bp 2Q 2024 results: Webcast Q&A transcript

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Q&A TRANSCRIPT

Murray Auchincloss: So Kate, Carol, Emma and I are here to answer your questions. Can we ask each of you please to limit your questions to two? And I will go ahead and start off here in the room. Irene, why do not we start with you, please?

Irene Himona: Thank you. Irene Himona, Bernstein. And congratulations. My first question concerns progress towards the $2 billion cost reduction target you announced, particularly in the context of a 4% increase in upstream unit production cost. And my second question transition growth engines EBITDA, which in the first half has halved year on year, I can see biofuels, convenience, renewables, they are all down. So it seems even if EV charging and hydrogen break even by year end, the $3-4 billion next year looks a bit challenged, but that was my question.

Murray Auchincloss: Great. Thanks, Irene. I will let Kate lead off on cost, and maybe Emma you can amplify a bit, and then I will tackle the TGEs and pass over to Carol and Emma as well. Go ahead, Kate.

Kate Thomson: Yeah, thanks. Thanks, Irene. As I said back in April at our 1Q results, we are aiming to deliver $2 billion. And I said, then I would like to exceed it and I would like to be able to do it quicker. So since April, as you'd imagine, we have been in action right across the company, in every business, in every function underpinning that. So the three things that are on my mind is; first, make sure that $2 billion is underpinned. Second, can we accelerate it and, can we can deliver more. And then third, how do we make those savings sustainable?

So that is where we have been over the last three months. And as you have seen today, we have now been able to get clear that we can deliver $0.5 billion of that cash cost saving in 2025. And we will continue to update as we go. But back to where I was in April, I would hope we can do better in terms of the delivery, but also the pace. Just in terms of the unit production cost, that is just portfolio mix. We are on track for around $6 per barrel that we said we would be by 2025.

Murray Auchincloss: Great. Emma, anything to add on cost, please?

Emma Delaney: Yeah, I think just amplify. Kate, your point is the costs are owned by the businesses. So we have run a process over the last few months, and the costs are embedded in our near-term plan for both 2024 and 2025, as well as that that will flow into 2026. The majority of the costs are embedded right down into the business units, and there are some that we are still holding centrally. Murray, you talked about four buckets for cost portfolio, we are always churning the bottom of our portfolio. You talked about digital. Just a couple of examples on digital on cost. In my part of the business we are, for example, rolling out self-serve checkout at our retail convenience site. That is a saving on labor cost, which increases every year. So that is a sustained saving.

We have multiple portals on B2B self-serve, which we are consolidating the back end so that you can still see a different front end that also will deliver a cost saving, as well as the ability to self-serve on digital. And then we are also in action - you talked about procurement as a potential saving, Murray earlier - and some of the things we are in action there is in the US, for example, we are joining together our TravelCenters of America, AMPM, as well as our Thorntons merchandising. And now we have more scale to go to market. So just some examples of how we are embedding right down in the details on the cost side.

Murray Auchincloss: Fantastic. Thanks. And then on the TGEs. So last year we made around a billion of EBITDA. For the first half of this year, we made about a half a billion. We have of course announced the acquisition of Bunge as well, which we expect to close in the fourth quarter. If you just pretend the run rate is the same $500m 1H, $500m 2H and you add bp Bunge into the mix, you are probably at almost $2 billion of EBITDA as a starting point headed into 2025. We remain on track to grow into the $3 to $4 billion range. We feel very comfortable with that, Emma maybe you can talk about what we see in convenience and electrification space and Carol can talk about bio as well, please. Go ahead, Emma.

Emma Delaney: Sure. I will kick off. So in terms of convenience and electrification, we are well on track to deliver around $1.5 billion from convenience and electrification together. In EV charging, we lost $300 million last year and we are talking about breaking even in 2025. So that will contribute to the $1.5 billion Convenience and EV charging target. On Convenience we are well on track, we did $0.5 billion this year already, first half, that is up $200 million first half 2024 versus first half 2023. And we are in action both on the revenue line as well as on the cost line. So on the revenue line, just a few examples, our like for like sales and store conversions are up. So when we convert stores to strategic convenience sites, which you will see, we have now added over 50 strategic convenience sites in 2Q24. And when we increase our strategic convenience stores, we see double digit increase in sales just from those conversions.

At the same time, we are working on our revenue line on the base business. So for example, we are constantly innovating our offers. We launched Pizza in Thorntons that saw a 13% uplift in sales in the first month. We also launched 13 SKUs (stock keeping units) on water, which is one of the top selling beverages for anybody who stops on the road, as well as jellies, candies. They are called epic brands. Why do I say that? Because actually, consumers are under pressure and consumers under pressure want a better value product.

We actually make a better margin from these private labels. So where we go directly to suppliers conceive of a range of the top selling products, works for us higher profit, and it works for the consumer because it is more value. So I think as I put those together, we are now in the top five convenience stores in the USA, and our program in Europe is well underpinned with a pipeline of conversion. Big conversion still happening in Poland. Here in the UK, we continue to convert at the margin and then big program in Germany.

Murray Auchincloss: Thanks. On EV charging I think you said we'd break even, and we feel comfortable with that right now.

Emma Delaney: Everything moving in the right direction.

Murray Auchincloss: Happy to come back to that after, if you like. And then Carol.

Carol Howle: I think first thing I would say is on bio because you did mention bio so we recognise obviously globally in most markets it is weaker. And I will come to Archaea shortly because that is one market where it isn't, but I would say on the bio side, we have seen lower transport tickets in Europe. We have also seen short term oversupply. We have also seen some reduction in mandates, for example Sweden and Finland. So there is some regulatory uncertainty which has contributed to that. But we do also forecast that we are going to see margins improving through the end of 2025 and into 2026. That's as we see mandates increasing in key markets like Germany and Netherlands. And that's also as potentially there might be import duties placed on biodiesel into Europe. And also, bioenergy is still needed to decarbonise the hard to abate sectors such as transport, and Emma can talk to the business side of that more so, but I would say it is a recognition, but we do still see positive margins for the future.

In Archaea, a slightly different story with D3 RINs actually holding up very well at the moment. The combination of high mandates, it is a combination of low availability around cellulosic ethanol. It is also the waiver credit there has been discontinued. So that is a positive pricing market, with D3 RINs averaging about $3.19/RIN in Q2. So why are we confident around Archaea. Well, we are confident because we are also seeing increase in demand in the transportation market. So it is up 14% first half of this year versus last year. And we also see continuing growth as people use biogas to decarbonise. But we are also confident on the supply side. So we brought online four plants in 1H24. So that is roughly around 4 million mmBtus of high margin RNG. And we have got two more in commissioning at the moment due to start up this week and a further two undergoing final commissioning due to start up in August. So we are making progress in bringing those plants up online. And just as a reminder, if Henry Hub was $3/mmBtu, which I know is probably a little bit optimistic at the moment, but if it were and we were looking at placing our RNG into the transport market with RINs at $3, we can actually sell that RNG for ten times more the value of Henry Hub. So that just gives you a sense still of the value in that portfolio. Now also, what I would say is we have learned a lot. Commissioning times are reducing. Medora, that took us around seven weeks. We are now at around seven to 10 days. So we are improving and getting those plants up and running more quickly. That is not to say that there are some headwinds. We have seen that across the market – permitting, interconnect delays - but we are confident about that delivery, and we are still focused on delivering $800 million to $1 billion by 2030.

Murray Auchincloss: Thanks, Carol. Thanks, Emma. So we feel confident. One more question in the room, then we will go out to the phone lines. Biraj?

Biraj Borkhataria: Thanks for taking my questions, Biraj Borkhataria, RBC. The first one is just on the balance sheet the market's been concerned about your debt levels over recent quarters. And when I start to look at the figures you have got net interest at 80% of your dividend. Your lease payments have gone up 40% over the last couple of years. And so, I understand the push on EBITDA growth, but there are real reasons why the EBITDA growth is not translating to free cash flow at the bottom line. So just going back to the 80% surplus payout, could you just help me understand why it still makes sense, it feels quite restrictive versus putting more cash to the balance sheet? So that is the first question.

Then the second question is just on employee share options and dilution. It looks like there is a large amount that comes due in the first quarter of 2025 from plans put in place a few years ago. In normal years, you have a separate buyback to offset that dilution, but it looks like a very large number. Obviously, you do not know exactly what is going to come through. So could you help me understand whether you intend to offset the amount in 2025 or I think last quarter you introduced language saying over time. So what exactly does over time mean? Thank you.

Murray Auchincloss: Yeah. Great. Kate, I think on the balance sheet, I will start and pass to Kate, and she can answer the question shareholder options. I think it is important to remember that we are focused on credit rating metrics. We are not necessarily slavishly focused on net debt. And if you think about where our credit rating is and where our spreads are, we are A+ and A+ with Fitch and Moody's. So we are in a very strong position, and we do not plan on moving to AA. It gives us the flexibility we need for trading. It gives us lots of firepower for what we want to do. So that is why we feel that we are comfortable with where we are. We have come a long way over the past, and it makes sense to bias to share buybacks that we think create more value for shareholders, both through the buyback flywheel and the dividend that comes with that. Kate, anything to add. And then on to onto share onto employee schemes.

Kate Thomson: Maybe just a couple of points. I think the share buybacks are part and parcel of our sector leading distributions. And the shareholders that that we talk to are very supportive of that component of the financial frame. The balance sheet's in good shape. We have made tremendous progress since 2020 with reducing net debt by $29 billion. So it is there, and it is strong so that it can tolerate fluctuations. So I think that is important alongside Murray's point, which is absolutely spot on with regard to financial resilience. We are being way more than just net debt.

On the ESOP dilution. Yes, we did decide to move to offsetting over time and that that is where we are going to be. So a decent run rate. Last year, we offset $675 million of ESOP dilution through share buybacks. So we will continue to step through that with regard to next year. Yes, there are some options out there. I am not going to predict at what point they start to be exercised. They have a six-year life. So we will continue to offset that over time, and we will step through it and can give you a little bit more detail as we get into that.

Murray Auchincloss: Yeah. Great. Thanks, Biraj. Why don't we go to the phone and I will start with Paul Cheng on the phone, please.

Paul Cheng: Thank you. Good morning. Two questions. I think the first one is for Kate. You may have already addressed this, for OP&O, operating expense seems like it is a bit high, there is a higher exploration charge and anything else we should be aware of? And how much is the exploration charge in the quarter? The second question maybe is for Murray. In bpx, can you give us an idea how 2H activity level compares to 1H with the second quarter a good quarter? Look like it's the Permian as Liquids production is much higher. So if you can comment on that, that would be great. Thank you.

Murray Auchincloss: Great. Thanks, Paul. I will lead off with bpx and I will hand back to Kate. She might have answered most of your question already. On bpx, the teams have made great progress there. I visited with them after the last set of results for a few days, and you are right, we brought on the third central gathering facility in the first quarter, and we started to fill that up. That is why we see the strong growth in liquids in the second quarter. Now, working on the last one, which is really a compressor station, which will lower line pressure, which will draw more resource out of the ground. And that should come online sometime middle of next year.

As far as activity set, generally we have described these in rig years. The difficulty with that is they are drilling so fast that they are able to drill the same number of wells with half the rigs. So they have just done incredible work on ranging well drilling and some TDS (top drive system) technology as well. It is hard to believe that they have been able to do that step change yet again. So when you look at the rig count numbers that we provide, it is as if it is two times the rigs that existed two years ago, if you measure it to that metric, given the productivity they have seen.

Right now in the gas basins, obviously gas price is quite low. We have got tons of resource, 22 TCF of resource. And we have just moved down to minimal drilling inside the Haynesville. So we are down to one rig in the Haynesville just keeping going, but we continue to focus on the oily side.

So we will continue to drill out the Permian and gradually fill that system up entirely. We will probably fill our gathering capacity for liquids in the Permian around 2027, based on the last analysis I did. And the other very interesting thing that we talked about while I was there is they are rethinking the Eagle Ford. So we have 500 wells there that have been producing for about a decade. They were fracked a decade ago. Obviously, fracking technology has moved on materially since then. So they have gone in and done 50 refracs. And the returns on these things are unbelievable. With the new technology on the fracking, you are getting all kinds of liquid production coming out of them. So we trialed 30, we now have 500 opportunities that Gordon's working with them on to decide at what pace we fund those. And the last thing I would say on the Eagle Ford is they also started a down space, which is very counter to what you think of in some of these plays that maybe you do not down space, you are getting it through laterals. But what they found is the couple of down spacing wells they have drilled have delivered 3,700 barrels of oil a day, which is way above pops even what we are seeing in some of the Permian acreage. So the Eagle Ford's opening back up to us, and it is this mantra that we always have to think about with resources is once you think you are done on recovery factor, have another go at technology and see what happens. And that is what we are proving in the Eagle Ford. They used to talk about recovery factors of 7-10% that might resonate with you for the Permian, they are now talking 30% recovery factors in the Eagle Ford from these refracs and from the down spacing. And of course, that is a question that will constantly challenge ourselves in the Permian as well. How can we completely change that?

So what should you see? You should see us continue to focus on liquids with liquids growth. Gas production will decline with only one rig running in the Haynesville. But given where our prices are right now, that is fine. We will take our profit through hedges, and we will see what happens with gas prices. As we move through 2025 and 2026, our sense is it will be more resilient. And if it is more resilient, we can lean in and we can produce an

awful lot more natural gas. But we have tremendous flexibility in the portfolio given all the resource we have there. Kate, back to you then on OpEx.

Kate Thomson: Yeah. So Paul, just a couple of quick points. So I think I kind of answered the point on unit production costs earlier. It is really just portfolio mix. The only thing I would add to that is do not try and correlate that directly to what we are saying on cash costs, because obviously there is a whole segment of costs that do not feed into the production cost number. So there is not a direct relationship between those. And then on EWOs, we had an EWO of about $100 million in the second quarter, which was largely related to the Gulf of Mexico.

Murray Auchincloss: Great. Thank you, Kate. I will take one more on the call, and then I will come to the room. Michele Della Vigna at Goldman's.

Michele Della Vigna: Really, congratulations on the strong results and the industry leading

cash return to shareholders. Two questions, if I may. The first one is on LNG. You've run historically with more spot exposure than most of your peers, and you have monetised it through trading. I am wondering, with more and more supply coming on stream, especially potentially oversupplied market from 2026 to 2027, whether you are looking for more Brent linked long-term contracts, and if you can give us an idea of the split of your long-term exposure between spot and long-term.

Then secondly, I wanted to come back to the two biorefineries that you have decided for the moment not to proceed with. It makes perfect sense in terms of capital reallocation following the bp Bunge acquisition, but I was also wondering if there was anything that changed in your assumptions on policy or demand, or cost or feedstock that influenced the decision? Thank you.

Murray Auchincloss: Great. Well, as Carol is in the room, she can have fun with LNG. Away you go, Carol.

Carol Howle: Well, thank you, Murray. So I won't give you a percentage of portfolio linked to Brent, but what I would say is we do buy on Henry Hub and Brent basis, and we do also sell on Henry Hub and Brent basis. The way that we look at our portfolio is firstly we want to lock in the intrinsic margin then, because we have built a lot of optionality into our portfolio over time, we then look to trade and optimise around those flows, rewire cargoes into the optimal markets and highest pricing centers. So as an example, around 50% of our supply is open for Asia and Atlantic cross basin optimisation. And we expect that to grow to around two thirds in 2025. And we also use tools continuously on a daily basis to actually look at those rewiring opportunities. And they take price feeds in. So we are looking at should we be flexing volumes, should we be redirecting supply into a particular market because of a price change or an arbitrage movement.

We are constantly looking at that portfolio in order to maximise the value for bp. In terms of volumes, we had around 23 million tons last year, which was up 20% versus 2022. On top of that, we had around 10 million tons of what we would call short term and spot contracts. But for us, the short term is like a three-to-five-year period. So it is not all spot. But if you think you are looking for a split, last year was 23 long-term and 10 short to medium term. And in terms of long-term contracts just in April, we signed with KOGAS,

who is a strategic relationship with us. We signed a further contract with them, which was 11 years in duration and up to 9.8 million tons supply into them, which is in addition to a long-term contract we already had with them, which I think was around 20 years. So we are looking at long-term contracts. We also look at short term market opportunities.

Murray Auchincloss: Thank you, Carol. Excellent. We are very different than the competition. We have a different viewpoint on this. And we believe in flexibility.

On biorefining maybe just a few things to say. Over time it is become clear that a lot of people are building biorefineries, whether it is through co-processing or hydrocracking. And that is not the part of the complex that will be short. So you will have lots of steel. We think we need up to three different plants that we build this decade. None have been sanctioned yet, so we still to go through our sanction process.

We think that gives us enough capacity for what we want for our aviation fleet and for our trading fleet. We think instead that the value is in the upstream, and that is why we decided to reallocate scarce capital to the purchase of Bunge. It offers us a lovely bioethanol position inside the domestic market in Brazil. It also offers tremendous opportunity to increase yields, to drive better performance inside the plants, because it can be modernised significantly over time with very little investment. Our scientists in San Diego, who we work with so closely, have all kinds of different enzymes that they are thinking about that can increase yield and create different products out of it.

Last, Carol has the opportunity to on-trade this out of Brazil, which is always historically where we have been selling and into the West Coast of the United States or Europe to optimise trading flows as well. So we think that along with focusing on the upstream, things like Carinata with Nuseed, that is where you apply your scarce capital, that is where the value will be, and that is what is going to create long-term enduring value. It is not about any changes in viewpoint on pricing or viewpoint on mandates. It is simply the fact that so many plants have been built. We can toll through them as opposed to constructing them ourselves, which is much more capital efficient for shareholders. So thanks for the question, Michele, and we will come back here into the room and lead off with Lydia, please.

Lydia Rainforth: Thank you. It is Lydia Rainforth from Barclays. hopefully you will forgive a direct question, Murray, but that idea of being simpler, more focused, higher value, the idea of how focused are you really on that drive to 2025? And part of the reason I ask that is things like Bunge. There is an opportunity cost to doing it. You could have taken down debt and you have then got Bunge, TA to incorporate, everything else to do. So actually, how focused is it really on that drive to 2025? Then secondly, on the EBITDA numbers for 2025, I know you have flagged the potential price impact if we were in the forward curve environment, what would that mean for cash returns at this stage?

Murray Auchincloss: Okay, I will ask Kate to answer the cash question. I think it is a relatively straightforward question.

On simpler and more focused, six months ago when I became CEO, we laid out six priorities. Obviously, safety and our drive to 2025 are big parts of that, including the cost agenda that Kate talked about earlier. But what we said is we really now need to focus our efforts and focus in on the things that we are going to build this decade that will set the

shape for 2030. And that is what we are focused on. You have heard us talk about focusing inside Emma's business inside EV. We are focused on four core markets for EV charging[1]; China, where we are number one, Germany, number one, UK, number one or two, and building out the West Coast of the US right now.

So we are very, very focused in EV now that we have had over the past couple of years in biofuels, focusing down the number of plants we are pursuing and this tremendous countercyclical pricing opportunity with Bunge to create real long-term flows like we have in Archaea. That is the benefit of these renewable oil field or gas fields have got long, long flow and long, long reserves to production associated with them, which is quite valuable. And we said today hydrogen, we are focusing hydrogen down. We had chased 30 different opportunities in the past. We are now thinking about what can we actually construct and get going. And that is where we focused it down, where we think we will sanction around five to ten and build five to ten this decade, with the first two being in Castellon in Spain, building a green electrolyser at Castellon that will help us make SAF in Castellon and decrease the carbon intensity of the refinery, and the same in Lingen. Castellon is with our partner, Iberdrola.

Lingen, it is 100% owned. It will create 100MW of green hydrogen to go into both for SAF and local demand, and of course, the EPCEI funding that is coming from the European market for these things makes these very attractive with high returns. So I think, Lydia, geographic focus is concentrating and concentrating and concentrating. You will see more of that. So we are concentrating down to fewer markets that are aligned with the movement that we are taking as moving from an IOC to IEC. We are picking those very best markets with the very best opportunities that give us integrated trading value or optionality outside it. So I feel as if we are concentrating. I would invite you each quarter to ask that, as you see the announcements we make and watch how we concentrate. I won't pre-announce any other moves. Kate, over to you.

Kate Thomson: Certainly feels like we are focused internally on it, I'll have to say that. So it is probably a fair assessment if you just look at the impact on EBITDA, that a typical proportion of that will feed through into cash flow, right? Our cash conversion has been improving quarter on quarter for the last four quarters, but I think that is as good a guide as we as we can give you. In terms of what your next question might be in terms of what does that do for the $14 billion share buyback? We are next going to update in February 2025. So we have moved to a cadence where we just update twice a year with regard to share buybacks. We have announced all the way through to February 2025. As a board, we will take into consideration facts and circumstances at that time. But anchor on the fact that we have said 80%, at least 80% of surplus to share buybacks.

Murray Auchincloss: Thank you, Lydia. Our next question in the room. Peter.

Peter Low: Peter Low from Redburn Atlantic. The first was just on the Paleogene following the sanction of Kaskida. Would you look to farm down your position there at some point, and what will be the optimum time in the development to do that? The second was just on oil production and operations, just on the results. I think you mentioned again that there were some price lag effects in the GOM and the UAE. Are you able to just quantify the approximate impact of that in the quarter? Thanks.

Murray Auchincloss: Kate, do you want to do price lag and then I will do Paleogene?

Kate Thomson: Yeah, I think it was in the trading statement. I think we quantified it as between $100 and $200 million. Do not think of price lag impacts as a direct correlation to things like working capital, which does reverse. So price lag and the degree to which it reverses in subsequent quarters depends on the pattern of prices in that quarter. And also, the two areas where we get the price lag in the US and in the UAE. And the outcome that you saw is a combination of the fact there was some reversal from the first quarter, but also in the first quarter, we had a read through from the price lag impact in the fourth quarter of last year.

Murray Auchincloss: On Paleogene, if you will allow me to wax eloquent about the Paleogene for a minute. Ten billion barrels of discovered resource in the basin that has now been highly developed by other companies. It is time for us to catch up with that. We have used an industry standard solution for Kaskida. It will produce 80kbd. It will be less than $5 billion. It will drill six wells in the East bump. That is all that we are putting into that sanction case, delivering at least 275 million barrels. When I listen to Gordon's team, we might do quite a bit better than that. The reason we might do quite a bit better than that is we have 1,000 feet of pay, and the average across the rest of the Paleogene is 500 feet of pay. So it is an enormous column of oil.

We will be doing a seven frack completion inside those. So let's see if we get 275 or something much higher over time. It will be hopefully followed by Tiber 12 months later, mid-next year, we think we will be sanctioning Tiber. It will pretty much be a photocopy of Kaskida as well for capital productivity. And at the same time, we are doing that. We will be appraising the West Bump at Kaskida. And hopefully that will just tie back and flow into East Kaskida over time. And we have got a couple of exploration wells to the east and west of Kaskida and some more stuff near Guadalupe and Tiber as well. It is a very, very, very strong resource base. We have got some de-risking to do with appraisal wells and exploration wells that are very sensible to do, given the high quality seismic that we have shot. And obviously, to your point, Peter, we have 100% working interest there.

I think for now we are going to start Kaskida and get it going. We will appraise these wells, we will drill the exploration wells, see what we have, and then probably 12 to 18 months' time, ask me that question again and I will think about how much of the resource we have appraised and got under our thumb to think about what we do. Do we bring in a partner or not? Kaskida alone will be 5% increase in operating cash flow when it comes in at a group level, 5% alone. And Tiber would follow that as well. So it will be an interesting choice to ask me 12 or 18 months away. Thank you. Next question to the web, and then we will come back to the room. Roger Read, please.

Roger Read: Can we just take a quick ride down the political aisle? you just had an election and a change in government in the UK. We have got an election coming up in the US. Anything in particular you are seeing locally or looking at over here in the US that we should be thinking about?

Murray Auchincloss: I think my hope, Roger, from all these elections is we can speed up the pace of moving forward, whether that be in the oil and gas space or in the transition space. Permitting, grid connections, build outs have been an incredible drag no matter what geography you sit inside in the West. The East is different. It is very fast in the East, but in the West, whether that is Europe, the UK or the United States, I am hopeful that

whoever comes in, in the elections, can help us with that, because it is a definite drag on returns and cash flow for the corporations. I am very much looking forward to seeing the pace of that pick up. As you know, we are happy to work with whichever governments come in, in any nation. We have been around for 115 years working with all sides and all kinds of countries. So as long as you stay aligned with the country, you are paying your taxes, you are investing in your people, you are developing research, and you are a good corporate citizen. I think we are happy to work with any political affiliation in the world. Do you have a second question, Roger?

Roger Read: Yeah, I do. As we think about, and I do not mean this at all to criticise the cash returns you are doing now, but as you have laid out a pretty good path here to greater cash flows as we go towards the end of the decade, what is the right way for us to think about what are some of the maybe stair step events or other catalysts for what would make you confident to continue increasing cash payouts to shareholders? Dividend, share repos, whichever.

Murray Auchincloss: I think if you think about our current financial frame and how we talk about it, we obviously have a buyback dividend mechanism that if you look backwards, it is enabled at least three 10% buybacks now. So that it is not guidance, it is not forward guidance, but it gives you a sense of how we think about these things. And then from an underlying basis what you should continue to hear me say is that we are aiming for 3% to 4% underlying growth in EBITDA. We call it EBITDA, but since capex is relatively flat, proceeds are flat, working capital through cycles is relatively flat, you should be thinking about 3% to 4% increase in cash flow as well, moving forward.

That comes about from two things:

One, the cost efficiency drive we have talked about where we see $2 billion by the end of 2026. Hopefully we can go further. We will see. Time will tell. Certainly, given where technology is going these days, it gives me optimism.

Second, construction. We are a construction company and that is what we are doing is we are sanctioning a ton of construction projects. Six months ago, I told you that we have 32 projects that we need to sanction moving forward. We have been through 12 of them. We have sanctioned five of them. We have said no thank you to seven. But those five, along with what we have done in Bunge, what Carol is doing in Archaea, et cetera, just shows this constant construction wave. And we look for that construction wave to overcome base decline in the business and grow our overall cash flows for the business by 3% to 4% per annum moving forward.

So I think watch progress on construction. And you can sure feel that the later part of the decade is really underpinned with the Paleogene. That feels pretty good right now to be that well underpinned. And we continue to do other interesting things in transition growth engines and unconventionals to drive forward the growth earlier than that.

Thanks for the questions, Roger. I will go one more on the web before we come back to the room. Ryan Todd, please.

Ryan Todd: Thanks. Maybe a couple gas related questions. I mean, as we think about your global gas business. Carol, thanks for some of the color you gave earlier on trading. I mean,

some of your competitors have talked about gas trading, maybe trending towards the lower end of the typical range as you think about returns uplift over the next couple of years due to market dynamics. When you look forward at your business over the next couple of years, both of your portfolio, trading mix, global supply demand dynamics and potential impacts on price and volatility, et cetera. What do you think about your gas trading business, and do you expect to be able to continue to grow that over the next couple of years, or are there any broader dynamics that that may push the kind of the returns uplift lower in the range? Then maybe just a follow up on specific timing, maybe any update on timing of Tortue and first gas and first cargos?

Murray Auchincloss: Yeah, Tortue and then over to Carol. On Tortue, we continue to make good progress. We got the FPSO into the harbour. I think, Gordon, you were out there recently, and now we are just hooking together all the equipment, and we will have to start to flow gas relatively soon. I think we will start flowing gas into the systems. We obviously need to leak test, make sure everything's okay from the journeys across the world to get together. And once we have got the leak testing done, then you will move into starting the refrigeration units inside the LNG, and then you can start to build up cargoes. We would look to introduce first gas into the system to start all the pressure testing et cetera over the next three or four months I think would be a comfortable place to say. So that is what we can say on Tortue. I will just say to the teams in the field who are listening, guys, no matter what, safety is all we care about. Carol, let's see how you negotiate your performance contract.

Carol Howle: Yeah, thank you for that. The first thing I would say is that from a trading and shipping perspective, overall, we have been consistent in our delivery. So we have delivered, on average, an uplift of around 4% to the group's return on average capital employed over the past four years. So that is through a number of cycles, a number of environments, and roughly we would say it is probably 50/50 oil versus gas. So we have also got a history, I would say, on the gas side of actually purchasing counter cyclical. So a lot of the long-term contracts that we have entered into on the supply side have been done at low points in the market. So they are high value contracts. And we also have strong strategic relationships in terms of contracts for sales into the East as well into other markets.

We are a top tier energy trader, so we are going to continue to invest in the platform. This is my return performance contract to Murray. We are going to continue to invest in the platform to maintain and grow that competitiveness. That does mean I am looking at access to infrastructure, to downstream markets, and I mean this both from the oil and gas side, and as an example, we were the leaders of going into LNG downstream in China with the Guangdong JV. So we are going to be continuing to look at opportunities there to also support and develop and grow that portfolio going forward. So I am still, we are not guiding to the future, but I am still holding that the team will be able to continue to deliver consistently with historic performance.

Murray Auchincloss: We have said since 2020, we have averaged 4% incremental return on ROACE on the overall group capital employed. And there is no reason to think, despite dampened volatility, that we wouldn't be able to continue to do that as Carol's baked in some fabulous contracts over time. Great questions. Back in the room now. Lucas?

Lucas Herrmann: Thanks, Murray. Can I ask a couple? One on refining and downstream and the other capital allocation towards the renewable power businesses. So refining downstream, I kind of feel I am losing track on what the earnings power of that business actually is. Clearly, a chunk of that is because you have had a lot of downtime. TARs have been a real focus this year, last year, just to try and give us some idea or some better idea of what you think the underlying earnings power of the refining assets are in a normalised price environment or at your RMM, whatever you however you choose to put it, and I guess aligned with that on the basis that the margin environment looks as though it will be tougher going forward. You have talked in the past about margin shifting from Emma's businesses to the refining business. How much of that would you expect may shift back? That is one question.

The second, when you stood up at the start of 2023, you talked about the allocation of $60 billion or so of capital towards the transition growth engines over the period to 2030. But I know you are going to update in next year, but do you still think that it is, or $25 to $30 billion of that was going to be allocated towards hydrogen, solar, offshore wind power in effect? Is that still a realistic number or is that something that you really think you can allocate elsewhere or not allocate at all? That is it.

Murray Auchincloss: Great. Thanks, Lucas. Emma, do you want to tackle the refining and margin shift question? And I will tackle the second one.

Emma Delaney: Sure. Thanks, Lucas. On the refining side, the first thing I would point to is safe operational performance. That is always our focus in refining. And this quarter we had an availability of 96.4%. And four of our refineries were up at 96.5%. Just as a reminder, last year, the full year performance for refining was 96.1%. And that was a record since 2005, if I remember right. So for job number one is to run the kit safely and then we optimise commercially. Actually, we do not report refining as you know because we put it in products. We work very closely together with Carol's business, on the oil trading and the product side in the midstream. And so, after job number one, which is safe operational performance, job number two is to optimise the commercial value. We do see value move up and down the chain from customers to products and back.

I think as I reflect on 2022 and 2023, we saw elevated refining margins compared to history. I think $29 per barrel RMM in the 2022, 2023 versus $13 per barrel in the period 2015 to 2021, if I remember. So there has been significant volatility in the refining. So I am not going to guide to the future because it is really difficult, but we do with our trading statements. And we do aim to guide as we go into each quarter because the volatility just has been really, really significant over the past quarters.

And in this particular quarter, so the second quarter, 2024, what we did see was our RMM is based on the typical configuration of refineries in a specific region, and then we blend it all together. Actually, our advantaged refinery configuration has more distillate weighting about 60%. And so that is why you saw in this quarter with the diesel, well, the distillate in general, but the diesel margin declined significantly with gasoline going up. That did impact our refining financial delivery this quarter. So I think hard to say for the future.

Peter Lowe: The capacity numbers are great. I am not sure of, or we will always remain slightly uncertain of how much, what the extent to which the kit is actually available, and how much more kit is going to be available to optimise, make money from, et cetera in

2025 relative to the past two years. It is the scale of the TARs and I guess associated with TARs I presume the costs of a TAR are actually capitalised rather than taken through P&L. Is that correct?

Kate Thomson: So in terms of the TARs, we do give guidance on the TARs, and this year we have said that the TARs will be weighted towards the second half and fourth quarter. I think on the portfolio side, we have been streamlining our portfolio for some time now. And with the six refineries remaining, and we also have talked about in Gelsenkirchen in particular, that we will be reducing capacity from 2025 in a controlled manner by about a third. So I think from a throughput, capacity and availability, I think I am happy to pick it up, but I think we give quite enough on the on the availability quarter on quarter.

Murray Auchincloss: I will just go back to something. We save some comments we made in a previous quarter. Lucas. Which is we expect the refining TARs to decrease intensity from 2025 onwards because we have had a heavy dose of Tars in 2022, 2023, 2024 as we catch up from the Covid time period where it was impossible to mobilise individuals[2]. So we do see a lessening of the TAR environment from 2025 as we have done that catch up. Capacity, I think you can see the capacity. You can see where we are operating at, how much we actually utilise then is a question of supply and demand for the product. Right now, diesel is slightly oversupplied. Gasoline is about average. Let's see what happens in driving season. Generally, you deplete these stocks as we move through driving season.

The interesting things to watch are we have not seen any weather events yet in North America or Europe that would impact the refineries. We have seen them in Asia and the Middle East, but not yet in the West. So that will play on forward margin and what the earning capacity is. And there have been 600kbd of announced shutdowns that have not occurred yet from the third-party market. So in Europe, UK and the US, we should see that 80 million a day capacity shrink again as these things shut down, which again means less product flow and more chance for margin. I think my overall conclusion in this space, Lucas, is that capacity is tight. Capacity is tight because oil demand continues to grow. Refining capacity in the West continues to shrink, and we continue to have weather events that are quite volatile.

So I think what that leads me to is we will see quite a bit of volatility in margins around refining. As far as the eye can see, that is how I relate to it. And that our earnings capacity will be based on how we do in that. On your capital allocation question, it is probably more a question for February than it is today. I think the statements that I can make right now are in offshore wind. We are happy with our portfolio. We are busy building out ten gigawatts. We will do that for as little capital as possible. This is for us is all about the electrons. So we will lever these up as much as we can. We will bring partners in. And this is all about electron flows into our own business. That is how we relate to offshore wind Lightsource bp, of which we are buying 50%. Once that is brought into the envelope, we adjust it a bit on what it is working on.

We are happy that we optimised it. We will consider bringing in partners for that quite quickly. So that will mean there is very little capital intensity in Lightsource bp for us. And hydrogen, let's see how we get on the 5 to 10 plants. We have sanctioned two things, Castellon and Lingen. We have big decisions coming on Net Zero Teesside here in the UK, on the integrated energy hub in Kwinana in Australia is a big decision. And we have a few

more as well that we need to think our way through. Whatever those capital decisions are, that will determine what the capital is for the decade, and I would hate to prejudge that right now. I hope that helps, Lucas. Another question in the room. Martjin?

Martjin Rats: Yeah. Hi. Hello. It is Martjin Rats, Morgan Stanley. I've got two questions, if I may. First of all, on the previous call, there was a question about the production profile in the second half of the decade towards 2030 and what that could look like. And I remember you mentioning at the time said, well, we have 32 possible FIDs ahead. And what we decide on those will determine how that looks like. I fully recognise you haven't done all 32 by now, but you have done 12, and you seem to have some strong ideas about Tiber and a few others. So perhaps some clarity is emerging of what the production profile could look like in the second half of the decade.

And not to pre-empt yet another question that is shifted to February, but could you say something about the production profile in the second half of the decade? The other one I wanted to ask is about impairments. bp is not alone in this, but the impairments continue to run at very high levels and every quarter we go, non-cash. But it was cash once, and impairments, they are not great. Can you say anything about what the outlook is for further impairment charges over the quarters and possibly years ahead? Great.

Murray Auchincloss: Kate, I will let you do impairments. On production profile, Martjin, so we have we have gone through 12 different sanctions. Five of them we have approved seven we have not. The two that we have approved in the upstream. Actually, three in the upstream. Sorry, we did Atlantis Drill Center 1 expansion last time around. We have done Ruwais and we have done Kaskida. Tiber looks hopeful, but we need to work our way through the supply chain to make sure that is the case. So I can't prejudge Tiber, but I feel optimistic about it today. So we have done some. But there is an awful lot more to go as we think about it in that program of 32.

I am not really thinking about production. What I am thinking about is cash flow and returns. How can I really drive the upstream to be as prolific as possible on cash flow growth through the decade, at the returns hurdles that we have or better, that is that is what that is how I really think about it. And what we have guided on cash flow is growing to 2025 and then relatively stable. I am optimistic we will do better than that. I do not know what the production associated with that will be, but I am optimistic that we can do better with that given the quality of the portfolio. So let's see. Martjin, I think that is all I can say right now. And yes, we will update you in February. Kate, over to you on impairments.

Kate Thomson: Yes. So at 2Q, a chunk of the impairments were due to refining, and we made previous announcements with regard to how we are seeking to optimise Gelsenkirchen and in particular, reducing their capacity there by a third. We said in the trading statement it would be one to two billion post-tax. We are bang in the middle of that. Impairments came in at $1.5 billion. The other point to just comment on with regard to refining, as a function of the accounting rules, which push you to be prudent, we took onerous contract provisions in the second quarter. Those are calculated at a point in time before you have any option to commercially negotiate the outcome.

So I would expect we will do an awful lot better than that, and I give Emma a stretch target now that we see that entirely reversing as we step through it, because currently it is non-cash cost. That truly is non-cash cost. With regard to impairments going forward, it is a

function of business decisions that we make and plans and environments. So I am not going to start predicting what that is going to look like, but I take your point.

Murray Auchincloss: It is a bit tricky with IFRS. It effectively just mechanically brings your asset values down to your price and your discount rate. And then if your discount rate increases, you impair; if your discount rate drops, you write back, and if your price viewpoints change up and down, you have to you have to write back, et cetera. So I tend to think of it more like advanced depreciation because it is forcing us to depreciate earlier than we otherwise might have. And it is a nature of the rules. So that is just another thing to think about, Martjin, as you as you look at it. Next question in the room.

Al Syme: I just have a question for Emma about the marketing business. If you could give some picture on globally what you are seeing in same store sales, particularly how maybe that splits between footfall and basket size and particularly within that actually the US, given that you did call out in previous quarters that you are seeing signs of consumer recession in the US.

Emma Delaney: Yes. In the marketing business, we did $4.5 billion of EBITDA last year and target towards the $7 billion in 2025. And there are four big areas of growth that we are aiming for. The first one is in continued performance in convenience. We saw 6% margin growth for the first half this year versus first half last year. To your question specifically on what of the growth is made up of like for like versus store revamps? It depends on the market. So in the US specifically, it is probably about a third like for like and two thirds store revamps (growth sites). And each market is different depending on whether you have a program of store revamps, or, for example, we have store revamps currently underway in Poland, so there it's more on the store revamp side. So continued performance in convenience will be a big part of our growth in the marketing businesses as we look through 2024 and 2025.

In our base, when I think about the base business, Castrol has now had six quarters of momentum. We had a record quarter in aviation this year and our cost program that I talked about earlier will continue to give some engine to the base business. I talked as well about the EV charging already. And Bunge will also contribute in that. So as I look at the big picture for the marketing business, I think we are well on track and it is made up of a whole, literally, 20,000 sites on the retail side. We work them top line, bottom line, and we work all the other B2B businesses as well. So really a big diverse portfolio there to get after.

Murray Auchincloss: Amazing. We are number five in convenience in the United States. Who would have thought? Chris.

Chris Kuplent: Thank you. Chris Kuplent from Bank of America. Two questions. First one is on your 2025 targets again, and I think, Emma, you referred to 2022 and 2023 as remarkable years in many respects in terms of achieved refining margins. So I wonder, can you add a little bit more subtlety around what I thought was a very subtle change already suggesting that these EBITDA targets are to be achieved at 2023 prices. I recall that they used to be based on mid-cycle assumptions way back in 2021 when we didn't have RMMs above $20 per barrel, and yet they were above $20 per barrel in both 2023 as well as in 1H24.

If I extrapolate 1H24 earnings, I kind of struggle to get to that EBITDA figure, even if I give you full credit for these EV and low carbon growth numbers coming through. So I wonder what you can talk to us through on that, I thought, quite subtle change in underlying assumptions behind these 2025 targets.

And then just a follow up for you, Kate, on the net working capital. Is it appropriate to think about the 2Q24 as a $1.5 billion roughly reversal, because the headline of $500 million also includes the Gulf of Mexico spill payment. And are you confident that the remainder of the 1Q24 build is going to reverse in 3Q24? Or what more colour can you give us around that? Thank you.

Kate Thomson: Yes. So maybe if I take that one first. We had a $2.4 billion working capital build in the first quarter. Yeah, it is about $1.5 billion that has come back this quarter. So we have got about another $1 billion to come. So as I said earlier, we are expecting net working capital release in third quarter. So my expectation based on our current forecasts is that net debt will trend down in the third quarter prior to acquisitions that will consolidate acquired debt.

On the assumptions, I think at 1Q24, might have been 4Q23, we made it very clear we were building from the 2023 delivery to how you get confident in the 2025 targets. And we said, okay, at these prices with these buckets of growth that we have got line of sight to in the underlying business, that is how you get to $46-49 billion. And we asked you to triangulate back to that. And maybe Craig and the IR team can follow up afterwards. When the original slide was put out, there was a footnote which talked about 2021 planning assumptions. So maybe, Craig, you can pick that up with Chris after the call.

Murray Auchincloss: Good. Yeah, Josh.

Josh Stone: Thanks. It is Josh Stone here from UBS. First I want to pick up on the decision to fully consolidate Bunge and Lightsource bp, because it seems like there are some companies in the sector who are choosing to separate out those businesses, and you have gone out your way to fully consolidate them back into the bp balance sheet. Can you talk about the benefits of those businesses being part of bp versus a standalone entity?

Second one, I did want to follow up on surplus cash flow and buybacks, because we look at the first half of the year surplus cash flow has underperformed where your buyback level is. And so, it looks like you have been using debt to help pay the buyback. But when you decided to maintain the buyback flat and clearly using the outlook. And you have mentioned a lot of the positives from the outlook you are using to maintain that buyback. So maybe just go through what are the key building blocks in that improvement in surplus cash? And how much of an outlook are you using. Is it just the second half of this year, or are you also counting on 2025 growth to help maintain the buyback? Thanks.

Murray Auchincloss: Sure. I will start with Lightsource bp then. Emma, you want to handle Bunge consolidation, and then Kate. I think on Lightsource bp, look, we had a partner when we put it off balance sheet back in 2017. Fabulous entrepreneur, helped us grow the business up to four- or five-gigawatt development per year, but hit the end of when they wanted to continue doing this. So now was the time where they wanted to cash out. It was convenient for us to go in and take control of it 100%. It is a fabulous vehicle to go and help Carol build out her business. So many customers around the world want natural

gas coupled with clean power to start to decarbonise their own energy systems and with the growth of hyperscalers, we are seeing just increased demand after demand after demand.

So taking 100% control of that entity, given that incredible native demand we see for energy, especially from the hyperscalers now, and the desire of nations to transition, makes an awful lot of sense. At the same time, once you have taken that control, you have restructured it, done some stuff to the portfolio based on where your customers sit, etc. you will then think about bringing a passive partner into this. They've got a very different cost of capital than we have. And so that should offer the chance to arbitrage the price over time.

Lucas Herrmann: What's the timeline on that, Murray?

Well, let's see when we complete and then probably over 12 to 18 months, we would bring somebody else in. So that is why we think it was a really good time, both given where the partner was, the opportunity we see in the market and how we see that, that business moving forward. So that is how we think about Lightsource bp. Emma, on Bunge.

Emma Delaney: A short answer on Bunge. We have been in the joint venture since 2019. So, we actually understand the operational performance metrics now quite well, and saw the opportunity to take the 50% to consolidate to 100%, because the two biggest sources of value are inaccessible to us as just a 50%. Namely, the first one is about integrating with Carol's business on the trading side. So that is a big source of value, but very difficult to do when you are 50/50. And then the other source of value is applying – Murray, you mentioned it earlier – some of the science, but also some of our techniques from refining on automated control systems, for example, we see the opportunity to increase the mill uptime.

And so, again, difficult to do when you are, when it is in a joint venture 50/50. So I think the sources of value, we can see them immediately ahead of us in the near term. Then there is tons to do long-term, a lot to do on the biogas side. We can use the waste from the mills and we will take relatively small investment to be able to then convert that into biogas, and then either use in our own net vehicle network is a massive vehicle network there. We have 1,500 vehicles, combine harvesters in the field and either to use in your own fleet over time or to sell into the grid. That is a big opportunity. Again, hard to do when you are 50/50 and you have different objectives for the joint venture. Then there is more to do in the future on next generation ethanol. So I think those things we see both near-term sources of value and then in the medium to long-term opportunities for investment to really bring this to life.

Murray Auchincloss: So our decisions are driven by how do we create the maximum value for shareholders. That is how we drive. And that is the two examples in that case. Kate, over to you on the other question. Yeah.

Kate Thomson: So when we updated the financial frame at the fourth quarter, we deliberately stepped away from the quarter-on-quarter calculation of surplus cash because it was creating an awful lot of volatility and perhaps unhelpful focus on what is your absolute surplus cash in any one quarter. So we wanted to provide predictability and a level of certainty into the market with regard to the forward share buyback. 1Q24, we had

a Whiting outage that was significant, as you know. So the surplus cash was lower than we might have expected. At 2Q24, the level of share buyback compared to surplus cash is down to 59%. So what we are saying is at least 80% over time from surplus cash.

And as the board makes its decisions and as we had the conversation last week with regard to the second half of 2024 we take into consideration what has come today and what is coming forward, and we are confident in the delivery of the business. We are confident in the improved performance. There is a lot of discipline that we are putting into the capital frame. As you know, we have tightened that right down to around $16 billion for the year, and we are bang on half of that at the first half. Divestments target is slightly higher than 2023 at $2-3 billion. We have probably got between $1 billion and $2 billion more to come on that, and we have got a full year of cash flow from TravelCenters of America to take into consideration. So, we are confident in our delivery and our outlook for the remainder of 2024.

Murray Auchincloss: Great. Thanks, Kate. I realise that we are overrunning, so I am going to take one more call on the phone. Apologies for that with Doug Leggate at Wolfe, and then I am going to have to close it down and we will follow up with any other questions out there. Doug, over to you.

Doug Leggate: Thank you. Murray. I will try two quick ones, hopefully. I wanted to try and maybe circle back on the longer-term production outlook. A couple of quarters ago, you talked about two million barrels a day being the stabilised level. You are well above that, and you are now sanctioning new projects. I do not want to front run January or February when you report, but is two million still the right number?

Murray Auchincloss: Okay. Did you have another question, Doug, or was that it?

Doug Leggate: Yeah. My follow up is I want to come back to the buyback question. I've had the pleasure of covering many of your peers for three decades. And the big difference between those buying back stock and yourselves is a much stronger balance sheet. If I look at your share performance since you started the buyback, you really haven't had any benefit. Your share price is down, and you have bought back a fifth of your stock, but your net debt remains relatively high if you include the hybrids. I am just curious why you believe that method of cash return is still the optimal way to maximise value for shareholders.

Murray Auchincloss: Okay, great. On long-term production. Yes, we are running about 2.3mboed right now. But of course, we have got some divestments. We have announced the divestment of Egypt into a joint venture that will take effect in the fourth quarter, I think, which should drop production about 50kboed. So you will be down at 2.25mboed. And then we have some other divestments that we continue to pursue, low margin, high volume assets that may or may not happen, but if they were to happen, that would drop their production to around '2-ish' mboed.

As far as what the production outturn looks like for the back end of the decade, of course we will update you in February and where that is. And I will just repeat what I said earlier. I am focused on cash flow and returns, and production will be an outcome of that. But I am really, really focused on growing cash flow. If I just wanted to grow volume, I could plow all the money in the world into the Haynesville and I could grow volumes like crazy. But that is not the right thing to do for shareholders, it is to create cash flow and returns,

and so that is why I am focused so much on that, Doug. So I hope that helps you and Kate over to you.

Kate Thomson: Yeah. Thanks, Murray. Doug, hi. Nice to hear your voice. We have already had one debate with regard to share buybacks versus debt. I am sure we will have others by the sound of it. Look, I think I said earlier on the call the investors that that we talked to, they like the balance of the financial framework that we have currently got it structured, as I said, it is sector leading distributions. The balance sheet is in good shape. It is strong. We have brought it down a significant amount since 2020. The flywheel that the share buybacks give us to be able to continually increase dividends, as we have seen in the last three years, have done 10% each of the second quarters. It creates a flywheel for that and the increasing earnings per share. So for now, we are comfortable with where that sits, and we like the balance and so do our investors.

Murray Auchincloss: Great. Thanks very much, everybody. Thanks for listening. Sorry we overran a bit, and hope everybody has a nice summer. Take care.

[END OF TRANSCRIPT]

Notes

1. *EV charging market position can be measured by a variety of metrics, including network size, utilisation and quality. bp pulse has developed a leading network of quality & highly utilised ultra-fast charging sites in its core markets.*
2. *TARs are typically expensed, however capex activity is often undertaken concurrently as TARs can offer an optimal time to execute such activity*