bp 3Q 2022 Results:
Webcast Q&A Transcript

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Q&A TRANSCRIPT

Craig Marshall: Okay, thank you again everybody for listening. We're going to take questions now. Usual reminder from me, please two questions maximum per person so we give everybody a chance to ask their questions. We'll turn to the US for the first question. And to Paul Cheng at Scotiabank. Paul, over to you.

Paul Cheng (Scotiabank): Thank you. Good morning, guys. Murray, can you tell us what is your estimate for the EU Windfall Profit tax, and also that UK Windfall Profit Tax for this year? Granted that for the EU Windfall Profit tax you probably don't have all the detail. And the second question is about the nature of the Mad Dog 2 commissioning issue, can you elaborate on that? Thank you.

Murray Auchincloss: Great Morning, Paul. Bright and early in the States this morning. Thanks for the questions. Let's start off maybe just stepping back on taxes for one minute before I answer your questions. We understand it's a very difficult time for society right now and we understand why people focus on our global profits and we understand the challenges that governments face as they move through this very difficult time. As a corporation, we're really focused on two things. First, investing into the energy system of today and starting the transition of the new, the new energy system. And of course, we pay our taxes, as you asked about.

So onto the specifics of the taxes. you'll see in the press that we announced the UK Windfall Profits Tax. Today, we announced for 2022, what we're seeing. To remind you, the tax rate in the UK is 65% in the North Sea.

We will be paying $2.5 billion this year, including $800 million on the 25% uplift that was enacted a while back. So that's $2.5 billion. And that's the $800 is only on seven months of application so far. In the EU, I'm afraid I can't give you an estimate, it's just not certain enough yet. I do think I'll say that our profits in the UK are about 15% of global profits, and our profits in the EU are only 5%. So that will give you a sense of magnitude. So I hope that helps on the tax questions.

And then on Mad Dog phase two commissioning issues. We talked about issues with the riser last time around. We're still working our way through that. And we'll update you in February as to when we expect to see start-up next year. Thanks, Paul.

Craig Marshall: Thanks Paul. We'll take the next question from Os Clint at Bernstein. Os, good morning.

Oswald Clint (Bernstein): Thank you very much, both of you. Murray, I saw the White House had a statement a couple of weeks ago in the Clean American Manufacturing that called out Lightsource bp and all the gigawatts they're doing and all the investment levels and local content. I'm just curious if you think that might help in any way as we wade into potential US windfall tax discussion. And ultimately, could you just let us know how Lightsource bp is performing in terms of installations, cost control and really getting to that double digit return territory, please? That's the first one.

Secondly, just on the working capital release, $7 billion, it seems to reverse over what looks to me like a quite an extended period of time into 2024. Is that normal or are you selling LNG further across the strip and maybe a part linked, I mean, a lot of moving pieces, but if a potential gas price cap in enacted here in Europe, does that have any unintended consequences for this positioning? Thank you.

Murray Auchincloss: Thanks, Os. Starting on Lightsource bp, the entity is up and humming 5.4GW developed. They've got a pipeline of 23GW. They've hired 600 people now. I think they're operating in greater than 14 countries now. If you take a look at Companies House, you can see the financial reports for 2021. It's a bit of a lag, obviously, but you can see that's been published, where revenue's up 88% and EBITDA is up 228% year on year. So performance is pretty solid, Os, if I'm honest. Returns remain in line with our external guidance as well, as inflation hits the solar side. We are seeing PPA uplift. I think the last time I looked, we're seeing 10% uplift on solar PPAs.

So we remain very happy with Lightsource bp and you know, just congratulations go to Nick Boyle and the team for the fantastic work that that they're doing.

On the working capital release we're just trying to provide you guys with some guidance about how the working capital will unwind. Obviously, we've had a big build this quarter. It's principally related to the derivative positions that we have on the hedge exchange. And the way to think about it is we have a 14 million tonne per annum portfolio right now, and it's growing pretty significantly over the next few years. You'll remember our tagline of 25mtpa by ‘25, I'm sure Os, at my age, it's helpful to have those kind of taglines that I can remember easily. 30mtpa by ‘30 was brilliant as well. So we've got 14.4mtpa now that we're trading. We've got, when Freeport comes back online, that's another 4.4mtpa. Coral's got 3.4mtpa, Venture Global 2mtpa, Tortue (Phase 1) 2.4mtpa. So we can touch and feel that wave of LNG that's now coming. And obviously we risk manage these things as they get closer and closer.

And so with that very large build out we're pretty clear that the working capital flow is going to follow the ramp up inside these LNG contracts. And we've carefully managed the position both on the OTC and the derivatives to ensure that we can lock in that profit from the last quarter. And that's why we're disclosing what we're disclosing now.

I'll just give one, one last caveat - Craig, would caution me - working capital's incredibly volatile and it moves all over the place given the scale of our business, but we were just trying to give you a sense of what, what might happen with the LNG book itself and when we get that guidance. I hope that helps Os.

Oswald Clint: It does. Thank you.

Craig Marshall: We'll take the next question from Biraj Borkhataria at RBC.

Biraj Borkhataria (RBC): Hi there, thanks for taking my questions. I've one on the distribution framework. When you put out this framework, you probably didn't envisage , the sort of environments we're seeing this year. And you've clearly benefited very consistently across oil and gas trading, but you do have some of the limitations on the buybacks. You know, you can only buy 10% of your equity each year, and there's obviously the market abuse limits on a daily basis. So if I think about your underlying cash flow, excluding the working capital build, and I was to think about how the business is performing, then it would suggest a buyback number which is actually much larger than you are actually able to execute.

So the question is, as you're looking forward, how are you thinking about the distribution framework, particularly as the balance sheet will continue to improve quite rapidly? Some of your peers have talked about special dividends and so on. So just to get your thoughts on that.

And then the second question is on the trading beat. It's quite hard to ascertain, the various elements of what goes into your trading business, but is there any way you can break down how much or contribution of domestic US gas trading, power, and then LNG? Any incremental colour on that would be very helpful. Thank you.

Murray Auchincloss: Great, thanks, Biraj. So, on distribution framework. First inside the stock exchange announcement (SEA), we saw that there were concerns about our capacity to do our 2022 programme. So on the second page of the SEA, we did talk about how much of our programme we've completed so far. So 677 million shares completed through 31 October with an annual capacity at 1.95 billion shares. So we don't have any concerns with the upcoming three quarters.

Then as we think about our frame moving forward, I suppose I'll retreat back to our five priorities. You know, what they are 1, 2, 3, 4, 5, the fifth priority is obviously what we do with surplus cash flow, and we've said 60% of surplus cash flow will be through share buybacks. When we determine that, we look not only at the accumulated surplus but we also look forward at what we think the surplus will be in the future.

I think as you look forward at our operations, Biraj, we're moving into a very strong time period. We should have Mad Dog Phase 2, Tangguh Train 3, Mauritania and Senegal coming online at the same time that we have all these LNG buildouts that I've just talked about, where we've got offtake contracts, but we don't deploy the capital. So Freeport, Coral, Venture Global, Tortue (Phase 1), etc. That suggests there's some fairly strong earnings momentum, all else being equal, over the next few years. And you know, far be it for me to suggest the share price would go up, but I would imagine the share price would go up as we start to see that type of earnings growth over the next two or three years.

So I think for our part we're fine with the buyback as it is now. We don't see any risks with it. We're looking forward to continued strong performance as we move forward over the next few years. And I think we'll be fine on buybacks.

Now, last thing I'd point out is, we have guided at $60/bbl that we'll expect to average $4 billion a year to 2025. And what we said is that the rules of thumb work well up to the $100/bbl space that we've encountered so far. So I think that gives you a pretty decent idea of how we think about buybacks when you use our rules of thumb. And when you look at our guidance of around $4 billion a year when you're at $60/bbl. Hope that helps, Biraj, thank you.

Craig Marshall: I think Biraj, you had a second question on trading

Murray Auchincloss: Biraj, can you remind me on your trading question?

Biraj Borkhataria: So just the sources of the trading beat. You know, how much, if we're thinking about domestic gas trading, power trading and then LNG, any incremental colour on the split or colour would be helpful. Thank you.

Murray Auchincloss: I think it's a pretty rateable business in North America that they just gradually grow over time. I think it probably makes up 50% of an average quarter would be a way to think about it. And then when you see exceptional swings it's generally inside the LNG portfolio, Biraj. That's probably about all I can give you.

Craig Marshall: I think, Biraj, another way to think about it is we obviously had an average trading contribution in the second quarter of 2022. That was with Freeport offline for part of it, which is obviously well documented. As you look to the third quarter we've obviously given guidance around volumes as we look ahead, you can see realisations and we've described gas trading as exceptional. So I think to get a sense of that, you could probably go back and look at the segment, take a view on volumes realisations, and compare 2Q22 to 3Q22 to get a sense, just as a way into it as you try and sort of correlate our superlatives for choice of a better word.

Biraj Borkhataria: Understood. Thanks.

Craig Marshall: Thanks Biraj. We'll take the next question from Alastair Syme.

Alastair Syme (Citi): Thanks Craig. Murray, just for sake of clarity, when you talk about average and exceptional, you've got these words you've used over the years for gas and oil trading, are these referenced versus their own history or against each other? So in other words, does an exceptional trading profit in gas have the same threshold as an exceptional trading profit in oil? And then my follow up question was just on the gas business itself, I'm just interested if you're getting any sort of feedback from customers about the affordability of gas? Any general comments on that would be useful. Thank you.

Murray Auchincloss: I think the easy answer on the superlatives is that they're equal. So we don't do something different for gas versus oil. So they're equal, Alastair, is the answer to that question.

As far as customers for natural gas, it just depends which basin you're in around the world. Of course, in the US, Henry Hub's running somewhere around $5 or $6/mmbtu right now. I don't think there are any concerns with affordability there. I think inside Europe, what we've seen with the high price is quite a bit of demand destruction. We've seen, I think, 20% off on industrial demand in Europe through the last season and we're now seeing as we enter November similar levels of consumers turning off natural gas as well and conserving. So I think it just depends which basin you're in right now as to how do you relate to these things. Generally the price mechanism's working to drive the behaviours that would balance out supply and demand.

Alastair Syme: Murray, can I ask, on the gas contract, does that mean that customers are reluctant to term out for these sort of prices?

Murray Auchincloss: Again, it's a basin by basin question. If you look to the Far East, customers are starting to want to term out at these levels. They're seeing a desire to lock in long wavelength contracts. You'll have seen our KOGAS deal announced earlier in the year. So that's a specific example of that. So far, Europe less so, not willing to term out as you say.

Alastair Syme: Great. Thank you.

Craig Marshall: Thanks Al. We'll take the next question from Michele Della Vigna at Goldman Sachs. Michele

Michele Della Vigna (Goldman Sachs): Thank you Craig and Murray. And congratulations on the strong results, especially in gas and low carbon. I had two questions here. The first one is on your fair value accounting and the operating working capital move. You've laid out very clearly the matching of derivatives versus physical, which suggests a release in the second half of 2023 and 2024, but in the last month since the end of the quarter, the forward for TTF for the next 12 months has fallen about 30%. So I was wondering if on top of that physical release of the inventories, if there could also be a nearer term release of operating working capital, simply driven by shorter term price effect?

And then my second question is on your comment around higher turnaround activity and refining whether that would include Whiting in the fourth quarter? Thank you.

Murray Auchincloss: Yep. Craig, do you want to comment on the TAR question first and then I'll tackle the FVAE/working capital question?

Craig Marshall: Yeah, we have commented, as you've picked up, Michele, we don't typically talk specifically into refining portfolio region by region factors for competitive reasons. So I cannot comment specifically on that. But other than to note turnarounds are elevated into the fourth quarter.

Murray Auchincloss: Great, thanks Craig. Fair value and working capital, two very different things. Michele, as you well know. On fair value accounting effects that will move around with what we call the liquid window, a couple years of contracted gas. And we mark-to-market the contracts at the end of each quarter. So if, I think if you were to close today, obviously there'd be a fair value reversal probably in line with what we saw in 3Q, but that is very separate from working capital, which is all about how we manage the trading book and how we manage our working capital position with the derivatives we have. And that's why it's a different sort of guidance now, where we're saying that we've locked it in and we expect these profits -- we expect this working capital to unwind in 2023 and 2024. Now, we also have a big oil position as, you know, we have power positions, et cetera. So that can create volatility in the fourth quarter in working capital. And all I'd say is it's very, very difficult to predict right now what will be happening with pricing in 4Q. There's just a lot moving around, Michele. So I'd hesitate to provide any guidance.

Craig Marshall: Thanks Michele. We'll take the next questions from Lydia at Barclays. Lydia, good morning.

Lydia Rainforth (Barclays): Thanks Craig. And good morning everybody. Two questions if I could. The first one to come back to the cash returns, Murray, and when I'm thinking about how you allocate cash flow, is there an element with, there's a lot of opportunities like Archaea out there that you're going to go, actually, we want to do those, and that then translates through to sort of less surplus cash flow and therefore lower buybacks? Is that how we think about it? Cause it seems like we've done the Archaea deal for $4 billion, which is a really interesting deal, but that then does that translate through to the lower buyback relative to last quarter?

And the second one, I apologise, it's a little bit difficult, and thank you for the comments earlier around safety. But can I just check when you are looking at, so there was this fire at Whiting and the Toledo tragedy, is there anything when you're looking at whether, when the operations were transferred over to be run alongside the upstream, is there anything you're looking at going, actually, maybe something's not working? Thank you.

Murray Auchincloss: Great, thanks, Lydia. I think on the second comment, safety absolutely remains our number one priority. No doubt about that, as you know. It was a tragic accident in Toledo with two brothers being killed, our thoughts go out to the families involved. We're cooperating with the investigations now, and we'll learn everything we possibly can on that moving forward.

I think remember during Reinvent, we put all high hazard operations under Gordon Birrell, so we centralised high hazard operations under Gordon Birrell, and we remain confident that as we move forward, we'll learn these lessons and continue to build a stronger and safer bp. So I think that's what I'd say on that.

On cash returns no change to financial frame is my answer. Lydia. We have five priorities, and priorities number three and four are on capital. And what we've said is that mid-term guidance of $14 to $16 billion is unchanged. It includes both organic and inorganic capital. You can see that our run rate this year is about $12-ish billion on organic, so that gave us the capacity to do some inorganics. As we move into 2023, obviously we'll have a bit more organic capital. If Archaea completes that'll bump up the organic capital a bit, but we'll continue to have capacity inside that for both organic and inorganic. But there is no change to the financial frame. We still have the capacity to grow the dividend 4% per year at $60/bbl is priority one and priority five, we still have the capacity to do $4 billion of buybacks a year at $60/bbl. And you can use our rules of thumb to figure out what it might look like at higher levels. So, I think I gave the boring answer, Lydia, of no change to guidance.

Lydia Rainforth: Brilliant. Thank you very much, Murray.

Craig Marshall: And we'll take the next question from Peter Low at Redburn.

Peter Low (Redburn): Hi. Yeah. Thank you. So the first question, which is, can you comment on inflation where you are seeing it across your portfolio and, and what you're doing to mitigate it where it is coming through. And then the second, so this is a clarification, so I think you just said that the $14 to $16 billion capex guidance in 2023 to 2025 would include any future potential inorganic spend. Thanks.

Murray Auchincloss: Yep. Peter. Yeah, that second one's super easy. Yes. Our guidance, our five financial priorities are unchanged, and our, our midterm capital guidance of $14 to $16 billion includes organics and inorganics. So, no change there.

Inflation, I can't give you much of an update. Since last quarter, nothing's really changed. From a capital perspective, the place that we've seen inflation in 2022 is the Lower 48, where net net, we're seeing 10% inflation rates once we once we negotiate through the contracts. That's really the only place with inflation inside the capex space in the historic upstream.

I think as you look across the downstream business energy prices are quite challenging. Obviously, it shows up in our top line and our bottom line, but we probably had somewhere between $1 billion and $1.5 billion of additional fuel costs and energy costs inside our downstream business over, give or take, the past year.

And we've started to see some pretty material numbers inside logistics and wages, probably a couple hundred million dollars that are impacting cash costs as well.

Inside low carbon, no real change. Solar we were seeing a 30% increase in solar costs, solar panel costs but that was being compensated for on returns with 10% uplift in the PPA. And offshore wind, no change to the last update we gave you where net net we were seeing a 5% increase in the overall cost, but again, the PPAs would uplift, offset that.

As we look out to 2023, we're watching the indices carefully and obviously given recessionary pressures in the world, we're starting to see many of the metal indices drop a significant amount. So we'll have to see how that involves and what supply chain strategy we have as we, we move into 2023.

Thanks, Peter.

Craig Marshall: Thank you. We'll take the next question from Irene Himona at a Société Générale. Irene.

Irene Himona (Société Générale): Yes, thank you. Good morning, and congratulations on the numbers. Murray, my first question, obviously interest rates are rising so one expects the NPV of your decommissioning and other liabilities to drop. Do you anticipate or do you hope that your credit rating may improve in the next I don't know, year or so? And if it did, what would be the implications of, if any, for the financial frame? In other words, how does it change perhaps the order of the financial priorities?

And then the second question, going back to the Archaea acquisition of renewable natural gas, Californian LCFS credit values have more or less halved over the past year. Obviously RNG economics do depend on these credits. I'm just curious how you approach these? What would you assume happens to those credit values long term in your evaluation of that acquisition? Thank you.

Murray Auchincloss: Great. Thanks. On Archaea for those of you that don't know, Archaea is a biogas company in the United States, we announced the acquisition of it a month or two ago now. How, how time flies. It's a fantastic opportunity for us. It's a great team. They've got a fantastic hopper of 80 developments along with the 50 facilities that are already operating with the capacity to grow production from 6 mboed to 30 mboed. And as you point out Irene, the assets are worth an awful lot because of the RNG credit system inside the United States, which has been durable through multiple governments all the way back to 2007.

I think when we look back at this, we just use average pricing as we think about how to price these things. Sometimes prices will go up, sometimes prices will go down. Much like all energy complex systems things are very, very volatile. And we'll just position ourselves to make sure that we can price effectively against history as we, as we move through over time.

So we priced it based on history. You know, it's if you look through COVID, you can almost go and you plot yourself some charts. You can see where it's been priced, probably for the past five, seven years. So I think that gives you a good indication of where we priced it. We're very excited about it. We see huge opportunity inside this, and we remain very comfortable that we'll hit the double digit returns that that we talk to the market about.

And I think we'll go well beyond that. I think they're going to be interesting opportunities in hydrogen CCUS with it. Synfuels will start to come into play as well, given the new IRA. And I think as that organisation gets closer to bp, we will, we'll look at municipal solid waste together. We're just going to have a fantastic option set to play here that we'll create a lot of value for our shareholders and help with the transition. So very, very comfortable with that transaction.

Interest rates do appear to be rising. We did have a write back of some of our, this is your first question, interest rates are rising. We did have a decrease in our decommissioning liability because of that and we'll see we'll see what happens with interest rates in 4Q and beyond to understand what's happening. That will strengthen obviously the balance sheet. It'll be less liabilities.

As far as what the ratings agencies will do I think I'll just smile. We're looking forward to continuing to maintain a strong investment grade credit rating. Our metrics are very, very solid. But I'm not sure I'm the right person to forecast what will happen withour rating. You'd have to ask S&P or Moody's or Fitch, I think, with a smile is what I'd say.

As far as what we're going to do moving forward the Board will debate as they always do at fourth quarter results, what's the right thing to do? And we'll lay out the 2023 priorities as well, including what we do with surplus and what we do with debt. As you say, we have made tremendous progress on debt, 10 quarters in a row down to $22 billion. We're very, very pleased with that. And we just need to continue following that financial frame. I hope that helps, Irene.

Irene Himona: Thanks a lot, Murray. Very clear.

Craig Marshall: Great. Thank you, Irene. We'll take the next question from Lucas Herrmann at Exane. Lucas.

Lucas Herrmann (Exane): Yeah, thanks very much, Craig. And morning Murray. A couple, if I might. Firstly, just going back to the share buyback and trying to understand the 677 million bought to date. The question arises simply that if I look at the shares you bought back since your AGM, the number is materially higher. So question one, you know, what am I missing?

And the second question is on Azule, and whether you could just walk us through the, you know, cash flow movements or line items that have been impacted by Azule this quarter. That's it, Murray. Thanks very much.

Murray Auchincloss: Great, thanks Lucas. Nice to hear your voice. Craig, do you want to answer the share buyback question please? And I'll tackle Azule.

Craig Marshall: Thanks Lucas. Yeah, on, on the first one, just to repeat what Murray says and what we say in the SEA. Firstly, the authority of the 2022 AGM enables us to repurchase 1.95 billion shares. And as Murray said, at the 31st of October, we'd repurchased 677 million shares. The authority actually runs AGM to AGM and the AGM in 2021, the resolution was resolution 11, gives the company the authority to repurchase shares after the following AGM. And basically it states if the company has agreed before that date to purchase ordinary shares, whether these purchases will or may be executed after the authority terminates. So in short, the only share buyback that relates to this current programme is the one that we announced in the second quarter. Anything prior to that was covered under the 2021 authority, which is probably the disconnect you'll see in Lucas in your calculation, hence the numbers that we've quoted in the SEA.

Lucas Herrmann: Thank you, Craig.

Murray Auchincloss: And on Azule, really pleased to complete that transaction, obviously. Lucas, it's a fantastic growth business. It produces about 200mboed now growing to 250mboed over the next five years. We'll look forward to getting after cost synergies. It operates at about $12 to $14 a barrel. We'll, we'll see what we can do there. We're investing about $2 billion of capex a year inside the entity between Eni and ourselves. And we'll look we'll look for further opportunities to do more there. We have a quarterly distribution to shareholders. We're not interested in trapping cash, so we'll, we'll be sweeping the entity making sure that it has what it needs. And overall very pleased.

From an accounting' perspective, I suspect you, you know, what has happened. obviously, we, we show this as a different type of entity now, so it doesn't show up in EBITDA[1], etc and we get a one line net income post tax, and we get cash flow through the dividend as well. But I'm, I'm sure you knew that. The only other thing to mention between Eni and ourselves is they had a larger working capital in the transaction. So they've had a higher distribution than we have in the third quarter relative to our distribution. You might see that in the proceeds, and that's simply because they had a larger amount of cash built up inside the entity than we had. Hope that helps.

Lucas Herrmann: Yeah, if I can just spend one moment, Murray. So just to be clear, I think, I mean, Eni indicated a short billion or so of capital in from Azule this quarter. The reason that will have been higher than or appears to have been higher than was the case of bp is in effect an element of that was the repayment of working capital. Is that a simple interpretation, what you said from a cash perspective?

Murray Auchincloss: Correct, Lucas.

Lucas Herrmann: Brilliant. Thank you.

Murray Auchincloss: Pleasure. Nice to chat Lucas.

Craig Marshall: Thanks Lucas. we'll take the next question from Christyan Malek at JP Morgan.

Christyan Malek (JP Morgan): Thanks, Craig, and Murray. So a couple of questions I know already answered, but just coming back to sort of trying to understand, or just if you could provide perhaps a clearer frame around how the cash return framework is linked or correlated to the trading results. And as far as your definition of exceptional versus normal, and sort of getting a couple of standard deviations now away from what you've typically achieved, and just trying to make that link back into a cash return or a frame that you can provide help, it just would be quite useful going forward.

The second question refers to your oil volume outlook in 2023 and beyond. Is there any way, I mean, hypothetically you could add volumes in your portfolio if you chose to, you know break rank on your capex? I just want to understand your ability to add volumes in the context of your short cycle hopper set against decline rates and supply chain bottlenecks. Thank you.

[1] *Azule Energy is an equity accounted JV. The result will be reflected in adjusted EBITDA and underlying RCOP on a post-tax basis*

Murray Auchincloss: Great, thanks, Christyan. We did have an exceptional quarter in the third quarter in gas trading. I think we provide you with enough transparency that you guys can figure out what it is without me stating the number. Remember we had an average quarter in 2Q and an exceptional quarter in 1Q. So that's, that's the level of earnings and I'm pretty sure you guys can figure that out yourselves.

As far as the, how does that impact the financial frame? The answer is, it doesn't really, it's just a contributor to cash flow, obviously, either, either an add or a subtract based on the working capital move. And that just goes into the surplus cash accumulated to date plus the outlook. And the board takes a balanced position. We look through what's the accumulated surplus to date, and we understand what 60% would be, which is effectively what we’ve paid and what we've announced in buybacks this quarter. And then we looked at the outlook. And, you know, earlier on Paul Cheng's question, I went through how we're feeling about the outlook. We we're pretty bullish right now on the outlook moving forward, which I think will impact shareholder returns as we move forward.

On 2023 capex, maybe a few things to say. Obviously we'll have some projects finishing off in the historic upstream. We're spending about $8 billion of capital in 2022 in the upstream. Some projects come off. We've got the accounting effects of Iraq and Angola as well, which then gives us room to spend more on 2023 capex in the upstream. We're looking at bringing two rigs into the Gulf of Mexico, a fixed and a workover rig. We're looking at bringing another two to three rigs into the Lower 48 between the Haynesville and the Permian. We're looking at bringing another couple rigs into the North Sea. So we are looking around at the highest quality opportunities across the business. And as we work through our 2023 budgeting process, we'll come back and talk to you about what we're doing with capital in 2023 in February.

I suppose the key challenge these days is supply chain challenges. And can you get rigs? Can you get crews? Can you get frack? Can you get a frack fleet? Can you get sand? So it's really the supply chain that's choking activity right now that, that we won't ramp up if we don't have a secure supply chain at reasonable prices. So I hope that answers your question.

Christyan Malek: Just to come back on the first. Maybe I'll just put another way. I mean, that 60% is that anchored on a normal trading environment? So, in other words, if you have an exceptional trading environment that would then drive an exceptional dividend, like a special. Just to understand what your through cycle may sort of anchor in terms of your cash return frame versus what is now two or three standard deviations away in your trading, if that makes sense.

Murray Auchincloss: Christyan, I don't think we can be clearer on our financial frame. Five priorities, 60% of surplus is the fifth priority. Doesn't matter what an individual business does inside the portfolio. We've just tried to be absolutely crystal clear with the market that our aim for 2022 is 60%. So yes, some businesses do better, yes, some businesses do worse, but overall it just gets added together into the overall outlook for the company. And 60% is our answer for 2022. Thanks for the questions.

Craig Marshall: We'll take the next question from Giacomo Romeo at Jefferies.

Giacomo Romeo (Jefferies): Yes. Good morning. Thank you. First question is, I noticed you have Algeria in the column, of your divestments portfolio high-grading there. Just wanting to check on where do you think these assets sit in terms of your EBITDA, unit EBITDA distribution, that you showed us back in the 4Q presentation? The other question I have relates to last year. We have seen, back to the buyback, last year we have seen the board taking a decision to smooth over sort of any short-term volatility in surplus cash. And again, you refer to these also at the time of the Archaea acquisition. Just wondering what kind of decision led to not to smooth over the effect of the large working capital outflow in setting the buy back for this quarter? And what are the circumstances in which these will be considered as an exceptional, and then, therefore, trying to average the effect of the following quarters?

Murray Auchincloss: Great, Thanks Giacomo. On Algeria it's a late life asset for us. PSAs are expiring relatively soon. They're fixed price, and so they're in the lower margin bucket that we talked about back with you about a year ago now. So I think that answers that question.

On financial frame. How are we thinking about financial frame and buybacks? I think I just need to go back to the boiler point language. We take a look at the accumulated surplus to date. We look at the outlook for the surplus, we look at the macro environment, and that's what helps the board determine it. The determination of the amount of buyback this quarter obviously is dead on 60%, I believe for 2022. And that just basically follows the formula.

As we look out to the fourth quarter, obviously we hope that the Archaea transaction completes in the fourth quarter, and if that's to occur, the board will have to take a decision around how they deal with that. But that's a decision that will be made by the board in February, and I'm not going to prejudge what that is. But we do look backwards. We do look forwards. We've told you $4 billion a year at $60/bbl, and we've told you that the rules of thumb are a good guidance for how we think about this. So, I'd just encourage you to go back to the $4 billion at $60/bbl and the rules of thumb to help understand how we think about it. And I think we'll just leave that one there, Craig.

Craig Marshall: Yep. And I think one other thing I'd add is we've also told you that as it relates to working capital, that $7 billion is expected to release through the second half of 2023 and into 2024 when you consider the impact of that working capital on forward looking cash outlook, which as Murray's explained, is something the Board considers as well. So, in terms of the working capital impact as it relates to operating cash, and how that feeds through to surplus cash, you've also got a sense now as you look ahead about how that working capital releases, alongside the guidance as Murray says, on the $4 billion at $60/bbl, and the rules of thumb above that.

Okay, great. We'll take the next question from Martijn Rats from Morgan Stanley.

Martijn Rats (Morgan Stanley): Hi, good morning. Look, frankly, a lot has already been covered, but I did want to ask two more. So, $2.5 billion of incremental buybacks in the fourth quarter, that is sort of 2.5% of the share count. So, if that sort of lasts for a year, you have another 10%. And I was wondering, building on the discussion we had last quarter, whether it would be sort of fair to say that, well, every $2.5 billion of buybacks you do per quarter, every 2.5%, we should now start to anticipate that the buyback for the fourth quarter will add 2.5 percentage points to DPS growth at the next announcement. It seems a conclusion that will be an extension of what we discussed in 2Q, but I wanted to sort of put it to you to see if you'd say, we're thinking along the right lines here, connecting today's buy back to basically tomorrow's dividend growth.

And the second question I wanted to ask you is whether you had any updated thoughts on the impact of the EU embargo in Russian oil. I mean, it's been an incredibly difficult to navigate issue, but you're arguably much closer to it than any of us. So, I was wondering how you would expect this to impact both the company and the market.

Murray Auchincloss: Thanks Martijn. The EU embargo on oil. I guess maybe a few things to state. Just some facts to state. Oil stocks are relatively low relative to the five-year history. Surplus capacity held by OPEC+ is relatively low as well compared to history. So, I think those are two facts. How the EU sanctions will be implemented in December and February is something that we're still watching closely as well as the price cap. I think it's almost impossible to predict how these things will unfold. You've got a lot of moving parts on Chinese demand. You've got a lot of moving parts on how the EU sanctions will impact. You've got a lot of moving parts on demand destruction. And so, I find it very, very difficult to figure out where oil price and products prices are moving over the coming quarters. Given that level of uncertainty, what I do know is that stocks are at low levels and surplus capacity is at low levels. So, I think we conclude that elevated and volatile Martijn. I hope that helps. I'm not trying to dodge, but I think it's as difficult a time period to understand how things will unfold, as I've seen.

As far as buybacks leading to dividends. Your question on that, as we looked back at 2Q we'd obviously retired an awful lot of stock, we'd retired an awful lot of debt and the interest load associated with it, and the operations themselves were doing quite well. And all of those gave the board the confidence to increase the dividend, with the key focal point being our $40/bbl Brent, $11/bbl RMM, and $3/mmbtu Henry Hub balance point. We want to make sure that any dividend increase is resilient through the transition. And that's why we slavishly look to balance point as we think about these things. So, I think it's driven as much by balance point as anything else.

Looking forward then, how can you think about this? We will anchor on balance point at $40, $11 and $3. Of course, we will look at buybacks and what that's doing to the dividend load. We'll, of course, look at interest and we'll of course look at operational performance. And hopefully you hear the cheery note in my voice as we think that we've got a strong wave of performance coming now. But that's how we'll look at it moving forward. The only firm guidance I can give you, is we have the capacity to increase the dividend by 4% per annum, assuming $60 oil. Hope that helps, Martijn.

Craig Marshall: We'll take the next question from Chris Kuplent at Bank of America. Chris.

Chris Kuplent (Bank of America): Yeah, thank you very much. Murray just a quick one on Alaska. You've collected some more proceeds this quarter. How many have you now collected when you compare it to the headline price that you were disclosed at the time of the disposal? Just as a sort of reminder. And then lastly, on gas trading. You're being very kind in a way by telling us it is $3 billion you should get there yourself in terms of the gas trading contribution in Q3. Who do you fear? Why not make that more transparent? Is it the political environment or is it your gas traders fearing the competition across the street, thinking they might not work out that it's about $3 billion?

Murray Auchincloss: Chris, I'm not going to comment on the number. I think transparency on trading is a tricky thing. I think generally we have observed others that do this. The entire conversation with the analyst community becomes focused on trading, and I'm not sure that's very productive when you've got a broad-based business that's trying to transition. So, it's about investor focus and focusing on the broad conversation. That is what is on my mind.

And then on Alaska, I think $3 billion-ish is about the number, so far, relative to the to the original announcement, Chris, give or take.

Chris Kuplent: All right, thank you.

Murray Auchincloss: Pleasure.

Craig Marshall: We'll take the next question from Amy Wong at Credit Suisse. Amy.

Amy Wong (Credit Suisse): Hi. Good morning, guys. Got a couple of questions both related to your customers and products line. It's a bit more strategic actually. So, thinking about your metrics this quarter on convenience sites and Castrol, you have seemed to kind of go backwards. So, could you just update us on how you feel about your progress on your strategy under your customers and mobility theme?

And then the second question there is when you launched your new reporting, you said you'd come back to the market on metrics on how to measure your EV charging business. You've arguably made some good progress there on some acquisitions. So, when should we expect to see some standalone metrics and reporting related to that line of business? Thank you.

Murray Auchincloss: Great. Thanks, Amy. Yes. Castrol is in a tough sector right now. They have all the headwinds that we've talked about before base oil prices, additive prices, Chinese lockdowns, etc, when they're the largest in China. They are making strategic progress. We have a new leader in to take that business forward. And she's coming up with her plan that she'll present the Bernard and I in December. And we have great hope for it. And I think the thing that gives me great hope with it is we can benchmark against the externals. And if we look against the competition that published last week, Castrol's actually doing relatively well in a competitive sense. So, we just need base oils to flatten out. We need the additives program to be fixed globally, not just for us. And then hopefully China will gradually unlock and then we should see our great brand take effect there. So, an awful lot of hope for the future for Castrol and relative competitive performance is very strong. We benchmark that every quarter.

As far as EVs we'll start to provide more as we move forward. Progress in EVs is fantastic. We're up to 6% utilisation across the UK. We're already up to 3% utilisation in the Netherlands and Germany, only having embarked there over the past 12 to 18 months, China's at 13% utilisation. Richard, who runs the business on behalf of Emma, is installing 200 fast charge points a week. That's a heck of a number, isn't it - 200 globally a week. And we're seeing record after record in energy sales. So fantastic progress. It's a fabulous business and we'll provide more information for you. I don't know if it'll be in February or it'll be a separate session next year. That's something that Craig and I still need to debate but we'll definitely be showing you more about convenience and electrification, one of our, our big growth engines moving forward. We're very excited about it. Thank you.

Amy Wong: Thank you.

Craig Marshall: Thanks, Amy. we'll take the penultimate question from Jason Gabelman at Cowen.

Jason Gabelman (Cowen): Hey, good afternoon. I just wanted to ask about the LNG growth that you've mentioned within your portfolio. How does that change your kind of exposure to prices and then just spot versus term on offtake, maybe you could discuss how that evolves over the next year with these new volumes coming online?

And then my second question on the Toledo incident, can you discuss maybe expectation for how long the plant will be down, cost to repair, and if there's any impact to the asset divestment as a result? Thanks.

Murray Auchincloss: Great, thanks, Jason. On Toledo I can't really guide you on anything right now. The site is shut down as we talked about, the investigations continue and we need to complete the investigations, learn lessons, and then, we'll decide how we move forward. But I can't really give you any guidance until we're through that process. My apologies.

On LNG growth and how do we think about this and price exposure. If you think about our business, we have 14 million tonnes per annum of equity and merchant cargoes that we bought over time. Each and every quarter, the teams optimise the value of these things through either OTC or derivative positions and try to improve upon the earnings they see. As new programmes come in, so, as new projects come in that long list that I talked with you about, we're generally purchasing cargoes that were done in the 2015, 2016, 2017 time window. And you'll know the prices in those time windows. Some of the sales contracts will be hedged on that, some won't be. You want to make sure that you don't get ahead of yourself too much and do too much derivative hedging when there's doubt on, what the producibility of the assets will be in the early phases. So it's a mix. And then as you get more certainty, you'll start to lock that stuff in as you get more certainty on production. So I think that's a little bit about how we think about it. And I think the part that the part that's maybe a touch different than the rest of the competition is that we have more flexibility to optimise, I think, than, than some of the competition have. So we're always optimising inside the quarter, across the basins based on the clauses we have in our contracts. So I think that that's what makes bp maybe a little bit differential. Maybe I'm misleading myself on that Jason. So I hope that that's probably more than I've ever talked about. I think I'll stop there before my gas traders get upset. Thanks, Jason.

Jason Gabelman: Thanks.

Craig Marshall: Okay, and the last question from Jason Kenney in Edinburgh, Santander.

Jason Kenney (Santander): Hey, thanks Craig. Thanks for the opportunity. Murray, when do you think the first significant capex into the Asian Renewable Energy Hub (AREH) is possible and I'm assuming first material EBITDA from that, you know, beyond five years from now, but maybe just some kind of timescale around your commitment to crossing Australia there. Secondly, on Libya gas, some news flow this week that bp with Eni to begin getting gas from a field in the Mediterranean that's potentially larger than Azule, apparently. This is according to the national oil company, NOC. Any insight on scale or timeframe for Libya gas commitment? Great, anything you've got there. Thanks.

Murray Auchincloss: Yeah. On Libya gas it's an exploration program. We've recently completed a transaction with Eni to equalise in the offshore in Libya. And in the years ahead, we'll start exploring. That's probably what I'd say on Libya.

On AREH, there are two ways to think about AREH. First of all, it's a domestic play. So can we bring green hydrogen or green power to the nearby mining and other industries. That's probably something that happens middle 2025, 2026, 2027 would be my guess when that starts happening. And then that will form the base project that allows you to build a big export hub, hopefully by the end of the decade. That would be brilliant if we could achieve that. The complexity on the domestic play is relatively low. The complexity on the international play is quite high. We'll have to lock in customers, we'll have to lock in stakeholder rights. We have to lock in some pretty serious capacity for electrolysers and of course secure that financing, etc. for what would be a very, very big investment. So we're delighted that we've completed it. We'll get, get going on the domestic side now and then hopefully over time, we'll work with some of our international customers to start looking at growing that to export as well. Hope that helps Jason, and thank you for your question.

Jason Kenney: Yeah, understood. Thanks.

Craig Marshall: Okay. Thank you Jason. And thanks to everybody for all the questions. That's the end of the Q&A.

[END OF TRANSCRIPT]