely performing quarter in and quarter out. We are in a great position with the business. We have strong growth coming through. We have got solid targets out to 2025 that we can believe we can deliver and It will deliver 3-4% underlying cash flow growth. If we hit our plans through the rest of the decade, and certainly through 2025 as well.

And as we continue buybacks, that gives us then the chance to increase the dividend over time. We have confidence from it because it is worked before. In 2022, in the first half of 2023, we compressed the share price with some of the US peers by a third simply by doing that performance. So that is what's on our agenda, not re-listing. And so, we are just focused tightly, tightly on performance.

Kate, over to you on the first question, please.

Kate Thomson: Thanks, Murray, and hi, Biraj. Yes. So I have seen some of the narrative. Look, it is incredibly hard under the current accounting standards to try and compare, like for like line by line through the income statement. There is a level of interpretation, let's say, on how companies can account for their costs through the income statement. That makes line by line comparison quite tricky. What I would say is that if you step back to February, and we talked about the fact that we were going to drive focus through the business and we were going to deliver the next wave of efficiency, what we are really focused on is how we create our own greater efficiency and our own reduction in our cash costs. And what I would say is on a unit production cost, or lifting costs, we think we are very competitive at $6 per barrel of oil equivalent.

So I guess my guidance to you going forward, Biraj, is to anchor yourself on cash costs, which as you can see from the slide we have tried to point you towards, if you toggle from where our total reported costs are down to our cash costs, that is how we have disclosed against in the past. That's how we will continue to disclose against as we deliver this at least $2 billion of cost reductions through the end of 2026. And then finally, what I would say is, I think IFRS 18, which comes in at the beginning of 2027, will probably make your lives a bit easier. It will force more transparency and probably greater comparability across the sector. So hope that is helpful.

Craig Marshall: Thank you, Biraj. We are going to move stateside now given we are at a slightly more hospitable time. Take the first question from Paul Cheng at Scotia. Paul?

Paul Cheng (Scotia Bank): Thank you. Good morning, guys. Or good afternoon. Kate, in the press release, you guys talking about the Egypt devaluation foreign currency impact. Is there a number that you can share on size of impact? Also 4Q23 to 1Q24, the Gas & Low Carbon Energy segment is down roughly $100million in adjusted earnings. How much from the low carbon side? In other words, is low carbon getting better or getting worse?

Murray Auchincloss: Great. Kate, over to you on Egypt. I think it answers the second question as well, doesn't it?

Kate Thomson: Yeah, pretty much does, so hi, Paul. Yes. So on Egypt, we saw a significant devaluation in the currency. It went from 30 EGP/USD to 48 EGP/USD when Egypt free floated ahead of the injection of funds from the IMF and others, as you'll have seen. So that foreign exchange impact has flowed through the first quarter. It is about $200million. You can also see it driving our tax rate up in the quarter as well. So that is what's going on regarding Egypt and devaluation impacts

Regarding the Gas & Low Carbon Energy performance. So, we were up on production, replacement cost operating profit down, driven by lower realisations and foreign exchange impacts. So, that is the story with regards to Gas & Low Carbon Energy for the quarter.

Paul Cheng (Scotiabank): Okay. Kate, on the cost reduction, the $2 billion, how much is related to divestments or is it purely on an underlying cost performance basis?

Kate Thomson: Yeah, so we will step through the interventions. There are four areas we are focusing on, and one of it is focusing our portfolio, as you have heard us talk about for a little while now since we set out our six priorities in February. So there will be some of that, which is delivered through portfolio change as we get clearer on the component parts and how they contribute and when they get delivered. We will update you in due course.

Murray Auchincloss: Yeah, Paul, it is more about focusing our engineering efforts. If you think about 2020 to 2023, it was about creating an awful lot of options in the upstream and refining in all of the transition growth engines as well. And we now have 32 final investment decisions to make across 2024 and 2025. So a large part of this focus is getting really clear which ones we are going to take forward. And as we do that redeploying engineers to the highest quality ones, redeploying third party resources, et cetera, that will create a lot of cost savings as we really, really focus on these things moving forward.

A small example of that to think about during the past 90 days is we decided to sanction the Atlantis Tieback in the Gulf of Mexico. So you sanctioned that at the same time we decided to release Bir Allah in Mauritania and Yakaar Teranga in Senegal. So that is about being really, really driven by returns and deciding the best value. And then we can reallocate engineers and use less third-party services which creates cost savings. Thank you.

Craig Marshall: Thank you, Paul. We will stay in the US and take the next question from Ryan Todd at Piper Sandler. Ryan?

Ryan Todd (Piper Sandler): Maybe first one on refining you referenced the impact of narrowing crude differentials in North America. Can you talk about the impact that you expect in the US from the startup of TMX? Any flexibility that you might have to mitigate

the impact, whether in the Midcon or on the West Coast at Cherry Point? And then maybe a follow up on the cost that you were talking about there. There is increasing focus on cost inflation on the project side that we have seen in areas like Deep Water and LNG and the impact that it is having on some project returns. So can you maybe talk about what you are seeing across the portfolio, impact on potential future FIDs, like the Paleogene or future LNG expansion phases and your ability to mitigate those?

Murray Auchincloss: I will take the first one, Kate, you want to take the second one? On the first one on TMX and what we are seeing, obviously differentials have started to collapse on WTI-WCS. I think they are probably sitting, last time I looked somewhere around $14 per barrel. It is probably not a bad range, plus or minus a couple of dollars per barrel. As far as what the range is on WTI-WCS is moving forward hard to predict of course, but that is our sense of what will occur.

We have done two things to mitigate against this. First, as TMX comes online it gets a direct route for that oil into Cherry Point, so that will mitigate. Cherry Point will be able to access more affordable product moving forward. So that should be a benefit to us that helps mitigate some of that effect. Plus we have some pipeline re-wheeling that we have done over the past few years to be ready to flow product up and down up and down across North America to manage risk associated with Whiting as well. So net net, we think we are probably still in the same shape we were pre TMX coming online between Cherry Point and between our flexibility with Whiting and Cushing. Kate, over to you on the capital question.

Kate Thomson: Yeah, thanks, Ryan. So in terms of inflation, I think the area where we are still seeing inflation persist is in wage growth. So that, that is an area that we continue to battle against. The procurement team that we have inside the organisation are working and have worked over the last few years, incredibly hard to mitigate all the effects of inflation that we can through things like competitive bidding and moving into much more performance-based models, alliances and partnerships have been effective in terms of helping us drive our costs down.

What I would say is yard capacity is tight, utilisations are high, probably the highest they've been for about a decade, and we think they may well remain like that for another three to five years perhaps. So that is something we will pay attention to. At the end of the day, when we think about the investment decisions, we will be as you would expect us to be returns and value driven. So we will be making sure that all our projects that we sanction are meeting hurdles[1]. But we feel pretty good about Kaskida right now. We hope to be able to move to sanction at some point during this year.

Murray Auchincloss: And I think on the LNG side, from recent bids we are seeing we are okay to continue moving those forward whether it is in Asia or the Middle East as well. I think enough companies are now recycling things that we are seeing some looseness inside the supply chain. But it is a good question to ask us each quarter as we see the bids come in with the potential sanctions upcoming.

Ryan Todd (Piper Sandler): Thank you.

Craig Marshall: Thanks very much. We will take the next question from Chris Kuplent at Bank of America.

Christopher Kuplent (Bank of America): thank you, Craig. Hello. Just two quick questions for me. I was wondering whether there is a specific reason you no longer publish your surplus cashflow metric that seems to have dropped off the page and just checking whether my back of the envelope minus $1.5 billion in the quarter is anywhere close to where, where you would get to with your definition that that is question number one.

And question number two is on the ADNOC JV in Egypt. I am assuming that is yet to close. And it is appearing in your assets for sale. So I wonder whether that will translate into disposal proceeds. And obviously, you are guiding still to $2billion to $3 billion for the full year. And if you could give us any more clarity on how you are going to account for that JV, thank you.

Murray Auchincloss: Yeah, sure. I will let Kate answer the surplus one, and then I will tackle Adnoc JV in Egypt.

Kate Thomson: Okay. Yeah, thanks, Chris. So when we updated the financial frame in February and set out a two year frame to the end of 2025, what we were after was creating greater clarity and predictability on distributions. As a consequence of that, we have delinked our quarterly share buyback from a surplus cash flow calculation. It was creating an awful lot of volatility. It remains something we look at over time.

As you can see from the financial frame, we have said that over time, we expect to distribute at least 80% of surplus cash to shareholders over time. So we will think about the rate at which we may or may not want to include further disclosures. It is not something we intend to disclose quarterly as it's no longer a direct input to the share buyback. So we do not feel the need to make any quarterly disclosure on that.

At the end of the day, cashflow is going to go up and down over the quarters with things like working capital movements. So we expected the balance sheet to tolerate some fluctuations in the first half of the year, we saw that come through this quarter. We have the typical working capital build, and we have got heavy Capex in the first quarter, and our divestment proceeds are back ended, but our balance sheet's strong enough to tolerate that. We can look through that over time. And that is why we have moved to a frame that that stops that quarter on quarter linked to a surplus cash calculation.

Murray Auchincloss: Great. Thanks, Kate. And Chris, on ADNOC, yes, we have moved forward with a transaction that is an asset held for sale. As you say, we are waiting for completion second half of the year, probably 3Q, 4Q. It depends really on how we move our way through with the Egyptian authorities. The accounting for that, it will show up as proceeds as discussed. I cannot disclose those proceeds now we are under a confidentiality agreement, but by the time it closes, you'll see that inside the accounts. But it will take up a good chunk of the $2 billion to $3 billion divestment proceeds target that we talked about. Hope that is clear, Chris. Thank you.

Kate Thomson: Thank you, Chris.

Murray Auchincloss: Thanks.

Craig Marshall: We will take the next question from Lydia Rainforth at Barclays.

Lydia Rainforth (Barclays): Thanks, Craig, and good afternoon, everyone. Two, if I could. Just if we could go back to the cost base and the targets that you have got at least $2 billion, can you just walk us through in more detail some of the examples of what that involves? And because it is sometimes quite hard to go, what are good costs and that help growth, and what are bad costs reflecting inefficiencies? And I am a little bit surprised that you are talking about $20 billion of costs that in that transportation and shipping costs, that there is absolutely nothing you can do about that does surprise me a little bit. So any thoughts you have on that?

And then I am going to come back a little bit to the EBITDA guidance. Given the cost savings number, is there a reasonable argument that the EBITDA numbers and targets should be moved a little bit higher? Effectively what I am asking for Murray slightly separately is an exit rate on EBITDA for 2024? We should be seeing momentum at this stage in that EBITDA number during this year, right?

Murray Auchincloss: Thank you. Great, Lydia, thank you for your questions. Let's see. Cost examples I will tackle. I think the second question, I will let Kate deal with.

On cost examples, so there are four areas that we are really focused on Lydia to deliver at least $2 billion by the end of 2026.

The first one was focusing the portfolio. You heard about me talk about that already, so I will not repeat myself.

The second one is your favorite, which is digital transformation. We have done an awful lot to digitise many parts of our business, and we are now applying Gen AI to it. The places that we are seeing tremendous results on are coding. We need 70% less coders from third parties to code as the AI handles most of the coding, the human only needs to look at the final 30% to validate it[2]. That's a big savings for the company moving forward. Second, things like call centers. The language models have become so sophisticated now, they can operate in multiple languages, 14, 15 languages easily. In the past that has not been something we could do, so we can redeploy people given that the AI can do it.

You heard my advertising example last quarter where advertising cycle times moved from four to five months down to a couple weeks. So that is obviously reducing spend with third parties. We have now got Gen AI in the hands through Microsoft Copilot across many, many parts of the business. And we will continue to provide updates with anecdotes as we go through, but I think this is just a tremendous step change in digital for our company. And I continue to look for ways to drive higher margin and reduce cost both on capital and cost.

The suppliers probably a nice little example to think about eliminating waste. Our good partners at Subsea 7 have formed an alliance with us. In the past, we would have overseen what they were doing. Instead, now, we form joint teams. They work together on a job. They try to figure out how to optimise it. We incentivise them for time and efficiency and we have co-located teams that work together on these things. So what it does is it eliminates bid cycles. It reduces the number of engineers involved from both sides in getting everything done. It reduces vessel time, et cetera. So that is just one concept of alliances that we have been doing in the capital side with projects and drilling for a while.

And we are now pushing that into the operation space, both in the upstream and the refineries. So that will take out a lot of waste as we move these alliances forward as well.

And then last, global capability hubs. We have a continuing need for engineering. It is scarce in the west, so we are looking east for that engineering capability. It is a different cost profile sometimes, but fabulous efficiency. We see that both in contractors, so contractors we work with are shifting that way, and then ourselves as well across engineering, IT, et cetera. So those are the four examples of how we think we will get to at least the $2 billion.

I am not going to give you an up update on a 2024 and run rate to EBITDA. All I will say is I am confident in the growth on an underlying cashflow basis of 3-4% through the decade, including in 2024 and 2025. We see strong growth out of the upstream with new projects coming online with bpx growing, with new LNG coming online from 23 mtpa to 25 mtpa, a return to normal tar seasons in our refineries, along with all the growth that we see from the Transition Growth Engines and businesses like Castrol.

So we feel comfortable with that 3-4% growth per annum underlying on a free cash flow basis through 2024 and 2025. Will the cost savings add to that? Let's see. I think it will take time to do some of these things. Some things will come through faster than others, but for now, we are saying an end 2026 basis, but let's see how we get on, Kate.

Kate Thomson: The only thing I was going to add is that some of the changes that we are contemplating take time to effect and execute, and we do it in a way that we are confident we are managing risks. So there may be some parallel running costs at some point. And we will update you as we get clearer on that path and on any associated restructuring costs.

Murray Auchincloss: Hope that helps.

Lydia Rainforth (Barclays): Great. Thank you both.

Murray Auchincloss: Thanks, Lydia.

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

Michele Della Vigna (Goldman Sachs): Thank you very much and congratulations on the focus on cost efficiency despite the relatively positive macro environment. Two questions, if I may, on the dividend per share, it looks like we are up for an announcement next quarter. I was wondering how should we think about the underlying growth? We have got 3-4% absolute growth of the business, and we have got a share retirement that is running at between six and 6-7%. Is it too simplistic to think about growth of the business plus share retirement equals what can be achieved in terms of sustainable DPS growth?

And then secondly, on the net interest expense, quite a difficult line to forecast. It has been around $900 million for the last three quarters. Is it fair to assume we remain at about that run rate in the coming quarters, or is there anything else we need to take into consideration? Thank you.

Murray Auchincloss: Kate, do you want to handle the dividend?

Kate Thomson: Sure, so Michele, I think you may have done my arithmetic for me. I guess a couple of points to just to add to that. So if you think about the financial frame remember to anchor on our balance point and also the fact that our first priority is that resilient dividend, at $60, the capacity to increase by 4% per annum. But as you rightly point out, we have had previous increases in 2Q 2022, 4Q 2022, 2Q 2023 each around 10% underpinned by strong performance and by reduced share count. So as you would imagine, the Board will look into many factors when we come to that conversation in 2Q 2024, but as you consider what we have done with our share count I think we have reduced this by 17% at the end of 1Q 24 Since 2Q 2023 at the moment, we are about 5.5% reduced share count. So I will let you add that to your current arithmetic.

Murray Auchincloss: The Board makes that decision each and every quarter. And of course, you can look backwards to think about what we do looking forward.

Michele, on your net interest expense question, presuming flat is a sensible thing to do moving forward. I think that is just the easiest thing to do rather than give guidance.

Michele Della Vigna (Goldman Sachs): Thank you.

Craig Marshall: Thanks, Michele. We will take the next question from Martijn Rats at Morgan Stanley.

Martijn Rats (Morgan Stanley): First of all, last quarter you were helpful in providing a comment on the EBITDA that was delivered if it was restated under 2025 reference conditions, which of course, given that we are sort of tracking towards that 2025 guidance over the next couple of quarters is actually quite helpful. So this quarter EBITDA was $10.3 billion. Can you once again provide some color on what that would have been under 2025 reference conditions?

Secondly, I wanted to ask you about yesterday's FT article. I am sure you have read it, but there was an FT article that said that bp could make some additional changes on its longer term targets including the guidance for decline in production by the end of the decade, the well-known 25% production target. I was wondering if you had any comments on that article?

Murray Auchincloss: Sure. I will tackle both of those. Martijn, thanks for the questions. So what we said is that the conditions that prevailed in 2023, which ironically are very close to the conditions that prevailed in 1Q 2024, that was a good starting point for how you should think about 2025. And then you should just apply underlying growth rate to get to what you think the EBITDA would be across the two years. And we have talked about 3-4% underlying cash flow growth since Capex is flat, and since proceeds are relatively flat, that implies 3-4% EBITDA growth across 2024 and 2025 as well. And I have said the sources of those value numerous times to help you think about how you can quantify that.

I think the only thing I would say is the $10.3 billion that we had in 1Q 2024 obviously had the unusual incident with Whiting. We would not obviously plan for something like that moving forward. It had an impact of around a $0.5 billion in the quarter, so you should probably add that back. And you are getting close to $11 billion EBITDA at about the right conditions for 2025, I think 11 times four, I will let you do that math, but you can get a sense of where we are performing. And then the 3-4% gives you a sense of where we

think we will be in 2025. And all of you will adjust that based on what you believe will happen with performance and what you will happen with the environment. So I think that is probably about as good as I can do in that space.

As far as the FT article, about production of 2 million barrels of oil equivalent per day, I am just going to again, be consistent with what I talked about last quarter. We continue with a strategy of transitioning from an IOC to an IEC, we will diversify the business over time. We will focus on bioenergy, EV charging, convenience, hydrogen and renewables. We will continue investing into this space. We will be pragmatic, and we will make sure the investments we make hit our returns hurdles[1]. And of course, at the same time, we will be investing into hydrocarbons.

On the hydrocarbons, 2030 is an aim, it is not a target. We estimated at around 2 million barrels of oil equivalent per day right now and it will largely be determined by the long list of potential final investment decisions we have to make across 2024 and 2025. There are over 30 of them, some in the upstream, some in refining, some in the transition growth engines. And based on what decisions we make that will determine the volume outcome. But what I am really, really focused on with the organisation is returns and cash flow, not volume.

So during the quarter, back to that story again, we sanctioned one oil project in the Gulf of Mexico, and we let go of two gas resources in the west coast of Africa. So that tells you we are return driven, not volume driven. And once we are through deciding the final investment decisions over the next couple years, we will update you with a target for 2030 production. Could it be higher than 2 million barrels of oil equivalent per day? Yes. Could it be lower than 2 million barrels of oil equivalent per day? Yes. It is all going to be return and cashflow focused, Martijn, as I think you would hope we would be. I hope that provides enough clarity.

Martijn Rats (Morgan Stanley): Thank you.

Craig Marshall: Thanks, Martijn. We will take the next question from Roger Read at Wells Fargo.

Roger Read (Wells Fargo): Yeah, thanks. I do appreciate more reasonable time for those of us on this side of the pond. Just wanted to dive back in, Murray, earlier you mentioned diesel recession going on since you have a pretty impressive global footprint. Just wondering, you could expand on that a little bit?

And then the other question would just be can we get a little more of an update on how things are going in the Permian with bpx? Just a little more depth into the operations, what you are seeing in the way of productivity and efficiency, things like that?

Murray Auchincloss: Sure. Kate, you want to take diesel recession?

Kate Thomson: Yeah, thanks, Roger. I was out with TA about a month ago. We talked a lot about this. So the sector that TA has historically focused on is a sector where there are probably smaller size truckers capturing a higher margin. As a consequence, they are probably far more sensitive to spot price. And what has happened in the spot freight rate over the last couple of years is it has declined. If these truckers are being sensible, they

do not drive when the economics do not make sense. As a consequence, we have seen volumes down.

What I would say having spoken with Debbie Boffa and her LT, they are all over how they offset this until such point as the recovery starts to kick in. And we expect that that trucking recession will probably start to mitigate towards the end of this year with a full recovery next year. So, as you would expect thereafter, streamlining their costs, they are contemplating how to high grade their site portfolio, and they are focused on securing some customers which diversify their customer base into the larger fleets where you may get slightly slimmer margins, but you are going to capture upside from the non-fuel sales.

Murray Auchincloss: Great, thanks. Thanks, Kate. I think on the Permian, Roger, obviously we got our third central gathering facility up online. Now, I think that takes our capacity for black oil up to around 100 thousand barrels per day[i]

So I think a lot of the wells are drilled and we should be popping them and filling that up as we move through the second quarter. Conditions inside the Permian is a bit looser, there are more rigs available, obviously from low natural gas prices making the supply side a little bit better. And no real change from October on the productivity. All the recent benchmarking we are doing is showing us at the top of the pack on the productivity on NPV for drilling spend. So we are proud of the team for driving that as well. We are not feeling any constraints on export at this stage. And we are looking forward to getting the fourth and last central facility online around mid next year. So hope that helps. I will be out, I will be out there next week to see the guys, and next quarter I can give you a more detailed report.

Roger Read (Wells Fargo): Thank you.

Craig Marshall: Thanks very much. We are actually going to jump to an online question that we have received from Alejandro Vigil at Santander – asking Murray and Kate about Namibia and the investment plans there after the Azule Energy announcement.

Murray Auchincloss: Yep, sure, I can take that one. So we have been in Namibia for about a decade. We entered back in 2010 or 2011, drilled a couple dry holes, unfortunately, but we have been monitoring it ever since. Given the recent success that's happened we started to look at some farm-ins, and obviously we were able to farm into the blocks south of Galp's big discoveries with Rhino Resources Namibia. We farmed in for 42% and Eni and ourselves, chose to do that through Azule, which is our West African Energy company. So we are looking forward to completing that farm in.

We then move towards drilling wells later in the year. There are two wells to drill under our agreement, and we will see how it goes. But it is a nice little addition to Azule. It is got a great growth profile inside Angola to the end of the decade. And cross fingers if we get some discoveries, it gives it legs for another 10 or 20 years. So we will see how the drilling goes. You can never count on these things, but it looks like it is in a nice postcode.

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

Christyan Malek (JP Morgan): Hi, thanks for taking my questions. Two questions please. First, just on the cost savings, I have to congratulate you continue to drive efficiencies. My

only sort of kind of just question around growth is your liquids growth from 2026, back to that sort of theme. Why aren't you thinking or framing in the same way you are doing costs, but more in an upcycle view of you to consolidate or scale up your liquids? Given your constructive outlook, it strikes me as sort of very bear market to continue to focus on cost, albeit that is absolutely necessary. So I just want to hear more about your liquids plan, particularly given the US consolidation that we are seeing. And how do you frame that on a medium-term basis, given we are, after all talking about 2026?

And the second question is around low carbon and trading. Is there a plan or thinking about being more explicit around those businesses in terms of breaking them up to show your cash flow pathway? Clearly, trading is more challenging given it is more discreet. But on the low carbon side, just understand better what the free cash flow to all be on a medium-term basis. We start to think about drawing a path to EBITDA targets. Thank you.

Murray Auchincloss: Great. Kate, do you want to lead off with disclosures on low carbon trading?

Kate Thomson: Yeah, so thanks, Christyan. So the low carbon trading is obviously included in our trading numbers. It is also included in our transition growth engine disclosures when we make those at the half year and the full year. But we will not be breaking those out beyond the five transition growth engines. I think there is enough complexity in that disclosure as it is already.

Murray Auchincloss: And on liquid side, Christyan, I guess in our Denver presentation to you back in October 2023, we talked about a pretty resilient oil portfolio with the capacity to grow production through 2027 by 2-3%. As we look at our sanctions moving forward, from sanctions in the Middle East to sanctions in the East Coast of Canada to Brazil, to the Gulf of Mexico, to the North Sea, potentially to Azule and Aker bp, we have an awful lot of oil in the portfolio. And as we make those sanctions, that would give us more duration to grow the oil business as well, beyond 2027. But I cannot really commit to that until I am clear about which sanctions we move forward.

I think on the question of do you want to go buy, I am a countercyclical human being. With low carbon energy in the doldrums right now, now is the time to go countercyclical. That is why we are doing Lightsource bp at a countercyclical moment in time and watch the space, we may do some more things over the coming years in a countercyclical environment. On the oil side, with oil at $85 or $90, I am not sure it is the right time to be buying oil. We might consider some bolt-ons, but we just would prefer to be countercyclical rather than procyclical. And we do have some pretty strong growth as we look forward, especially relative to the competition, especially in the high margin basins of the OECD. So I feel okay where we are right now, I do not want to do high price acquisitions and instead I will go countercyclical with scarce cash where counter cyclicality exists. Hope that helps, Christian.

Christian Malek (JP Morgan): Thank you.

Craig Marshall: Thanks, Christian. We will go to Irene Himona at Bernstein next.

Irene Himona (Bernstein): Thank you. Good afternoon. My first question, Murray, going back to the $2 billion cost saving, you did mention, I believe 8% cash cost inflation on that

$22 billion cost base. So I wonder, should we think of the $2 billion reduction target as partly or wholly removing that inflationary impact and leaving the sort of underlying cost base flat, would you say? And then secondly, on convenience, your convenience gross margin grew 62% in 2023 for an increase in site numbers of about 19%. So I wanted to ask, so far in 2024 are you seeing similarly fast improvements in that convenience margin are they faster, slower? Where do we stand? Thank you.

Murray Auchincloss: I think on the $2 billion cost savings, Irene, our intent is to drive that through the business and drive that down to free cash flow delivery. So eating inflation is how I think about these things. And it is why we say at least two, maybe something above that takes us to beat inflation. But I would like to I would like to try to beat inflation, especially as that is starting to mitigate as we look at all what all the central banks are telling us these days. So I would like to drive that through to bottom line cash flow delivery, and that certainly is, as a leadership team, what we will be working towards moving forward. Kate, do you want to tackle the convenience gross margin question?

Kate Thomson: Thanks, Irene. Hello. Nice to hear you. In terms of convenience, so year on year, if you look at 1Q versus 1Q 2023, you are seeing a significant impact there with regard to TA, which we acquired last year, that has just opened its 300th site, so it is driving significant volume. What I would say on gross margin, if you exclude TA, we are seeing between 9% and 10% per annum growth in our gross margin year on year. So, that is what gives us confidence with regard to convenience delivery.

Irene Himona (Bernstein): Okay. Thanks very much.

Craig Marshall: Irene, thank you. We will take the next question from Lucas Herrmann at BNP.

Lucas Herrmann (BNP Paribas Exane): Yeah, thanks very much, Craig, and a couple of questions. One is very straightforward, just on the share count and the reduction this quarter. The buybacks obviously being $1.75 billion share count reductions just over 130 million. I presume that the absence of a greater reduction is because you have issued a lot of stock with employees the benefits of, or not the benefits, but, and so we will see more material sums go out on buyback than the $1.75 billion or so you are indicating for future quarters?

That was the first, and the second was almost, yeah, congratulations. You have achieved 30% growth on your 2022 Permian or your 2022 bpx numbers already. It does make this number seem rather modest shall we say. But I think more importantly, Murray, can you just comment on the profile, we should expect the liquids as you move through 2025 for bpx. Because as you said, I mean, you are adding 100,000 barrels a day of liquids capacity, but nothing like that as yet is coming through. And the numbers obviously Checkmate has just started. Just give me some better sense of where you think liquids will actually be at the end of the period?

Murray Auchincloss: Great. Okay, fantastic. Kate, you want to take the first one? I will take second.

Kate Thomson: Sure. Hi, Lucas. So you look just on employees share dilution. We have not made any disclosures yet with regard to the impact on 2024. If you look back over the

last couple of years, I think 2022 was around $500million and it was just over $670million last year. Probably going to be of an order of magnitude in the same kind of ballpark for 2024, but obviously, it is going to depend on share price and when employees actually decide to exercise their options, that will drive a level of impact. And we do not have that level of clarity at this point, but we will update you as we step through the year.

Lucas Herrmann (BNP Paribas Exane): But the intention to offset, Kate, right?

Murray Auchincloss: Yep.

Kate Thomson: Yep, over time.

Murray Auchincloss: Yep. We will offset over time, as you say, Lucas. So good eagle eye catch. As far as the bpx liquids profile goes, you are building up the profile from somewhere between 100 and 120 thousand barrels per day, depending on reservoir responsiveness in the Permian by 2025, assuming the fourth facility comes online as well. We are expanding, we have got most of our rigs focused just on the liquid window in the Eagle Ford right now, given where natural gas prices are. So there should be an uplift there. I do not have a number at my fingertips, but I can make sure I can make sure we get that for next quarter, Lucas, if you ask the question again. So there is strong liquids growth, as we call it, across bpx through 2024 and into 2025.

Lucas Herrmann (BNP Paribas Exane): Okay. Thanks, Murray.

Murray Auchincloss: Pleasure.

Craig Marshall: Thanks, Lucas. We will take the next question from Peter Low at Redburn.

Peter Low (Redburn): Hi, thanks. Yeah, it was actually another question on bpx production, but this time on the gas side. Your gas volumes are still growing quite strongly. A lot of other producers in North America kind of scaling that production. Does that simply reflect your hedging position, or can you talk a bit about why that growth is coming through in such a weak gas price environment?

And then just a quick one, are you able to quantify the impact of price lag effects in the Gulf of Mexico and the UAE on the OPO result in the quarter? Thanks.

Murray Auchincloss: Okay. Kate, do you want to do the price lag and I will come back to gas profile?

Kate Thomson: Yeah, sure. Thank you. On price, the impact in the quarter was about $400 million. Pretty much what we said it was going to be in the trading statement, so we were in line with that.

Murray Auchincloss: Great, thank you. On the gas profile, you are right, we have hedged natural gas at around $4 through 2023 and 2024. So obviously, we have kept that going while we have got those hedges in place. We have started to reduce rig count right now and point it more to the liquids levels of the Eagle Ford, as I talked about. So you are just doing retention drilling inside the Haynesville. I think what I would say is the Haynesville is prolific where we drill and the amount of production that comes online and the sustainable is quite high per well. We are in absolutely the best spot of the Haynesville through the

BHP acquisition. And the teams have really got their capital efficiency down. They have really got their frack structuring down to make sure that we get fabulous production out of these wells.

So I think that is what is explaining the growth so far. And then of course, we have got a choice as we move into 2025 based on what we see on gas pricing about whether or not we ramp the gas drilling back up or we stick with liquids and oil. All I would say is we will be very, very value driven. We will not be volume driven and we will see where the best value is and then apply our rig count at that rate. So I hope that helps, Peter.

Peter Lowe (Redburn): Thanks.

Craig Marshall: Thanks very much. Next question from Kim Fustier at HSBC.

Kim Fustier (HSBC): Hi, good afternoon. Thanks for taking my questions. Firstly, on Capex, you said $16 billion of Capex guidance now evenly spread over the year, as opposed to weighted to the first half. I just wondered if there had been any project slippage to the right?

And then secondly, sorry for going back to the, to the $2 billion cost savings, but I think you said that some of those cost savings will have associated restructuring charges. I wondered if you could provide any detail on the kinds of areas where you might incur such charges. Is this related, for instance, to headcount reductions? And is the $2 billion figure net of those restructuring costs, or is it going to be lower than $2 billion after those restructuring costs? Thank you.

Murray Auchincloss: Great. Kate, do you want to tackle both of those?

Kate Thomson: Yeah, sure. So on Capex. So we are still confident of our guidance of around $16 billion for the full year. What has happened over the course of the last couple of months is that a couple of lumpy payments that were due around the back end of the second quarter have just tipped over into the beginning of the third quarter. And we just wanted to make sure that you got line of sight to the fact that it probably was not so heavily focused on the first half compared to the second half. It is a little bit more evenly now spread around the remaining quarters of the year.

With regard to restructuring charges, we will update you in due course as we get clear on the implications of that. At the moment, we are allowing each business and function to work on their own plans to deliver efficiencies. And as we said, some, some of that will have some restructuring charges associated with it, but not all of it. And as we get clear on the scale of the numbers and when we report them, we will update you.

Craig Marshall: Thanks, Kim. We will take the next question from Menno Hulshof at TD Cowen.

Menno Hulshof (TD Cowen): Great. Good afternoon, and thanks for taking my questions. So the first is on the simplification of the org structure. You have clearly made significant headway already, but where do you think you stand in that process?

And then the second is yet another follow up on the $2 billion target. And apologies if you talked about this already, but can we get a rough breakdown on how much each of the

four initiatives is expected to contribute and whether achievement of the $2 billion is expected to be fairly linear over the next two and a half years? Thank you.

Murray Auchincloss: Sure. Why don't I tackle both of those since I gave you the last two ones. Kate. You should think about the four cost initiatives each delivering around a quarter of the benefit. It may end up being different than that, but that is a good estimate for right now. And as far as the linear nature, we said it is by the back end of 2026 and it will take time to do some of these things. So I would not count on much impact in 2024 and 2025, it should be coming in through 2026 as we work our way through it.

On org structure itself, we have announced the first stage of simplification. There will be multiple steps along the way, maybe two or three steps is how I am thinking about it. We have reduced my direct reports down to 10. We have combined some functions inside the organisation as well. Those need to be well managed. We have to have very, very strong management of change as we go through this and make sure that safety is paramount as we do it. And we expect in due course to announce another set of simplification steps to try to make the place easier to work in. Maybe around year end we will see that next step. So that is that is what's happening on simplification inside the company. Craig, back to you.

Craig Marshall: Thanks, Murray. Thanks, Menno. Three questions left. We will take the first one from Henry Tarr at Berenberg.

Henry Tarr (Berenberg): Hi there, and thanks for taking my question. Two quickly. One on the outlook for US offshore wind at this point and your Beacon Wind project. How are you thinking about offshore wind broadly in the US and that project moving forward?

And then just coming back to a comment about the potential to be countercyclical in low carbon. Where do you see sort of attractive returns today in low carbon, either within your own business or sort of externally? Where might you be looking across that space? Thanks.

Murray Auchincloss: Great, Henry. I think I will tackle both of these. I think on Beacon Wind, look, we are going slow on that one. Infrastructure needs to develop off the northeast coast of the US. We need to see some changes in pricing mechanisms moving forward so that we can move to more to an integrated model like we see in Europe. And it is hard to predict at what pace that will happen, but I think on Beacon Wind, we will be going slow. I think is what I would say for now.

As far as countercyclical, I will have to be careful on this one because the second I say anything about it, I will have too much competition. So I think what I would say is that you know my hierarchy of returns on the growth engines from biogas to biofuel, to convenience to electrification are the places that are quite interesting to me. And you can figure out what the countercyclical moment might be inside some of those based on what's been happening recently. And I will stop myself saying any more than that. Because my mergers and acquisitions team might shoot me if I say anymore. So I hope that gave you enough hints, Henry, to think about. And in due course, you will see, or you will not see announcements, let’s see.

Craig Marshall: Thanks. I think, Henry, just to reiterate, obviously we have laid out our Capex guidance and that is organic and inorganic in totality. So there is not any leakage.

Murray Auchincloss: CEO doesn't get to spend more than $16 billion Capex, and that was code from Craig.

Craig Marshall: Sorry. Thank you, boss. And then the last question, sorry, I thought there was two, but the last question from Giacomo Romeo at Jefferies. Giacomo, thanks for being patient.

Giacomo Romeo (Jefferies): Thank you. The first question, if I can just ask again about this countercyclical, just wanted to check with you, Murray. I think that on the Q4 call, you talked about the fact that you have done a lot of acquisitions in the previous years, and you were sort of focusing more of integration as somehow this message change or what kind of size of acquisition countercyclical deal we could expect.

The second is on the Namibia farm-in. Just trying to understand when Azule was set up in 2022. Was your thinking always about making it your West Africa venture, or has this somewhat evolved over time? And just on the deal in Namibia, specifically the PAL85 is on shallower waters versus where other discoveries have may have been made. They are just trying to understand what gives you confidence as that the play will extend onto shallower waters. Thank you.

Murray Auchincloss: Yeah. Let's see. On countercyclical, what I would say is we have a tight capital frame at $16 billion in 2024 and $16 billion in 2025. Last time I communicated with you, I said we have done an awful lot on acquisitions from TA to Archaea to Lightsource to EDF and it is time to now bring the synergies out of these, and I gave you a caveat saying however, we will consider one or two more of these things moving forward.

So I am not out of line with what I said in February and what I said the previous quarter, Giacomo, I am in line with that. It is one or two opportunities that we see over the next couple of years. And I guess the point was more, I am not going procyclical on oil. I will think countercyclical in transition while prices are low. And let's see if we can actually prosecute anything.

Kate, do you want to talk about origins of Azule? I can tackle the geology question.

Kate Thomson: Yeah, when Azule was set up with Eni, it was a great marriage of assets. Ours were later life generating significant cash and Eni's were earlier. It was a very nice symbiotic relationship, very similar to the one we created with Aker-bp. And since we formed it, we have taken just over $5 billion of distributions[4]. A couple of points, I would say on the finances with regard to Azule and Namibia is it has been set up to be a self-funded vehicle and to continue to distribute back to its shareholders. For the first part of Namibia, it is two exploration wells. Let's see what happens with that. Do not expect a material impact on the distributions back to us or Eni, but let's see what happens with those.

Murray Auchincloss: If I channel my inner explorer, really water depth does not matter. It is what is happening subsurface. I think the interesting bit about these ones, Galp has had

some discoveries. You have seen what their announcements are. When you look at the seismic on the block that we picked up from Rhino, it is a direct extension of the four or five structures that are in the Galp blocks at the same geologic depth. So who knows what happens with exploration. Sometimes it works, sometimes it does not. But there are very clear structures in the Galp block, there are very clear structures in the Rhino block. They lay in a pattern. They should have the same charge, they should have the same origin. Of course, there is geologic risk around it, but water depth really does not play into it. So, let's see. Giacomo, let's see what happens. You have to drill the wells to find out what is actually down there.

I think with that, Craig, shall we close?

So thanks everybody for listening to us. Another decent quarter out of bp. I am really pleased about bringing growth to the market. So ACE getting up online in Azerbaijan, bpx expanding their operations with the third plant in the lower 48 in the Permian. Archaea expanding; one big plant, five more in commissioning. And we have got great momentum around cost as well. So I am very optimistic about growth for bp as we look through the next couple of years and hitting our targets and in due course updating you about what is beyond that. So thanks very much for listening and look forward to chatting with you next quarter.

[END OF TRANSCRIPT]

Notes

1. Please refer to bp's Annual Report 2023 for further information on bp's balanced investment criteria

2. Due to GenAI and in-house built developer productivity tools, we have increased the output of our software developers by around 70% year-over-year. In parallel, we have been carrying out a large-scale digital talent transformation, accelerated by our in-house AI + human-powered code-reviews-as-a-service capability. As a part of this we have been reducing 3rd party software engineers in our organization by around 60% percent in the last 6 months.

3. Gross capacity

4. Total Azule distributions to both bp and ENI