BP 4Q 2021 Results: Webcast Q&A Transcript

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Q&A TRANSCRIPT

Bernard Looney: Thanks again for listening this morning. Now it's over to you. Murray and I will be delighted, it says. We will try anyway. State your questions from the room, and online, and we've got all the technology that we need to do that. May we ask you to keep them to two points only, please, at most, and to frame them as briefly as you can. This is all Craig's language, if you want to blame anybody, so that we can get through as many questions as possible. And it will also be helpful if you would just state your name for those people who are online, and I guess we'll start here in the room. So, who wants to lead off? And we'll go at the back here. Go ahead.

Michele Della Vigna (Goldman Sachs): Hi. Thank you very much for the presentation. Two questions if I may. The first one relates to your buyback programme. I was wondering under what circumstances you would go above the 60% pay-out of the free cash law. I was wondering if, perhaps, at higher oil prices it makes sense to dedicate more to buybacks, and whether there is a hard limit to how much you can do. You know, how much more than, let's say $2 billion per quarter can you actually execute on the market, given the daily liquidity, and the amount of shares you want to buy back in a year. And then my second question relates to the EU green taxonomy. A lot of companies are starting to work to think about what is the percentage of revenues and investment that is consistent with it. I was wondering, when I look at your numbers on the green transition, should we just effectively take it ex-convenience, which doesn't fit into the EU green taxonomy, and think that that could be a good approximation of where you could end up when you start to report those numbers in the next 12 months. Thank you.

Bernard Looney: Very good. Excellent. On buybacks Murray will speak to limits, and his own views on things. Michelle, you know as well as I do, there are many debates about what is the right use of surplus cash. And I think from day one, we've outlined a very clear financial framework that takes each of those potential uses of cash in order - starting with the first call on cash being the dividend. Then we want to strengthen that balance sheet, and we have done a lot. I think our largest reported debt was $51 billion net debt, that was at the end of a quarter - it might have been different in the middle of a quarter. We're now down at $30.6 billion. I think we're in a much better place with our rating agencies. We're now a stable outlook with S&P, having been upgraded from a negative outlook, and we continue to want to put 40% of surplus cash towards the balance sheet through this year. We then want to invest in our hydrocarbons business and our transition growth engines, and if there's any left over, the 5th and final point it's for buybacks. So, the board keeps this under constant review. We've been very clear in terms of buybacks for this year, what you can expect, and it's not at least 60% - it is 60% for 2022, with the 40% going to the balance sheet, and we'll update our view on that again at the same time next year. And obviously the dividend is kept under review by the board on a quarterly basis, but we've laid out our expectations around that. Anything you'd add, and anything around limits to what we can do.

Murray Auchincloss: I think it's just important, given the uncertainty in the world, that we continue to dedicate money to strengthen the balance sheet. I feel that's very important. Another shock could happen at any moment in time on Omicron, or the next wave, and I think it's better to posture in a conservative space, to be honest - so that's why we're continuing to dedicate cash to the balance sheet. I don't think there's any way we'd regret that. As far as limitations on share buybacks, there will be market limitations. We're still learning about that, about what's possible. Of course, it depends on how fast the share price appreciates as well, that creates limitations in itself. We've already done $0.5 billion of buybacks this quarter for employee offsets in January, so that's behind us. We'll do $1.5 billion by the results date. That's carefully worded, because sometimes it's a little bit tricky to do it inside the quarter. So there are days where we're buffeting up against that, but liquidity in the shares is high. We just have to watch a rising share price, it is difficult to continue to buy back with that rise in share price. So, so far so good, but probably another $0.5 billion in the quarter is getting tight, depending on what happens with share price. But that's a nice problem to have Michele.

Bernard Looney: You're not saying that's a bad thing?

Murray Auchincloss: That's a great thing.

Bernard Looney: On EU taxonomy. I think it's a moving space, isn't it? The proposals being issued, I think a big question you'll have to ask yourself Michele is what to do with natural gas, which is in the current proposal, albeit a decarbonised version of natural gas. Let's see how that survives. Convenience is in our transition growth engines, because it's the non-fuel element of our convenience business, which in the UK today, I don't know what the numbers are, but more than half - 60 to 70 percent potentially - of people who visit a bp petrol station don't buy any fuel. So, it's a convenience offer for a convenience reason. It's an incredibly fast-growing business. I've looked at the UK market, it's expected to grow at 12.5% ~~per annum~~[1] over the next five years[1]. So, it's a growth business, it's in transition because it's non-fossil. It's that aspect of the business that's in there. The trick will be what happens with natural gas, and that could obviously swing your numbers up and down. The others are clearly very much part of the EU taxonomy. So hopefully that helps. Great questions. Thank you. We'll go here next. It looks like everybody is going to ask a question.

Gordon Gray (HSBC): Just one on mobility and particularly EV charging. You've got very ambitious targets for growing EV charge points. Some of that obviously is going to cannibalise your conventional fuel sales. Can you just give us a feel for what you're seeing on the ground today about the margin you get from EV charging in a typical fuel station relative to the historic conventional fuel margins?

Bernard Looney: I think the most we've said so far is what Emma said in an interview recently that we're at the point where the margins are broadly equivalent. So, we're at the stage where the margins are equivalent. We probably think that they can get better. If you look at our Hammersmith EV charging station, our utilisation rate in Hammersmith is 67% today. 67%, that's on a time basis. Many of the assumptions that people have in their plans are around single digit utilisation rates. When you look at the residence time of a charging customer, it's probably a little bit longer than that of a petrol customer. We see enormous opportunity on the convenience side. In fact, we see that with our station here in the car park underneath Hyde Park in London, where the convenience offer is also a big draw. So, we see opportunity there. So, we're very excited about this business. We're opening 115 charge points a week now. We added 115 charge points a week in the fourth quarter. We sold more power in December in China than we did in the entire of 2020. This is a business that's growing exponentially. And when you talk about the role of a company like ours in the transition, and people question it, why wouldn't we want to absolutely take on that market? Look at the starting position we have. 550 million customers within 20 minutes of a bp site. Look at the brand that we have. Look at the convenience offer that we have - REWE-to-go in Germany, Albert Heijn in the Netherlands, ampm in America. It's huge. We would be fools not to embrace this opportunity that is being presented to us. So, we see massive opportunity. That's why since last year, that plan has accelerated, more capital is being deployed, and we're very excited about the long-term potential. Fleets, hugely interesting. Between six and eight percent of the power that we discharge through our charging network in the UK in 2021 was to Uber. So, fleets will become important. Fleets is where we're concentrating in America. So, 4.5 times more electricity, more power sold in 2021 than in 2020, and we're targeting a 100-fold increase by the end of the decade. All about on-the-go fast charging, ultrafast charging. It's a very different business, but it's one that plays enormously to our strengths. You love it. What have I missed?

Murray Auchincloss: The growth in fleets in the US is pretty surprising. 10 times growth over the decade, so 254,000 electric vehicles now in fleets, 10 times growth through the end of the decade is the most conservative estimate we see. That's why we went into AMPLY Power to really get a leapfrog ahead on their customer book, and then their digital offer. They have a great digital stack. It allows you to help manage a business on their behalf, the overall fleet, and you can charge on a fleet on a service basis. So we're bringing that back to the UK as well. We've got deals with Royal Mail, fire brigade, police, – customer, after customer, after customer. And if we can link together the offshore energy, the onshore hydrogen, with these fleets, and fast on-the-go charging, you've recreated the upstream in about a decade's time. So, it's just a fabulous, fabulous opportunity ahead of us, with very high returns.

[1] *The UK convenience market is expected to grow at 12.5% in total over the next 5 years.*

Bernard Looney: And if you're a charging geek, like we obviously are, check out the Blauzahn blogger in Germany, who compares reliability of charging networks all across Germany. And Aral, which is our brand in Germany, is number one, with 1% downtime. So, anyway, fun space. Who's next? Lucas, and then we'll start heading over to this side of the room here shortly.

Lucas Herrmann (Exane): Two questions, a little more here and now perhaps. The first is, you must have very good visibility on the LNG trading business into Q1, given that I suspect, you know, Carol would have set most of your positions for you. I wonder whether you can make any commentary on how you expect trading in that quarter, or the next quarter, to go relative to, should we say, the last two. And the second just goes back to balance sheet Murray, and maybe it ties in with trading to some degree as well, but just the mix of cash and debt. I mean it's very visible the Europeans carry a lot of cash relative to the US. It's also very apparent that you trade a lot more than the US. But the level of cash carried on balance sheet now, is it really appropriate, or should you be thinking about bringing that down, and suffering less of an interest hit through differentials? That was it.

Bernard Looney: Thanks Lucas. Murray, I'll let you take both.

Murray Auchincloss: Starting with balance sheet, my favourite thing Lucas. $39 billion of net debt at the end of last year, down to $31 billion of net debt, and you saw the statistics on debt buybacks. We'll continue to do that, as long as it economically makes sense to continue to buy back debt. It depends on what happens with interest rates. But for now, we think that continues to be a sensible thing to do. We do have to carry high levels of cash though as a trading organisation, in order to trade on exchanges. You have to have cash buffers for initial margin and variation margin, and that's why we can drive the returns that we drive through having that cash. I think that's an effective use. The returns are pretty darn high on a cash basis, much better you can get in a depository bank or anything else. So I think we will run a little bit higher cash position, especially as we go through the volatile times we're in right now. The exchanges are demanding more margin call these days given the volatility. While this deficit in energy supply lasts, we'll just need to run high cash balances. So I don't think that's a bad thing. I think it's a good thing Lucas, because it enables Carol's profits. As far as speculating about how Carol will do in the first quarter, I think I'll hold fire. The gas markets are pretty volatile right now. Predicting is gas price going to go up, is gas price going to go down, is tricky right now. We obviously have a large LNG trading book. They'll be doing a lot of cargo deliveries into Europe. I think we did 35 into Europe over the past year, 7 here into the UK to try to help with gas supply, but there's a large position that will be delivered. And if I know Carol, she will do pretty well. So let's see. Let's see Lucas.

Bernard Looney: And an LNG cargo, I've learned, provides enough heat for 100,000 homes for a year. So 35 cargoes into Europe last year, 7 cargoes into the UK over the winter, which is double our normal capacity. Chris.

Christopher Kuplent (Bank of America): Thanks so much. Murray, I fully endorse your message on the balance sheet. If I may, can you remind us of your sensitivity away from net debt, in your provisions and lease books to rising interest rates, which I guess we have to prepare for. And my second question, if I may, 2021 is a special year, because I remember well, 2016 and 2017 investor days targeting 2021, and you've made it, not exactly easy to compare with targets that were set at the time, but I would argue downstream is the one that let you down. Of course, we're in COVID times, and downstream was particularly hit during 2021. You highlighted $600 million, Bernard, on COVID impacts. Petrochemicals is gone. But you are using, again, convenience and mobility as a target to get excited about earnings growth, and I can't see much earnings growth over the last four years that we talked about in Pangbourne. So, how can you, maybe, convince us this time is different?

Bernard Looney: Very good. Murray, balance sheet?

Murray Auchincloss: Yeah. Sensitivity to interest rates. As I mentioned in the speech, an awful lot of the debt book that we've gone with recently on the debt raises was fixed. So we're taking advantage of the low rates in the 20 and 30 year debt, and fixed most of our balance sheet at pretty low rates. We won't re-trade those, so those should carry most of the debt book fixed for the next few decades. I think that will turn out to be fortunate timing. But two or three CFOs down the road will actually tell us what happens. As far as the rest - the leases aren't sensitive to interest rate moves, so that's not a risk. And of course, the Macondo pay down remains out there as well on a gross basis, and that's not subject to interest rate volatility as well. So I think, you know, as I came into the job, there are a lot of people asking me about the strength of the balance sheet, the nature of our debt book. I think Kate Thomson and now Niamh Staunton have done a fabulous job of fixing it, lengthening it, and decreasing the risk profile of the business significantly. So I think that concern is largely behind us, and something that shareholders can now count on, moving forward.

Bernard Looney: On convenience mobility, or the downstream business from the old days, with and without Products. I'd say a couple of things. I think the area that that's been challenged over the last year or two in particular, aside from COVID, has been Castrol. We've had higher base oil cost feed through last year. There's a lag there. And, you know, they're twice what they were pre-COVID. Our margins are off. We have challenges on the supply chain on additives. So that's an area where we've seen some challenge. No question about that. We're on it. We have a plan. We will grow that revenue base. We are going to take out cost. We see massive opportunities for digitisation. We see massive opportunities in the warehouse base, and we do believe that the additive situation will resolve itself around the middle of the year. So, the underlying premise of Castrol remains very, very strong. In fact, they had their highest sales on record in China last year, and they remain the number one brand in India. So that's some work to do. Beyond that, the convenience and mobility business, why do we have confidence? You know, 20% increase in gross margin between 2019 and 2021. That's on top of the 10% increase the previous year, and a 10% increase the year before that. What's driving these types of things? Basket sizes. People are wanting to shop more local. And if the quality is there, they're going to come to your store. Basket sizes are up 20%. Thorntons are seeing basket sizes up 29%. We have I think around 16 million loyal customers. That's way up over the past couple of years, and a loyal customer is worth four times more than a regular customer. We've talked about the digitisation and the app through bpme. It had the highest number of transactions ever in November on the bpme app, and they're twice what a non-bpme app is. The UK in retail had its best Christmas ever on record. So when I look at the inputs to the business, I'm very confident that under Emma Delaney's leadership, we will deliver the plans that we've laid out. COVID has been some headwinds, we've had a few challenges in Castrol. But the underpinnings of that business in that space are brilliant, and they're all driven by a commitment to the brand, a commitment to the quality of the offer, and a real commitment and investment in the digitisation of that offer. So pretty excited about it Chris. You'll have to hold us to account. That's what we're here to do, and that's what we intend to do. I'm going to come to Lydia here in the front row.

Lydia Rainforth (Barclays): Thanks. It's Lydia Rainforth from Barclays, Two questions, if I could. So, firstly thank you for doing this in person, it's very interesting to see.

If you think about the transition EBITDA, that's sort of 20 to 25 percent I think of your overall EBITDA number now by 2030.

So within that, there's been discussion about it doesn't actually look like that kind of messaging about being an IEC is necessarily getting through to the share price. So, at what point do you go actually we need to do more around that, or there's a different structure that you look at? And then the second part is, clearly there's a lot of focus on the low carbon and energy transition in there. How do you feel about inflation within the capex side of the renewables side? So less on the oil side, but around the renewables business, given that these are new projects, they're the first time that you've done them, how comfortable are you on the capex?

Bernard Looney: Great. Murray, you want to take inflation, I'll take the IEC question?

Murray Auchincloss: Inflation more broadly, we ate most of the inflation in 2021. The only place we're seeing material inflation in 2022 right now is things like solar panels and in our Lower 48 business. Highly predictable isn't it, when you see an upswing in price, the first place that it shows up is in the Lower 48. We're probably seeing a forecast of 5% to 10% inflation in the Lower 48.

I think we are okay in the historic upstream and the downstream and will be able to eat most of the inflation in 2022.

You are right, polysilicon has got inflation; 30% are some of the numbers we are seeing. However, because of the cycle time with it, it is fine. You spend the money, but you get a higher PPA and you still get the returns you want, so it does not really impact the returns ratio of the business itself.

As far as the longer wavelength inside offshore wind, we are just now on Empire 1 and Empire 2 going to market with bids. We will see what those look like and will be interested to hear back from Equinor throughout the year. I suspect Equinor will update the market once they are through all that process near the back end of 2022. I think there will be bubbles of the stuff, so will be some heat and then more capacity will come on, etcetera. I think it will all be on the timing of when you contract versus when you fix in a PPA, and when you fix in your debt. And I think two big companies such as ourselves will be able to manage our way through to get to the returns.

As far as capex, Lydia, we will stick with the $14-16 billion, and we will modulate our equity to manage that or modulate the debt levels we have, to make sure we manage through this. We are focussed on returns and we are focussed on capital discipline. That is core in our mind as we go through this.

Bernard Looney: And on your first question, Lydia. I will tackle it in a couple of ways. One, is I think as the world is beginning to grapple with the complexity of the energy transition, I think there is a day-by-day increasing understanding that there is a role – and not just a role, but actually there is a need for a company like ours. And I think that is becoming more and more apparent. It has a long journey still to go, no doubt. However, it is becoming more and more apparent. Because reliability and affordability matter as well as clean. And the reality is that natural gas with renewables, of which we have both, which we can add a trading organisation to, so that we can provide a customer with that predictable, reliable, affordable, cleaner supply, there is a role for a company like that. Because people do not want to have to go to somebody for their renewable power and go to somebody else for their base load power and go to somebody else to hedge their pricing and to do all of these things.

There is a one-stop shop here. It is called an IEC. It is called bp. I think in some ways the challenges, and we do not wish them to be like this, but it is a complex transition, and I think it increases the argument that we have a role and that there is more than that, that companies like ours are needed.

The second thing that I would say, and that is why we had confidence, clearly, when we laid out our strategy 18 months ago, but the more I learn and the more we learn, and the more time we spend in it, the more excited you get about just what a company like ours has to offer.

Let us take sustainable aviation fuel. If the world is going to decarbonise aviation, sustainable aviation fuel is going to be a big part of that. Now, you can start up a company tomorrow to try and do that, or you can become a single-source business that that's what you do. However, it is not straightforward.

Now, look at the advantage that decades of history gives us. First of all, the biggest issue in sustainable aviation fuel today is supply. That is what Carol Howle's organisation does – off-take agreements from all around the world. We just signed a deal last week, a ten-year agreement with Nuseed to do carinata, which is a non-food cover crop that farmers can grow between crops. We signed a deal there. We can do these big supply off-take agreements.

Then, go to manufacturing. Well, why wouldn't you not use the refinery and the power and the utilities and all of the things that a refinery has, and put a unit next to that, of which we will do two? That will be much more capital efficient than anybody can recreate.

And then, go to the downstream of that. You sell it to customers. Airbp is in 50-60 countries around the world. They are in every airport. They have a relationship with every airline[2]. All ready to go.

[2] *Air bp sells in more than 50 countries, serving over 800 locations and our customers include more than 250 passenger airlines and more than 50 cargo carriers.*

And you wrap a trading business around the totality of that flow, and you start to say, wow.

Now, you go to offshore wind. I spent a day in New York with the team out there – it reminded me of the oil and gas days – about permitting issues, local content issues, supply chain issues, cost, maintenance issues, vessels - all these things that we are so used to.

Hydrogen – who is going to build tens of billions of dollars of hydrogen facilities, build ports, convert it into ammonia, build ships, ship it to Asia to customers in Japan and Korea that want to decarbonise but can't - who can do that? That reminds you of the LNG business. We have been doing it for decades. We can do that again, if that is what is needed.

Our confidence in the role, and we can do that, because we are together. The structure of being an integrated energy company means we can do that.

Bernard Looney: Okay, we'll go over to Biraj.

Biraj Borkhartaria (RBC): Hi there, a question on divestments. I mean, at this point in the cycle your balance sheet does not need divestments, but you obviously have your top-down targets in your upstream – the 40% decline. I just want to get a sense of how you are thinking about accelerating that potentially in light of higher commodity prices?

And then the second question related to that. The 2022 guidance, could you just remind us, if there is anything left due from Alaska and if that is embedded in that $2-3 billion number?

Bernard Looney: Murray will handle the second part. Biraj, on the first part - we've looked back to the year 2000, and bp has consistently done on average $4-5 billion of divestments, every single year since the year 2000[3].

Portfolio high-grading is a natural piece of running a good business and we would be doing this energy transition or no energy transition. This is good business and this is what we will do in the years ahead. We set out a target already of $25 billion, that is what we said we will do by 2025. We have done $15 billion. We have got $10 billion to do. That's $2-3 billion per annum - which is kind of what our guidance used to be many, many years ago, $2-3 billion of divestments per annum.

Accelerating divestments, it is all a question of value. We are not in a rush. There is no rush here at all. If someone else sees more value in an asset that we feel is less important to us than it might be to them, then we are open-minded. However, there is no intent to accelerate. There is an intent to prosecute the plan that we've laid out. And the main thing to do, is we are going to be driven by value. That is what we are going to be driven by. And if we see value, we will do it. If we do not, we will not. And that is where I will leave it.

Alaska 2022?

Murray Auchincloss: Yeah. $15.5 billion of proceeds have been announced, or transactions have been announced for sale. $12.5 billion has been received. So we have got $3bn of deferred payments including Alaska. We will probably get, depends on the oil price, depends on performance, but 10% of that is Alaska. 10% of that, $2-3bn is Alaska inside 2022, and it is a gradual pay-out structure over time based on price and performance. Could be higher, if the price goes higher or if they perform better, but that gives you a rough range Biraj.

Bernard Looney: Brilliant. Thank, Biraj.

Jason Kenney (Santander): Thanks for the presentation. Really enjoyed the camaraderie and the positivity that you are generating, it is phenomenal to see and to watch. I have got a point of clarification. I think you mentioned on the biogas - bioenergy, kind of, a 10% split for biogas but a much larger part of the EBITDA potential from biogas relative to the volume. If you could just clarify that for me?

(3) On average, bp has executed $5-6 billion divestments per year, since 2000.

Secondly, on fleet charging, any data points around the AMPLY deal in the US would be much appreciated. Are there likely to be other targets in the fleet space, or do you think that there is going to be mainly organic growth on the back of that positioning?

And one more, if I may? Is there a scenario where bp moves net cash by mid-decade? Is that something that you have envisaged and any implications that you may think could come out of that?

Bernard Looney: Great, Jason. Thank you. Murray, you take bio and net cash. I will take AMPLY. AMPLY is a great acquisition. I have not met the team personally, but the team obviously has, and we are excited. What did we buy? We bought three things. We bought number one a great management team. Number two, we bought a long list of customers. And number three, we bought a digital stack that would have taken us two, three, four years to build on our own.

I know that Richard Bartlett, who runs our EV charging business, is in America this week or next week, and he is meeting with the team, and they are going out to other customers; some very big customers potentially. It would be fantastic if we could sign up. So hugely excited about that. It has given us a big acceleration in our fleet journey in America, and that is what we wanted to do. Will we do more deals like that? Possibly, but what you should know is that all of what we do is within our $14-15 billion frame for this year and within our $14-16 billion frame going forward.

So, we may use acquisitions at a relatively small scale like that to help accelerate our ambition, but you will not see any surprises in our capital frame because it is all in. Murray on biofuels, it is $1 billion on biofuels and $1 billion on biogas. Anything else you want to say? It is just very high returns biogas, right?

Murray Auchincloss: Yes, biogas is a bit of a different model than the biofuels side. Inside our trading organisation, we do not generally tend to use capex. We tend to use our balance sheet for commercial commitments, so you will not see much capex put into biogas; there will be some, but you will not see much capex go into that. It will be long-term commercial commitments and leveraging those, so you get some pretty extraordinary returns inside a biogas business. Plus the credits, of course, which are very attractive and can be traded as well.

And then, in biofuels will have a capex heavy period. We will invest somewhere around $2 to $3 billion into the five facilities that Bernard talked about through the middle of the decade. We are in Define now on three of them, so let us see how the engineering estimates come through, and then very much looking forward to building these options out. It will be fantastic.

As far as net cash negative, well, I guess that is a question on oil price? We have given you a lovely little chart, and we have added a yellow brick at the top for what happens to debt as price goes up. So that gives you the total free cash flow that we are getting out of the business. Certainly, it is possible that we are getting more cash than we know what to do with. For now, I am going to be conservative and manage the company as if it is $40/bbl oil. Anything we get above that just helps obviously, and that will go 60% to buybacks and 40% continuing through debt. But it is possible with the pricing we are seeing now, Jason, but for now, I will just focus on 2022 and make sure we continue to be conservative with the balance sheet.

Bernard Looney: Thank you, Murray. Excellent. Let us go to Jason Gableman from Cowan and Company on Zoom as well, and Jason, thank you for your question.

Jason Gableman (Cowan and Company): Yes, thanks for taking my questions. I have two.

First, it was a clarification. I am trying to compare this to kind of when you initially laid out the strategy, and it looks like when you laid out the strategy, bioenergy and LNG was in your low carbon and energy business footprint. And the EBITDA growth that you were discussing had that portion in the low carbon energy. And now it looks like it is in resilient hydrocarbons, and the EBITDA growth associated with bioenergy and LNG is in resilient hydrocarbons, so, if you could just clarify that. And point two, I wanted to ask. Murray, you mentioned polysilicon inflation at 30%, and it seems like a pretty eye-popping number, and you are obviously focused on growing your renewable power business quite a bit. So if you could discuss how you think about that inflation potentially continuing over time as solar and wind growth continue to accelerate industry-wide relative to your capital budget and how you manage that and think about hitting your growth targets in terms of capacity you plan to bring online. Thanks.

Bernard Looney: Jason, thank you. On bio and LNG, bio and LNG are definitely in resilient hydrocarbons. The reason bio is in there is that the biofuels business is based around those refineries. There is no perfect place to allocate these. Believe me, we have been back and forth on this a lot, and there is nothing cute going on there, as an Irish phrase. It is simply that is where we think that best belongs, and the key is what it adds up to at the end and the returns that we get from each business. But that is exactly where bio and LNG sit and as to where they used to sit in the old frame, the old description?

Murray Auchincloss: Gas and low carbon.

Bernard Looney: Yes, in gas and low carbon because the LNG was there. We put all the resilient hydrocarbons together LNG gas, all of our gas and biogas in there. Polysilicon?

Murray Auchincloss: Yes, so let us remember the model we have on Lightsource bp. So, we injected $200 or $300 million into Lightsourcebp a few years ago. We do not inject capital after that, so it does not impact our capital frame. The point of Lightsourcebp is to be a developer. So they are going to develop 25 gigawatts through the first half of the decade. That is the target they have set. And they are going to acquire land, get the permits, get the design done, get a power purchase agreement in place, get the debt in place and then they plan to flip those molecules.

So, the capital construction associated with the polysilicon goes to whoever is buying it, mostly pension funds these days. So, from our perspective, sitting inside bp and as a shareholder of Lightsourcebp and sitting inside a Lightsourcebp, they are not expending this capital on the solar panels themselves. That is for the purchasers to do. Instead, what we are trying to do is create this developer model that creates profit out of the flip and provides electron sources for Carol's trading business, if it makes sense. We kind of have the option to offtake the electrons into our portfolio. So that polysilicon inflation level does not impact bp, so to speak. It is more impacting the consumer, Jason.

We are not seeing anywhere near those levels of inflation in other spaces inside offshore wind, etc. But again, we are just inside the first bidding process with the supply chain really this year, and Equinor, as lead partner and Empire one and two, will report back to the market in due course. So, I think no real impact from the polysilicon because of the nature of the way we run Lightsourcebp right now.

Bernard Looney: They are also looking at developing long-term supply agreements or long-term relationships like we would have in the old oil and gas business. So, it is one of the things that I think we are working with them on – these frame agreements that we have traditionally used in oil and gas - to see if they can develop long-term relationships, Jason, there. And some of these megawatts that we are flipping on at the moment look like they are not being impacted by inflation prices. They seem to be very attractive.

Murray Auchincloss: There are a lot of solar panels that they bought in a couple of deals a while back, but they are not having to pay the increased prices yet. But Lightsourcebp is doing its first big flip as we speak, and it will be interesting to see what comes out of that in the first half of the year. Interesting to see what the pricing is. Great. Thanks, Jason.

Barnard Looney: Great, Jason thank you. Let us go back to the room here.

Martijn Rats (Morgan Stanley): Hello. I have got two questions, if I may, about the old oil and gas business.

The first one relates to the long-term production targets that were initially set during bp week, and I do remember a 20-25% decline by the middle of the decade and a 40% decline by the end of the decade, initially through disposals and then later through run off of the portfolio. But listening to you earlier, I think I heard you say – but I just wanted to check – that you said that with the investment plan that is now in place, this could keep underlying production flat. So, it sounds like more long-term, less near-term and more disposals, not an underlying decline of the portfolio.

So I wanted to ask you to what extent this guidance or the targets on long-term production have actually changed? Have I broadly got this correct?

And then the second thing relates to oil prices. The interesting thing about the 2030 guidance is, of course, that you do get into that period where you could conceivably start to think very differently about the oil markets. Now, I am not asking you to speculate about oil prices by 2030.

It is not entirely unimportant, and it does signal that at least the underlying bp view is that even by 2030, we will not be in a sharply declining oil demand environment where prices are all down to the marginal cost of the lowest supplier. It does signal that you think by 2030, oil is still at least in terms of price where the business has historically been. Is that correct?

Bernard Looney: So, I will take the second question around pricing. Murray will take the volume question and help me to get everything right.

So we updated oil prices as we do every year. We updated them last year. And basically, from our existing assumption, the near-term price has drifted up a little bit. And the long-term price has drifted down a little bit such that on average, throughout the period, they were pretty much the same. Our oil price assumption for 2030 is $60/bbl real based on a 2020 baseline, which is $71/bbl, which is roughly what it was in 2021.

Now the question, of course, that you ask is, well, you know what, if the transition goes faster, if it does this or that? What I think is interesting, Martijn, about the transition question, is that an accelerating transition does not always lead to a lower oil price. It depends on investment patterns, not just demand.

So, you could argue, you could see a world where because of lack of investment, even though the energy transition is accelerating, oil prices are much, much higher, which is sort of counterintuitive to how some people would think about it I think, because the kind of general sense is that accelerating transition means lower prices. That need not be the case because, as we know, it relies not just on a demand side of the equation but also a supply side. And of course, what people sometimes forget is that oil fields decline and therefore, they need investment.

So that is a long story short to say the energy transition could actually result in higher prices, even if it is accelerating, as well as obviously result in lower prices. Our job on an annual basis is to put forward our best view, knowing that it is probably not right. I think I can say that because it is true. Probably not right. But it is our best estimate, and our best estimate is $60/bbl real, and we think that balances up all the things that we know about in the world.

If oil prices are lower, our business is resilient to that. We have taken out costs. We are targeting $6 per barrel production costs. We have got the tightest, highest margin portfolio that we can. And that $9 to $10 billion will not be 20% of overall EBITDA. It will be 50% or something higher and vice versa. So, there is no simple answer to your question, I am afraid, but that is how we would think about it. And then on the upstream volumes and underlying production flat.

Murray Auchincloss: Yes, note one in the Stock Exchange Announcement (SEA) gives you each quarter our latest view on oil price, and that does not show the dip in oil price until 2040. Gosh knows if we are right, but that is our viewpoint right now.

Production. So, the production guidance that we gave two years ago, 2.6(mmboe/d) down to 2(mmboe/d) down to 1.5(mmboe/d) with squiggles as estimates a decade out, it is a little bit tricky a decade out. We were a little bit vague in what we said about divestments versus underlying decline. We did not really give hard guidance. Ariel and the team with Gordon have been working this very hard now for the past couple of years since we last talked to you. Some transactions have changed. You know, Angola has become a very, very strong asset with the Eni transaction we did. It looks like a fabulous set of assets there. So we have had portfolio change.

We have had drilling success. We are digitising our ten core processes inside the upstream and refining, and Gordon and Ahmed are uncovering some pretty cool things that mean the reservoirs are going to perform better than we thought. And the capital efficiency of the business is going to be higher than we thought last time around.

So right now, what we are guiding to is we were at 2.6(mmboe/d) in 2019. We are obviously around 2.2(mmboe/d) in 2021(mmboe/d). We still have this guidance of around 2(mmboe/d) in 2025, and we still have this squiggle of 1.5(mmboe/d) in 2030.

What we are now saying is that decline from 2.2(mmboe/d) to 1.5mmboe/d is basically going to be gradual divestments over time and that we can hold the base business flat now with growing margins, at least 20% growth in margins as we bring on Mad Dog Phase 2, Tangguh, etc., etc., and we pivot the investment more to the Deepwater GoM's of the world to the bpx's of the world where the Permian is doing really well.

So, it is a pretty material update to our view on the hydrocarbons business, and it is a fabulous cash flow generator for us through the decade. And, you know, we are investing pretty much everything we can in every basin, with the exception of one, which is bpx, which we will continue to manage for a dividend.

Martijn Rats (Morgan Stanley): So just follow up very quickly. So, there are half a million barrels a day of production in the second half of the decade for zero incremental CAPEX relative to previous guidance?

Murray Auchincloss: Including divestment, etc. Yes. Well, we were a bit vague. We were not very specific on what divestment was in the second half of the decade, Martijn. So, a little bit tricky to suggest that. We were just vague.

Bernard Looney: What we are not doing, we are not investing for growth. So, we are saving that capital. We are not exploring in new basins. All of those things remain as is. What we are doing is investing in high-quality investment opportunities and continuing to high-grade the portfolio. So, it will be smaller in a volume sense. It will have equivalent cash flow; it will have higher returns, it will have lower emissions. For us, it feels like a good way to run the business, and the world needs it, and it will provide us with the cash flows.

Murray Auchincloss: And hopefully, you are used to us. We generally do not make promises we cannot deliver. We tend to try to make sure that we can deliver these things. So, it feels prudent right now.

Henry Tarr (Berenberg): Two questions. Obviously in the current environment, sharply higher commodity prices, are you seeing risks of an increasing fiscal burden? So, we are seeing headlines in the UK around windfall taxes. I wonder whether, you know, post-COVID governments are looking for ways to refill the coffers to some extent.

Then the second question on the balance sheet, obviously the position there is improving. There has been a focus on divestments. As your own valuations start to improve, we have seen on the transition and low carbon side valuations there come the other way over the last 12 months. Are you starting to get more interested in acquisitions in some of that low carbon area? Thanks.

Bernard Looney: Great Henry, thank you. Quickly, and Murray will correct me, fiscal burden, are we seeing anything around the world? The answer to that is simply no, we are not. We are not seeing increased pressure at this point in time. Obviously, there is a debate in the UK about a windfall tax. We obviously have said what we feel this morning about that, which is if anything the UK needs more gas, not less gas right now and that is going to require more investment, not less investment. A windfall tax is probably not going to incentivise more investment, number one. Number two what we need to do is help Britain transition and we also announced this morning that for every £1 we make in the UK this decade we will invest more than £2 into the UK this decade. The vast majority of that investment will be into the energy transition. Offshore wind in Scotland, offshore wind in the Irish Sea, hydrogen at Teesside, net zero Teesside for power, our charging network that we will build out, the list goes on and on. That is our position here in the UK. Fiscal burden upping around the world, no we are not seeing that.

Murray Auchincloss: I think the second question was do we have more appetite for inorganics. We will look at inorganics obviously, but we will stick to our $14-15 billion capital range for 2022. That includes inorganics and the longer-term that we have laid out of $14-16 billion includes inorganics as well. You will see us do $250-500 million deals where we think it is sensible. Biogas is an interesting place to do it. EV charging is an interesting place to do it. We will be pursuing modest things.

Bernard Looney: One of the slides in Murray's pack is so very important because I think one of the challenges, let us be transparent about it, that some people have had with the strategy has been around the renewables space where the returns are guided at 8-10% and we are talking about $2-3 billion of EBITDA[4] there by 2030 in a business that could be generating over $40 billion of EBITDA. That has been a question and that is why this disclosure this morning around these five transition growth engines is so important. It is not just a renewables strategy, as some commentators have maybe written it to be. It is much more than that. First of all, it is a three-part strategy of which low carbon is one but importantly in the transition we talk about five growth engines. $2-3 billion from renewables at 8-10%[4] is one of five elements in that transition. All the other ones have much higher returns. It is an element of but not the totality of bp's transition story. Bioenergy is very important. EV charging is going to be a big business for us. Hydrogen is going to be a business and we have talked about convenience. I think that is a very important message that we want to land today. Henry, thank you.

Irene Himona (Société Générale: Thank you, it is Irene Himona from Société Générale. You gave us a lot of financial visibility on the transition. My question concerns the announcement that you aim for net zero across operations, production and sales. I think you are adding the sales bit. I wonder if you can help us understand where Scope 3 fits in there. Is there any change to the previous definition of Scope 3 from your production only? Do we assume that the interim targets remain the same except they now include sales? Thank you.

Bernard Looney: Very good. Great Irene, thank you. Aim 2 is production, our definition of Scope 3. Aim 3 is product lifecycle emissions and which some people will call that Scope 3. We cover product emissions in two places, in our Aim 2 which is production and Aim 3 which is around our sales. The total sales in Aim 3 used to just have our marketed volumes in there but it has now also got our physically traded volumes in there as well, with the exception of crude which is not an energy product that is immediately turned into an emission. It has to go somewhere for processing before it happens, so we are consistent with some other companies on that. That means that the emissions in our baseline on aim 3 increase when we include those physically traded energy products. So Aim 2 is unchanged. That is still our plan. Aim 3 has three updates. It used to be at least 15% by 2030. It is now 15-20% by 2030. It used to be 50% reduction in intensity by 2050. It is now net zero by 2050. The third change is that it is now total sales[5] on all of those measures I just gave you on Aim 3 and not just marketed. That is what we are doing. Aim 1 has also changed in that we have accelerated the 2030 ambition which used to be 35%. We have updated that to 50% from our operational emissions. Aim 1 is operations, Aim 2 is production and Aim 3 is for sales of energy products. Hopefully that helps. Thank you, Irene.

Oswald Clint (Bernstein): two questions. First, one of your peers over in the US I think last week talked about collapsing the structure and the silos to bring out the best of the organisation. Something I think you have said years ago, bringing downstream management from the basement up to the sixth floor, working together and things like that. You have mentioned the 26 turnarounds working together last year but I would love to get some more examples of what the best of the organisation has come out through bp, maybe numerically or cost savings structurally or volume improvement structurally, would be the first question. Then secondly back on renewables and a confident message again on the 8-10% returns. I noticed though in Lightsource they do deals like last year, one in Spain. They talk about commercial close pretty quickly, eight months, but one of the ways to get there is with the PPA in a competitive process with bp Trading. There is a good price coming from here to Lightsource which allows you to be confident there. However, is there any value leakage as Carol's team take the other side? How can we be confident there is a strong return coming the other side?

Bernard Looney: Great Oswald. The Upstream team tend to be a proud bunch but the refineries, people have been helping them out as we brought these organisations together. It is not a specific cost number, but we had challenges in Egypt around flange integrity on one of our projects. We deployed some refining people who

(4) Aiming to deliver $2-3bn EBITDA from low carbon energy and 8-10% returns from renewables.
(5) Means marketed and physically traded energy products. see slides Glossary.

were experts in that space to go and sort the issue for us. We also had a situation in Trinidad on a project that we were building where we had some compressor issues or something. Again, refining technology people were deployed into the oil and gas business to help that. Now, you would argue that should be happening in any company but there is a reality of organisational boundaries and so on and so forth. The turnaround one is a brilliant example and we are going to see more and more of that. I would be lying to you if I said that everything was working exactly as we want it to be on day one. It takes time for an organisation to settle down, people to get to know their new roles and there has been a lot of change. We are settling down now and that is what the focus is on this deliver. It is only one job now, deliver. I think we are going to go and see more and more opportunities as the year goes ahead. You have also got Leigh-Ann (Russell) next to you who runs our Global Supply Chain organisation, and it is something we debated for years. We used to have an upstream supply chain organisation and a downstream one. We brought them together a few years back and again I think I have actually personally been surprised at the value that has been created through that process. One of the questions we are encouraging people to ask inside the company this year is a very simple question, which again is obvious, but we need to do more of, which is whenever faced with a problem, whenever faced with a question the one question we must always ask is, what is the right thing for bp? Maybe that is a lead into the second question about integration but more and more examples to come as the organisation now settles down.

Murray Auchincloss: Yes, I think some stats are on collapsing (structure) there were maintenance contracts that the downstream had cheaper rates than the upstream had at 25% savings.

When you bring that together and you get 25% savings because the upstream is paying more than the downstream, that is a small example of what we have seen in the procurement space over time. The part that I am super pumped about is we have under-invested in digital in the downstream in history. We just have not had that focus and the passion that Bernard and I had, we spent five years streamlining to one financial system inside the upstream which enables us to now deep-dive and task-mine and knock 30-40% dis-efficiency out of the upstream. We will have a five-year programme to go invest in the downstream now, synthesising the back office, getting onto a single system, put task-mining on top of it. That prize is going to be big as we get into it. It is something that we definitely have not done. There is just a tremendous, tremendous prize to bring together the best of what downstream did, which was real rigour on process safety and cost, with the technology from the upstream with great, fabulous results. That is enough from me and my diatribe on technology.

Then on Trading & Shipping that question made me smile. Carol's traders are not going to allow her to do a deal that she would lose us money on. They are just not incentivised that way. If you see a transaction between Trading & Shipping and Lightsource bp you can know that it was a competitive process and that the traders feel they are getting a good deal. There is a reason why Trading & Shipping does a 2% uplift to returns and it is from the competitive edge that they have and the scale of their business. Rest assured it was a good deal.

Christyan Malek (JP Morgan): Hi, thanks for taking my question and sorry I could not be there in person. First of all, I have got to say well done on today's result and delivering what you promised. There are two questions from me. First, when I look at your EBITDA targets from 2025 onwards, I cannot help but worry that these key trends we are seeing on inflation, supply chain issues and rising interest rates will negate the returns that you plan to make both in oil & gas and renewables. In the former I am having a hard time squaring a decline in volumes with a sustained EBITDA if cost inflation and execution start to become problematic. Can you help us frame what your base case assumptions are around some of these headwinds so that we know that these returns have been appropriately risked?

The second is a bit more philosophical but relates to the energy crisis we are in. On one hand we are seeing an improvement in revenue coming from higher energy prices. It seems to have a negative impact vis-à-vis rising customer costs and geopolitical societal risks. My question faces on two elephants in the room. First on Russia and how you see the long-term relationship evolving, with dividends versus the risk of geopolitics. Then second on the higher economic rent, which feels like a real threat if society becomes frustrated, from the energy transition becoming too costly for the consumer. Thank you.

Bernard Looney: Thanks, Christyan. On Russia one of the things I have learnt in my life, and you have probably all learnt in your life is lets us not worry about things until they happen. Who knows what is going to happen? Russia is a big part of the energy system globally. It is a member of OPEC+. It supplies gas and energy into Europe. We, along with many of our peers, have a presence in Russia. We have been there over 30 years and our job is to focus on our business, which is what we are doing. There are no changes to our ongoing business in Russia today and if something comes down the road, then obviously we will deal with it as it comes down the road. So that is all I would say on Russia.

On rent, I think it is a great question, Christian, and it is one that is on our mind. And I am sure it is on governments' minds. And I think the real concern is that, if the consumer or if society equates higher costs with the transition, then that will, in effect, have the potential risk of slowing down that transition that society so desperately wants. So that is why I think we feel very passionately about the need for real plans in this space, such that we do not just tackle one side of the equation, but that all sides of the equation are tackled.

Because if we do not tackle demand, as well as supply, if we do not think about what is going to replace hydrocarbons, or what we are going to do with hydrocarbons then I think we end up in a situation potentially, where the consumer is effectively put off the transition because of the cost. And I think that would be a real shame, and not something that we want to happen. So that is what we are trying to do everything that we can to be able to prove that you can get clean, reliable, affordable energy; but it takes some compromise. And that is the reality.

So two great questions, Murray, and we will begin to wrap I think, on inflation.

Murray Auchincloss: Yes. Right. So I mean, for the past two decades, Christian, we have planned on CPI, and then the business has to beat that inflation. That is what we have done for the past two decades; we have been through many price cycles through those two decades, and we have been able to achieve it.

Looking forward, we plan on CPI inflation, and then the business has to tackle it, and has to eat that inflation. And interestingly, I think if we talk to you in Oman, or in Baku, we would have said we see 30-40% waste in the business; I still see 30-40% waste in the business. There is still just tremendous opportunity in the sector to do better. And the new sectors we are operating in, it is the exact same.

So I think our job as a business is to eat that inflation. Why do I say that? Because the price could be low at any moment. We cannot let costs creep into our business because we do not control the commodity price. So yes, we do plan on inflation. Yes, we do eat it, we have two decades of track record of doing it. And I remain convinced that there is a huge prize to get after that will help us tackle it over the next decade as well, Christian. So I think that on balance our plans are just fine.

Bernard Looney: And I will give you an example: I have spent most of my career in drilling, we have had a massive focus on non-productive time, for every day I spent in drilling. And yet we brought it down 20% last year. There is always room to go. There's always more to do. And that is why agile, digital, supply chain efficiencies, where there is massive opportunity, as Murray says.

Paul Cheng (Scotiabank): Thank you. Two questions, one for hydrogen business. Can you talk about what is the risk to achieve your target? Is the plan going to be driven by some form of improvement in the economic or technology that we see, or that the existing technology as far as the existing government support will be sufficient for that business?

The second question is that, when we are looking at your biofuel business, with feedstock costs rising, and also a substantial margin squeeze, how that may impact your investment plan in the future, Is it just transitionary, and you don't believe that it is going to have any long-term implications.

Bernard Looney: Fantastic. Murray will take the biofuels question, Paul. On hydrogen, ultimately, it is a cost question. How do we get the cost of hydrogen, of blue & green hydrogen to a different place so that it is truly competitive. It is going to require a mixture of things, it will require policy support, it will require initially customers willing to pay a little bit of a premium probably. It does not really require much on the technology side other than it does require scale to be built so that we can get repeatability.

I am personally optimistic that we will see all of that; I think the policy support. We see it here in Britain, as we are trying to build a green and a blue hydrogen plant up at Teesside. I think we will get the support that we need. Customers are crying out for this. They are all under pressure to decarbonize their portfolios, they are trying to figure out how to do it, they are coming to us all the time trying to ask, and some are willing to pay a little bit. So let's see where that goes. And the scale will come.

So this is a business where it is like anything at the beginning, it is a bit of an effort. But that is what we need to do. If the world is going to decarbonize it's hard to abate sectors, hydrogen will be a part of it. It is a necessary part of that. And that will happen. And we are beginning to see the early stages of why we should be optimistic about that. And we will have Anja-Isabel (Dotzenrath) come later in the year and dive into this in greater detail. Biofuels and costs and stuff, and then we will wrap.

Murray Auchincloss: Yeah, I think on biogas, the key is you need to be along the entire value chain. So you need to take positions upstream, midstream, downstream, and that is what we do. It is hard to predict where the rent will be. It does move much like it has in oil value chains and gas value chains in history. So from our perspective, we just make sure we are all along the value chain. And that way we do not say face risk on the rent. So you will see us take some equity positions in the upstream, you will see us do an awful lot of long term contracts both near term and long term to manage the risk. And then Trading & Shipping will optimize and trade around it across biofuels, biogas, etc.

So playing along the whole value chain is what is critical on biogas; we have 35 flowing units. It is a lovely phrase, 'flowing units'. We have 35 of them and 25 under construction. So we have 60 out of the 220 that we are talking about already there. They are all under long-term commitments, a decade or so. So pretty cool business, makes great money.

Bernard Looney: And we will look at expanding our Aral network in Germany, elsewhere in Europe, and we may go upstream in Europe as well in this space. So very exciting. Excellent. Thank you all; sorry we have run a few minutes over.

Big thanks to Craig and his team for the enormous amount of work that went into getting ready for today. Julia, you and your teams and strategy. Huge amount of work gone in, right across all the organization. Thank you for being here in person. Thank you for those of you who have listened in online, I hope it was helpful. Great to see you all back in person here in London and appreciate the interest and we will leave you all to it. Thanks.

END OF TRANSCRIPT