BP 3Q 2023 Results: Webcast Q&A Transcript

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Q&A TRANSCRIPT

Operator: If audio participants would like to ask a question, they may do so by pressing star one. To cancel your question, please press star two. If you are listening on the web, please submit your question using the web question facility.

Craig Marshall: Thank you again, everybody, for listening. We'll turn to questions now. Please, the usual reminder: no more than two questions per person at this stage so everyone can get a chance to ask. We'll turn to the first question from Henri Patricot at UBS.

Henri Patricot (UBS): Thank you for the update. My couple of questions, please. To the first one on the results, you mentioned a weak gas trading contribution. Could you expand on what was driving the weakness – whether there's any implications in terms of the performance that we should expect in the fourth quarter? And then secondly, I'd like to come back on the US offshore wind project. I see you put through an impairment in the quarter. Could you comment on perhaps the next steps that you expect and any further financial risk for yourselves with regards to this project should it not go ahead ultimately? Thank you.

Murray Auchincloss: Great. Thanks, Henri. I'll take the first question, and I'll let Kate take the second one. Just maybe a reminder on the quarter. We had a pretty strong operating performance across the business. The highlights you'll see: 96% plant reliability across the upstream and downstream, production growth 3% year to date, year-on-year. I think that's leading the sector. Unit production costs down 6% in the upstream – again, very strong performance. And cash delivery, I think, in line with expectation. So obviously the difficult bit was the weakness in gas trading, as you mentioned. If you think back to the year, in the first quarter we had an exceptional performance, in the second quarter we had exceptional performance, and then in the third quarter – we're calling it weak. That was really due to lack of structure in the market. So there was a little bit of volatility in the prompt, but the actual structure of the market as you looked out across multiple months wasn't moving around. The reason for that, obviously, is that gas inventories in Europe and the United States were relatively full. So, that said, it didn't make sense to put a lot of risk onto the gas side. Instead, we reallocated risk to the oil side, and you saw that oil had a very, very strong result.

As far as the outlook to the next quarter, without guiding, all I'd say is you need to look at structure as we head into 4Q. I think gas storage is at 98% full inside Europe. It's at average levels, I think, inside the United States. So volatility will tell. If there are outages, if there is weather, that will tell whether or not there's much structure inside the gas market. And then, on the refined product side, I think gasoline and diesel inventories are quite high right now, so it's lacking a bit of structure right now as well. All of this can change in November and December, based on outages or volatility. So that's the gas side. Kate, over to you on wind.

Kate Thomson: Thanks, Murray. So you'll be aware that back in June we requested a renegotiation of our power purchase agreements with New York Public Services Commission. That was rejected in October, and as a consequence of that our accountants have had a look at our fair value of our assets and, as you're aware, in this quarter we have taken a $540 million pre-tax impairment on that. Looking forward, we will need to see how circumstances evolve and continue to run our typical processes. We'll work with our partners closely on the way forward. As you'd imagine us to say, those decisions will be based on value. We need to see those projects continue to meet a 6 to 8% unlevered return, which is what we've been clear on with regard to offshore wind and our requirements. So let's see how it evolves.

Craig Marshall: Thanks, Kate. Thanks, Murray. We'll take the next question from Irene Himona, please. Irene.

Irene Himona (Société Générale): Thank you very much. Good morning. My first question on working capital, please. How much of the $2 billion release that you had in Q3 corresponds to the $5 billion working capital unwinding which you had mentioned before relating to LNG? And then secondly, going back, Murray, to your comments on bpx, I'm just curious, in light of the two huge deals by Exxon and Chevron in the past two weeks, do you feel that perhaps that business maybe lacks a little bit the scale to compete efficiently in this apparently newly developing landscape? Would a potential step up via JV help to grow that scale? Thank you.

Murray Auchincloss: Great. Thanks, Irene. I'll take the second question, and I'll ask Kate to start with the working capital answer, please, Kate.

Kate Thomson: Sure. Thanks, Irene. Good morning. Yes, so in the third quarter, you can see we have a release of $2 billion on working capital. Much of that was associated with delivery of LNG cargoes. As you note, Murray's previously said we had around $5 billion of working capital to unwind over that. As a consequence, we're expecting around $3 billion to continue to unwind over the next three quarters. But as you know, look, working capital fluctuates quarter on quarter. It's important to look through the year and, if you look year-to-date, we're pretty flat. We've got a $679 million release year-to-date. So I'd just encourage you to keep looking through the year on working capital, and about $3 billion left on the LNG cargoes.

Murray Auchincloss: Thanks, Kate. And then, Irene, on bpx and the US, as we laid out in Denver, we've got a great upstream portfolio of 36 billion barrels of total resource, 18 billion in the plan right now, economic at our thresholds, to be developed over the next couple of decades. We have the capacity to grow earnings through 2025 and then maintain at that level through 2030 and beyond, so we feel we've got a very high-quality upstream portfolio. Inside the United States in particular, we have a great portfolio as well. Between the GoM and bpx, it was producing about 600 thousand barrels per day in 2022, and we aim to produce about a million barrels a day by the end of the decade. That's 7% compound annual growth, and it will make up around 50% of bp's production by the end of the decade. So we feel we have great resource positions already – 8 billion barrels of resource in the Paleogene to develop, 7 billion barrels of resource in bpx to develop – and we don't really feel we need more acreage. We will consider countercyclical moves. So, as we look around the world in other places, if we see countercyclical opportunities, we might pursue those. Some of you will remember that we did that in Australia a while back on a countercyclical opportunity. But we're very, very happy with our position in the US, and we just need to organically develop that now. Thank you for your question, Irene.

Craig Marshall: Okay. Thanks, Irene. We'll take the next question from Oswald Clint at Bernstein.

Oswald Clint (Bernstein): Yes. Good morning, everyone. Thank you. Just on the capex reduction down to the low end of the expected range, where does that $1 or 2 billion reduction come from? I guess some phasing perhaps, but perhaps if you could just break it out. And, linked to that, there's only $1 billion of divestments in so far this year. I think you're still expecting $2 to 3 billion, so what are we still expecting to see come in towards the end of the year, please? And then, secondly, just on gas again, you have picked up some more acreage offshore Israel, despite what's happening. Maybe just talk about those plans and also perhaps closing this NewMed deal in terms of building up a gas hub in the eastern side of the Mediterranean. Thank you.

Murray Auchincloss: Great. Thanks, Os. Let me start with Israel, and first, let me say we're deeply saddened by the tragic events in the Middle East and the devastating human impact it's having, and we're just hoping for a sustained and peaceful resolution. On NewMed, we'll update the market as appropriate, but for now, there is no new update. You're correct: on 16 July, we applied for acreage in Israel. SOCAR is the operator, NewMed is a partner, and bp, and that was obviously awarded over the weekend. We've been in the eastern Mediterranean for a long time. We'll see how we go. It is exploration acreage, so we'll just have to see how that goes, Os. If I turn to the divestment question for Kate, please.

Kate Thomson: Yeah, so, Os, I think we're at about $1.5 billion year-to-date in terms of divestments. We're continuing to guide to $2 to 3 billion for the full year. As you know, these ongoing processes aren't entirely within our control, but that's our guidance as we stand here today.

Murray Auchincloss: Great. Thanks, Kate. And on capex, Os, I think you'll see a year-to-date number of $11.5 billion spent this year. Organics running somewhere around $3.5 to $4 billion each quarter. And the reason that we're not going to hit the higher end of the range, the $16 to 18 billion we guided originally, was – that was for space for inorganics. You'll remember, as we set out our long-term frame, we said $14 to 18 billion including organics and inorganics. Gradually, organic capital ramps up. If you think about TA, if you think about Archaea, the organic side ramps up. But in '23, '24, '25, we do have capacity to do inorganics. So those inorganics that we were thinking about, we're just going to pass on those for now, so we're estimating $16 billion for the year.

Thanks for the questions, Os.

Craig Marshall: Thanks, Os. We'll take the next question from Biraj Borkhataria from RBC. Biraj.

Biraj Borkhataria (RBC): Hi, thanks for taking my question. I want to ask on the debt numbers, so you're setting, on your definition, $22 billion of net debt. I guess, if you're a rating agency, you look at it with the various other items added back, but if we take your number, is there an absolute level of net debt you want to get to before you next review your payout ratio to that $22 billion?

And then the second question is on Tortue. I know there's been various issues at that project. I noticed, in the Denver slides, phase two is now in the beyond 2030 bucket[1], so could you talk about that project – you know, key next deliverables and how you're thinking about the development overall from here? Thank you.

Murray Auchincloss: Great. I'll take Tortue, and, Kate, if you could take the financial frame question, as you're now keeper of the financial frame. Hard one for me to let go, but Kate will do a fantastic job on it.

As far as Tortue goes, on phase one itself, we're at about 90% complete now. The offshore breakwater and facilities are complete and handed over to operations. The FLNG boat we anticipate leaving Singapore by the end of the year. The FPSO has left China and Singapore and it's on its way to East Africa, and obviously we've replaced the contractor on the subsea systems. So we are hopeful that that starts up in 1Q24. As far as phase two goes, we really need to focus right now on getting phase one up. That is the principal focus we have. As we do that, we'll see how the productivity is of the resource base, and that will inform phase two where we have to continue through the design, we're into optimising that space and commercial negotiations with the host governments and partners. So a ways to go yet on phase two, Biraj. Thanks for your question.

Kate Thomson: And shall I take the financial frame question? So, thanks, Biraj. Good question. So let me step back from this a little bit. Yes, we've reduced net debt again this quarter, down to $22 billion. If I think back to when I was treasurer in 2020, we've come down from a high of $51 billion, so tremendous progress on that. It's important to remember the order of prioritisation. I think in the financial frame we've been incredibly clear on that, and the strengthening of the balance sheet, and in particular targeting progress within the 'A' range, remains a second priority. Look, I think the financial frame's doing its job right now. It works really well in high prices and low prices. We like the order of prioritisation and, for 2023, we're going to continue to allocate 40% of surplus to the balance sheet, and I think that's good for us for now. Thank you.

Craig Marshall: Great. Thanks, Biraj. We'll take the next question from Michele Della Vigna at Goldman's. Michele.

Michele Della Vigna (Goldman Sachs): Two quick questions. On the price lags that you mentioned in the quarter, I was wondering if you could quantify the impact it had, especially in your E&P division. And then secondly, going back for a moment to the US offshore wind, I was wondering if you could disclose your committed spend for the coming years in terms of pre-agreed supplies or pre-booking of transport capacity. Thank you.

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[1] *Note that 2030 date in Denver materials refers to peak production. See slide 9 of Increasing resources & capital productivity*

Murray Auchincloss: Yeah. Great. I'll take the second one, and Kate can take the price lag question.

I think, on the offshore wind commitments, there are cancellation options inside these things, but, as you can imagine, it's quite commercially sensitive, so we don't disclose those things. My apologies, Michele. And then, Kate, over to you on price lag.

Kate Thomson: Yeah. Morning, Michele. Yeah, so, as you're aware, we have price lag impacts coming through our volumes both from Gulf of Mexico and UAE. I think, from memory, we're around about $800 million[2] impact on the quarter, but if that's wrong, we can correct that after. I'm sure IR can help me.

Michele Della Vigna: Thank you.

Craig Marshall: Okay, great. I'll take the next question from Henry Tarr, please, at Berenberg. Thank you, Henry.

Henry Tarr (Berenberg): Thanks for taking my questions. Just to come back on the offshore wind in the US. There's the impairment this quarter. What's left on the books for those US projects? I know obviously there's going to be discussions around what happens from here, but I guess there's a new RFP out. Do you think it's likely that you'll be sort of bidding into that? And then perhaps if you could just comment on the sort of overall cost situation for renewables as you see it at the moment. Thank you.

Murray Auchincloss: Great. I'll take those questions. We're not disclosing what's left on the books. We think that's commercially sensitive, so we won't be doing that. As far as a path forward on this, I think, as Kate mentioned, there was a 10-point plan put out by New York State. We're working to understand that plan. It's just come out, so we're working with our partner, Equinor, to understand what that 10-point plan means, and we'll think about, with Equinor, how we do that. I think it includes the right to cancel your previous PPA and solicit for a new PPA. So work to do, and we'll update the market in due course on how that's going. As far as how are other places working, I think Europe, Asia is working fine on PPAs for solar as we see them through Lightsource bp. The US is a bit sticky right now with rising interest rates, and power prices aren't quite converging with those, but by and large, across Europe and Asia, we see those as working out.

Henry Tarr: Great, thanks.

Craig Marshall: Thank you, Henry. We'll take the next question from Lydia Rainforth at Barclays. Lydia.

Lydia Rainforth (Barclays): Thanks Craig, and good morning. Two questions, if I could. The first one on upstream volumes. The guide is flat for the fourth quarter versus third quarter, but given the startup of Bingo, given the startup in Indonesia, I'm just surprised it's not a little bit higher, so what am I missing on that bit? And then secondly, Murray - this is bigger-picture question - are you happy with where the results are for this course? Obviously you've had decent results in terms of operating performance, costs are down in the upstream, but you are seeing inflation in the downstream; there's a volatility in the gas

[2] *Corrected on page 11*

trading side. So I'm just wondering, is this where you think the performance of bp should be in this oil price environment? Thanks.

Murray Auchincloss: Great. I'll let Kate take the upstream volumes. On results, Lydia, as I stated earlier, the operating results are awfully good, and that mirrors what we talked to you about in Denver. So the fact that the plants keep running at 96% is amazing. The fact that volume growth is up 3% year-on-year is fantastic. Costs down again, I think fantastic results. At the same time that tier one safety events are off almost 50% year on year. So I think the overall operating capacity of the business is running very, very strong.

Two places that are challenging right now:

Retail margins - so these are fuel margins, whether it be on diesel or gasoline. We see the market as oversupplied as we entered September/October, but as we all know, that can change quickly. There is not much excess capacity inside refining around the world, and any weather event or any outage will create a change in the margins and a change in volatility. So I think let's watch this space. It does feel like a more volatile world than necessarily we've seen through September and October, but that's obviously something that we don't control.

As far as trading, obviously we've had a very, very good year. 1Q gas trading exceptional; 2Q trading exceptional; 3Q lack of structure. There's not an awful lot you can do when there's zero structure inside gas trading. So we will see. Weather will determine it, outages will determine it, and you know that our business is poised to do well when volatility occurs. So, you know, overall I think the business is performing quite well and, on the quarter, most of the miss can be ascribed to gas, but of course we pivoted our risk to the oil side, so I think maybe we got a bit ahead of ourselves in expectations around 3Q. We'll see.

So I hope that helps, Lydia, and we'll pass over to Kate on volume.

Kate Thomson: Yeah, thanks. Morning, Lydia. Thanks for the question. Yeah, so I think Murray's been super clear in terms of our kit - it's working really well. We're very pleased with the level of reliability we get across the portfolio and the delivery that we've got in terms of our overall production performance. Our major projects, we've got three out of four online, the fourth is due to start up imminently, and they're ramping up nicely. In terms of 4Q itself, it's just typical seasonal maintenance that we're seeing coming through. That, coupled with some PSA entitlement impacts. That's really what you are seeing that's offsetting the strong performance across the portfolio to see us broadly flat overall for the fourth quarter.

Lydia Rainforth: Perfect. Thank you, guys.

Craig Marshall: Thanks, Lydia. Thanks, Kate. Okay, we'll take the next question from Christyan Malek at JP Morgan. Christyan.

Christyan Malek (JP Morgan): Hi. Good morning and thanks for taking my questions. So a couple of questions from me. First, just on the buyback maths. I mean, if I run the buyback flat at $1.5 billion into Q4, that's a total of $6.25 and based on the 60% payout, that implies you're going to need to deliver a full-year surplus over $10 billion. So Q4 is going to have to be amazing, and I'm just trying to reconcile that, given what you've provided for in the Q4. So can you just help me in case I've missed something? Are you assuming trading is going to do a whole lot better, which I think – I kind of wonder about, given it's quite volatile in itself, as we've seen. That's my first question,

The second question, please, is I distinctly remember how you said offshore wind was meant to be one of your best positions from a returns perspective, and now we've got a $500 million pretax offshore wind impairment. My worry is that we see more write-downs elsewhere in the portfolio. So what sort of guarantees can you provide that this isn't a moving target, essentially lower?

And then, sorry for the final question, but just I had to ask this to break the taboo on this. There's quite a lot of M&A speculation around bp. Of course I'm not going to ask you to comment, but I actually want to know what your thoughts are on the US mega deals recently and whether there is an industrial logic for mega deals here in the UK. Thank you.

Murray Auchincloss: Okay, great. I'll ask Kate to tackle the surplus question. As for offshore wind, Christyan, well, you were with us in Denver. I don't think I said what you quoted. If you remember what I talked about on returns hierarchy, I talked about that biofuels were fantastic, convenience and electrification was fantastic, third call on capital was the upstream, and then hydrogen and offshore wind. And in offshore wind we're really focused on integration. So it's about taking the electrons in the UK, taking the electrons in Germany and providing those into the rest of our businesses - so into refineries, into fast charging with fleets, into hydrogen plants and into trading relationships we have with others. That, on a standalone basis, those would get you 6 to 8% unlevered returns. Of course, if you start to create the integration value with that, the returns go up an awful lot more. So I think the way I'd think about it, as time has progressed, we focused much more on the integrated opportunities that we see in Europe, and that's why you didn't see us bid in many of the offshore wind rounds in the United States over the recent quarters. So that's how we think about offshore wind.

I think, on M&A and will we see M&A activity, of course I can't really comment on that. For our part, we're very pleased with how the company is performing. Our share price multiples are trading equivalent with our European peers. We have closed the gap to some of the US peers by a third over the past 12 months, and as we continue to grow EBITDA per share, I think at a 12% ratio, as we continue with our distribution framework, I think it's double-digit, which is at the top end of the sector, I think you'll see us continue to close that share price gap. So we're really focused on organically driving the shareholder value for shareholders. So M&A is really not on our mind, if I'm honest.

And then over to Kate on surplus.

Kate Thomson: Thanks, Murray. Morning, Christyan. So, you're right, our rule of thumb works really well, so the $4 billion at $60 per barrel oil, adjust that for price and capital, so we've got about $82 per barrel oil year to date average price, and capex we're saying is going to be around $16 billion for the year. So I think, if you do the maths on that, we're pretty much bang on at $1.5 billion for share buybacks. In terms of what does that imply for 4Q23, I think we feel pretty good about 4Q23. Our operational momentum is there. We've talked about that a number of times already this morning. We've still got LNG cargoes that are going to unwind over the next three quarters. Oil price feels supported at the moment. There's potential for volatility in gas. Refining margins - let's see on that. But it's always going to be a consideration at the end of the quarter in terms of where the Board takes its position. It will use its judgment, it'll look forward, it'll look back over surplus year-to-date, share buybacks year-to-date, and form a view based on a range of factors at that point in time. But in terms of 4Q cashflow, we feel pretty confident on that right now.

Murray Auchincloss: Great. Thank you, Kate.

Craig Marshall: Great. Thanks, Kate. We'll take the next question from Paul Cheng, please, at Scotiabank.

Paul Cheng (Scotiabank): Thank you. Good morning. Murray, just have to apologize- I want to go back to the offshore wind weigh-up. My question is, what have we learned from that, and how that, if any, changed the process of your FID on not just offshore wind projects, but also on alternative energy in general. Secondly - on the gas and low carbon sequentially, that the earnings dropped around $1 billion, how much of the decline is related to the low-carbon side of the business, if any? Thank you.

Murray Auchincloss: Great. Learnings on offshore wind and alternative energy I'll take, and then I'll let Kate take your second question.

So I think what I'd say is back in February we talked that, for offshore wind, we were starting to pivot and focus offshore wind on integrated markets. That maybe wasn't what we did back in 2020 with the move in the United States. So I think we do like these integrated markets, we see the chance to make quite handsome returns on them as we move forward. We have our own natural demand for green electrons, which is enormous, especially in places like onshore Europe or the UK where there's not enough land for onshore solar or onshore wind, and obviously the taxation structures and the incentive structures are all to drive towards the greening economy. So we see that as the place that we should be doing offshore wind. It provides a natural sink. I think in Germany we've got four gigawatts that will be online by 2030, and obviously our demand's higher than that and growing significantly as we move through 2035. And the viewpoint is that we can develop these much cheaper than we can go out and buy a green PPA, making money on supplying it to our refinery, supplying it to our fast charging, supplying it to our trading business to on-trade around and create an electron flow, much like we've created a gas flow over the past 60 years in our gas value chains.

Last thing I'd say, Paul, is this will be capital-light. We will farm these things down, probably down to the 25 to 35% level of ownership. We will use debt as appropriate to lever them. And, as we do that, the capital deployed into these will be quite light, and we're very, very focused on the electron as opposed to the capital itself. So I think that's the reflections.

On solar, which would be the other bit that we do. Lightsource bp is doing very well. The returns are very high across the world for the develop-and-flip model that Lightsource bp has engendered. I think the average return, if I remember from looking backwards – 2022 backwards, the average return on the flip model was around a 16% return. So very, very strong returns that have come out of, I think it was, 80 transactions, was the last time I looked at it. So that continues to be a very good model that's working very well across Europe and Asia right now. Little bit sticky in the United States in 2023, but across the rest of the world it's working very well. We'd expect the US to return to normal in 2024 or 2025.

Kate, over to you on gas and low carbon.

Kate Thomson: Sure. Thanks, Murray. So, Paul, it's a pretty straightforward story in terms of gas and low carbon. Quarter on quarter, it's all about gas trading. You've heard us say that we had exceptional quarters in gas trading in 1Q and in 2Q and then a weak gas trading result in 3Q. There's nothing really material to say about the low-carbon results inside the quarter. It's all about the gas trading result.

Paul Cheng: Thank you.

Craig Marshall: Very good. Thanks. We'll take the next question from Lucas Herrmann at BNP. Lucas.

Lucas Herrmann (BNP): Thanks very much, Craig. A couple if I might. Murray, can we just push into the customers and products business line a little bit more in terms of progress? I appreciate the marketing margins are under pressure given elevation in input costs, but I guess I'm wondering to what extent margins are also being, or that business is also being, impacted by the fairly aggressive build-out at the present time in EV and other markets. So just some better understanding, because the numbers do seem modest, particularly given you've also had the TravelCenters of America acquisition for the full quarter.

And secondly, apologies, I just want to go back to another comment that you made in response to a question Lydia asked in Denver, which was essentially where would you expect debt to fit by the end of 2025. And I think your comment was, in essence, low teens. I presume that that comment was made against your assumptions on where debt would be and the assumptions that you outline to us on what your expectations around price are across period. Sorry to ask something that's already a month old.

Murray Auchincloss: No, that's okay, Lucas. I'll tackle both of those, since it was my quote in Denver. I think the question that Lydia asked was where would you expect net debt to be the end of 2025, all else being equal. So that would be whatever the prices were in Denver on a forward strip basis and assuming a 60:40 surplus cash allocation, so that's how you get to the low teens when you think about that. So those are the assumptions that underpinned that question, Lucas, which is I think, what you asked.

And then, on the C&P side, so convenience continues to grow very, very strongly. I think we're at 8% year-on-year growth in gross margin year to date in constant currency, excluding TA, which is fantastic, and we continue to see strong progress in that space. EV charging is in line with our external promises. We plan to be breakeven by 2025. We have two nations, China and Germany, which are already breakeven well ahead of expectation, and uptake on EV charging is very, very strong. We're at over 10% power utilisation in 3Q23. Power sales have doubled across the year, so EV's going exceptionally well as well. So those are our two growth engines. I think the part of the C&P that's a bit tricky right now are retail margins, so that's on gasoline and diesel. In particular, we've seen an oversupply as we moved into late August, September and now October, and that's why you've seen the gasoline and diesel cracks moving down pretty significantly. Because of our weighting, that impacts us a little bit more than the average. Predicting how that will unfold in the future I find very difficult, if I'm honest. There is not much excess capacity for gasoline and diesel around the world right now, given the refineries that have shut down. So if we have outages, then, all of a sudden, prices start to increase. So I think calling that part of the business is as difficult to call as calling the oil price now, but we keep going back and forth between excess supply and shortages based on what's happening with outages across the world. So I think that the focus of it really is retail margins because of oversupply have been compressed, and that's what's impacting and that's what can change very fast, though, as we move forward. So I hope that helped unpack that a little bit for you, Lucas. Craig, back to you.

Lucas Herrmann: Okay. Thanks, Murray.

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

Peter Low (Redburn): Thanks. Just a couple of follow-ups. You mentioned that your capex is towards the lower end of the range because you've passed on some potential inorganic opportunities. I know you can't give any specifics, but can you say perhaps what business areas these were in, i.e. oil and gas or renewables and low carbon? And then, just on the quarter itself, production did come in stronger than the flat quarter-on-quarter guide you gave at the last set of results. Can you give any colour on what regions surprised positively and why? Thanks.

Murray Auchincloss: Yeah, great. I'll let Kate answer the production upside in 3Q question.

On what inorganics aren't we pursuing, we're focused really on transition, if I'm honest – the transition growth engines and not the oil and gas side. At $90 per barrel oil, I'm not sure it makes sense for us to pursue very many oil and gas transactions, given the scale of our resource base that we have, unless it's a fabulous opportunity. So it's really inside the transition growth engines and it's focused on biofuels, convenience, electrification – the highest-return businesses we see. But we will continue to look at these things over time. As you know, our capital frame is a range of $14 to $18 billion through the decade. It includes organics and inorganics, and you can see that our organic capex is running probably around $15 billion right now, somewhere around $14 to $15 billion per annum. So that gives you a sense of how we think about inorganic capacity. And if you look backwards, you can see the scale of what we've done through TA, Archaea, EDF etc in the past.

So, hope that helps, Peter. Kate, over to you on production 3Q.

Kate Thomson: Thanks, Peter. So production I think is doing really well. I'm really pleased with how our assets are performing across the portfolio. In particular, we've had really good performance in Gulf of Mexico. We've got Mad Dog 2, as I said, ramping up nicely.

That will continue to ramp through the end of 2023. bpx, as you heard in Denver, is doing incredibly well right now. We've got great performance coming through on bpx, in particular on the new well delivery. And of course in the Gulf of Mexico we've had a perhaps quieter hurricane season than you might otherwise expect, but, it's doing really well. We're very pleased with our production performance to date. While I've got the microphone, perhaps I could just correct myself. Earlier, I talked about lag impacts, and I don't want you to over-model the phasing of that into 4Q. It's closer to $400m, not $800m, so, Michele, if you could just make a note of that, please. Thanks.

Murray Auchincloss: Thanks, Kate. Craig?

Craig Marshall: Thanks very much, Kate. We'll take the next question from Chris Kuplent at Bank of America. Chris.

Christopher Kuplent (Bank of America): Yeah, thank you very much. One quick follow-up, and then one, I apologise in advance, pretty tough question to ask you, Murray.

The first one, you mentioned countercyclical M&A – you're always looking for opportunities – and I think we talked quite a bit about the fact that you haven't spent as much inorganically. How about selling? Where do you see right now opportunities are in this market when you think about countercyclical activities? Where would you be a buyer or a seller across your portfolio, without, obviously, wanting to talk specifics. And secondly – and I appreciate that's slightly cheeky, Murray and Kate, but I noticed in your slide pack there is no more 'interim' in front of your titles, so just wanted to ask whether we need to congratulate you today or when you expect us to have to congratulate you – hopefully not too far away from now.

Murray Auchincloss: We're both smiling and laughing at the second question, Chris. We remain interim CEO and interim CFO, and the Board is running its process, and the Board will update you in due course.

On M&A, so countercyclical, obviously, on the acquisition side, we're focused on transition growth engines. Sometimes countercyclicals come up on the oil and gas side, though. So I mentioned the Australian opportunity that we had last quarter or two quarters ago, I think. That's where we got access to a 14 Tcf field for basically free. Those are the kinds of things that we'll think about in the oil and gas space when they arise. As far as what we're selling, we've sold an awful lot of oil and gas assets over the past 15 years. Craig will get me right on the running tally, but I think we're over $120 billion of asset sales since 2010[3]. So we have high-graded the portfolio materially. We've also dropped – if you go back to, I think, 2008, we've dropped from around 20 refineries down to six to seven, so we've really gone through heavy high-grading over the past. As we look forward about what we'd high-grade, obviously we'd be thinking about lower-margin businesses in the upstream or lower-margin – lower-margin businesses in the upstream or in the convenience space, the retail fuel space, where others, if it's late in life and others see more opportunity than we see, they've got lower investment hurdles than we see, then we might consider those type of divestments moving forward. But the overall level of divestments these days is

[3] *On average, bp has executed $5-6 billion divestment per year, since 2000 to 2021*

pretty low now. We're $2 to $3 billion a year is all we're estimating right now, and that's how we think about it moving forward, Chris. Thank you for the cheeky question. Love it.

Christopher Kuplent: Thank you.

Craig Marshall: Thanks, Chris. We'll take the final question from Kim Fustier, HSBC. Thanks for your patience, Kim.

Kim Fustier (HSBC): Thank you. Good morning, and thanks for taking my questions. Firstly, I wanted to see if you could clarify what you mean by structure in the gas market. Does that mean you're making most of your money from trading time spreads, and so we should look at the shape of the TTF or JKM forward curve, rather than extracting value from geographical spreads or prompt volatility?

And secondly, just coming back to upstream production, you're guiding to flat volumes in Q4 versus Q3, and that's despite project ramp-ups such as Tangguh Train 3. Is that because 3Q was such a high baseline, or are there divestments or maintenance somewhere in the portfolio offsetting the project ramp-ups? Thank you.

Murray Auchincloss: Great. Thanks, Kim. I'll tackle gas trading, and Kate can tackle production question for you.

Look, we make money an awful lot of different ways inside our trading division, especially the gas trading division. We unpacked that a little bit in Denver a few weeks ago. I think the comment on 3Q is that we're seeing structural storage long, where I think we're at 98% full is the latest stat I've seen inside Europe. So what that means is you might get a little bit of prompt volatility, but we're not a big paper trader in natural gas. So you might see a little bit of prompt volatility, but the structure as you look out across multiple months was not moving because of that sheer length in storage. So that's what we mean by 'structural'. The teams in the gas side make money from a lot of different things. They do it on geographic arbitrage, they'll do it on local arbitrage, on outages, they will do it on price spikes between prompt versus length etc. So I think mainly it's an observation of what happened in 3Q and what we've obviously seen in October so far. It's just a situation where inventories are very full in Europe, inventories are quite full in the United States, and that just means there's much less money to make on volatility.

So I hope that makes some sense, and we'll pass over to Kate for the last question on production.

Kate Thomson: Yeah, so thank you. Thanks, Kim. So I think, in terms of 4Q volumes, apologies –so 3Q was strong. In 4Q we typically have a level of seasonal maintenance that you'll see coming through our portfolio. You'll see that coming through the volumes in 4Q. This is a big part of why we're guiding that production will be broadly flat, quarter-on-quarter. I think I mentioned earlier you still have the PSA entitlement impacts. Those two components – the seasonal maintenance and the impacts of PSA – are part of what creates the volume forecast for the fourth quarter and the fact that it's pretty flat. And let's see what the weather situation does in the Gulf of Mexico. At the moment, that's looking fairly quiet, so we'll keep our fingers crossed on that front too. Thanks, Kim.

Craig Marshall: Very good. Kate, Murray, thanks very much. That's the end of the questions.

[END OF TRANSCRIPT]