ADIPEC Panel – Opening remarks

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Why finance matters

The energy industry is highly capital intensive, with volatile and cyclical commodity prices.

So how the industry is financed has always been fundamental to the growth of supply and the structure of the industry.

For example, finance structures and availability are playing a key role in:

- the growth of US shale oil;
- the privatisation of Saudi Aramco; and
- the transition to a lower carbon energy mix

Recent challenges – balancing cash flow

The lower oil price environment has presented two challenges for the integrated Supermajors:

- rebalancing cash flows to ensure that dividends and investment spending are fully covered by operating cash flow;
- and to do this while maintaining strong balance sheets and credit ratings.

There aren't many industries that can absorb the revenue impact of prices falling from $120/bbl to $40/bbl.

Over the last 3 years, the 5 Supermajor oil companies have spent $425bn

- $280bn on capital investment
- $145bn on dividends

While rebalancing, the $125bn shortfall to total operating cash flow has been met in broad terms by

- around $30bn of net disposals;
- issuing scrip dividends of $35bn;
- with the balance met by debt and hybrid bonds.

In BP's case, we have now fully restored our cash flow balance - covering the full dividend and capital spending from operating cash flows in 2017 year to date.

- We have achieved this by lowering both capital spending and cash costs by ca 25% since 2014.

US shale oil

I mentioned the US shale industry earlier, which has created a huge disruption in global oil and gas markets, with abundant resource shifting the cost curve down.

Since 2010, the onshore US industry has raised around $250bn of high-yield debt; and closer to $500bn of funding overall, including reserve based lending facilities, equity issuance and private equity.

The recent levelling off in onshore US rig activity seems to be driven in part by a greater focus on capital discipline and shareholder returns.

For BP, we have created a stand-alone Lower 48 business within the company, allowing greater autonomy and flexibility to compete. The model is analogous to private equity ownership – but within clear group boundaries for safety, values and behaviours.

Venturing and low carbon

Looking to the future, the energy industry faces a dual challenge:

- meeting a ca 30% growth in energy demand by 2035;
- And a shift towards a lower carbon energy mix, including gas and renewables, and growing electrification.

Finance will play a key role in delivering this.

Meeting the aims of the Paris Agreement will require an unprecedented transformation of the energy system.

The scale of the change needed is enormous, with about $1 trillion p.a. investment required into low carbon and renewables compared to about $300 billion p.a. currently.

At BP, one of the ways that we are testing new technologies and business models in this area through our own venture capital business.

- >$350m capital invested to date;
- leveraging over $2 billion of gross investment;
- such as Fulcrum BioEnergy for the development and production of low carbon jet fuel.

To conclude

So at BP, a clear and disciplined financial framework is central to our strategy. It has helped to steer the cash rebalancing of the overall portfolio, while ensuring adequate investment for growth across new and existing businesses.

For the industry, the energy we produce has to be affordable, reliable and accessible – whether it be shale oil or renewables. And for people to invest in a future energy resources, they need to get a return on their past investments.

I'm confident that, with the right strategies and technology investments, combined with the right mix of public policies, companies like ours can deliver sustainable growth and value to our shareholders while also supporting the transition to a lower-carbon future.