ROYAL DUTCH SHELL PLC
2014 MANAGEMENT DAY

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2014 MANAGEMENT DAY WEBCAST TO ANALYSTS

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Ladies and gentlemen, a very warm welcome to you all.

First, the disclaimer statement.

We had our full year results presentation here in London just a few weeks ago and it's good to be here again this afternoon.

Today's meeting is an opportunity for us to take a closer look at Shell's portfolio and strategy, and go into some of the themes we discussed at the fourth quarter presentation in more detail.

We are following a consistent and long term strategy to grow our cash flow across the cycle and deliver competitive returns. Shell's focus on HSE, on technology and integration, at a large scale, and of course capital discipline are core strengths for the company. Shell is an industry leader in deep-water; in LNG and GTL; in technology and integration; and large scale project management.

We have some of the most talented people in our industry working at Shell and they are working on adding more value for shareholders. Our dividend track record is, I think, second to none, underlining our commitment to shareholders.

Shell's senior management team are here today, and we will have some presentations, a short Q&A in this auditorium, and then we will break into more detailed Q&A panels for each of the businesses. Of course you will all get an opportunity to join each of the three panels.

I will update you on the strategy and the competitive picture, Simon will recap on the financial framework and our reserves and resources and then I've asked John Abbott and Marvin Odum to give you an update on the Downstream and Upstream Americas portfolios, the two main areas which we want to deliver a more competitive performance for shareholders. But today's meeting is a different kind of presentation from Shell. We want to discuss areas where there are challenges, that are impacting our bottom line, and not just the good parts, and we are going to update you on our plans there. We'll step over the other sections of the company more quickly in the presentation, themes like the macro and the LNG business. Of course you might like to go into some of that in the Q&A.

As I said in the fourth quarter presentation our ambitious growth drive in recent years has yielded a step change in Shell's portfolio and options-set, with more growth to come but at the same time we want to sharpen up our performance in a number of areas. We are moderating our spending and growth plans, increasing our divestments, restructuring some parts of the company, and putting more focus on performance management.

The health and safety of our people and our neighbours, and our environmental performance remain the top priorities for Shell. I believe we have the right safety culture in the company our track record is improving and competitive but we did regrettably have safety incidents in 2013 and we will continue with our safety drive, which is called goal zero, to further improve here.

Let me make some comments on portfolio management. We invest and manage a portfolio that we expect to drive cash flow growth through the cycle and deliver competitive returns. In this way, Shell generates competitive results, and finances an attractive payout for shareholders. Dividends are the main route for cash returns to our investors. This is a high priority for the company, and I think our track record is frankly second to none.

Potential new projects are tested using consistent and conservative macro assumptions - $70 to $110 Brent, and $3 to $5 per mmBtu for Henry Hub, for example. We look for consistent high rates of return and long-term cash generation. We're putting a lot more emphasis on not only looking at the economics, but more fundamentally if the projects and portfolio are attractive from a scale and growth perspective, and if they are resilient to down-cycles and surface risk.

To deliver our strategic intent we are allocating capital on a global, thematic basis, and you can see the main categories here. The "engines" businesses, in Downstream and Upstream, are mature, and they provide strong free cash flow for our dividends and growth themes. The "growth priorities" – deep-water and integrated gas – are where Shell has leadership positions in the industry, and the "longer term" category covers potentially very large positions for Shell in the future – like resources plays, heavy oil and Iraq – where we need to be careful not to over-invest at too early a stage.

We need to make sure that we are applying rigorous capital efficiency here, and we haven't always got that right. This means investing in the projects that generate the best returns and cash flow and getting out of plays where we can't add value for our shareholders.

When we as the senior management look at the asset base today, and the new project proposals – and there are a lot of these – we need to be much more rigorous here. Are the outlooks, the plans and the proposals we are making really credible? Are they competitive? And are they affordable?

We've been following an ambitious growth strategy in the last few years. We've achieved a lot, with a strong recovery in earnings and cash flow since the credit crisis, driven by the macro; by our new projects; and by cost initiatives and we expect there's more growth in cash flow and returns to come. You can see some of that confidence in the future expressed in the payout, with a sharp increase in dividends declared and buy backs in 2013, some $16 billion compared to $12.4 billion in 2012 and an expected 4.4% increase in dividend for first quarter 2014. But as I said at our full year results, our momentum on returns, earnings and cash flow has slowed in 2013, at a time when Shell's spending increased rapidly. We need to improve here.

This chart shows the four drivers of the long term incentive plans for the senior management in the company. Our cash flow growth has been competitive in the last few years and our absolute cash flow, $40 billion in 2013, was strong in our peer group. This performance was underpinned by project start ups, which come with high depreciation charges in the early years, which have dampened our earnings and returns. However, that's not the whole picture, since we have also had weak financial performance from some of our more mature businesses. Some of this is simply low industry refining margins, low US gas prices and the security picture in Nigeria. We can't influence that, and we need to ask ourselves hard questions – perhaps we are simply too exposed as a company in some of these areas. And some of the underperformance comes from downtime in our most profitable late life portfolio such as the North Sea. Overall, we are working hard to improve our competitive performance in some areas here.

Our overall strategy is robust, but as I told you at the Q4 results, 2014 will be a year where we are changing emphasis. Our financial performance can improve, with a more competitive picture on returns as well as growing our cash flow which drives our dividends over time. Improving the profitability in Oil Products and Americas Upstream are particular priorities for us. We want to enhance our capital efficiency, which will involve moderating the pace of growth investment, more asset sales, and hard decisions on new options. And of course we are integrating the 2013 acquisitions and continuing to deliver our projects successfully. Let me give you some examples in each of these three priorities, starting with our financial performance.

We have some $80 billion of capital employed combined in oil products and North Americas resources plays, and the financial performance there is frankly not acceptable. These two businesses have been the largest drag on Shell's profitability in 2013. The Downstream portfolio should be capable of around 10-12% return on capital employed and $10 billion of cash flow across the cycle. Our Upstream Americas resources plays portfolio was built to drive our cash flow growth. But the macro has changed there, and some of our exploration bets have simply not worked out. We are restructuring both of these portfolios, with asset sales and potentially further write downs and we are going to be much more selective on growth opportunities here. John and Marvin will give you more information on this, which is clearly a focus area for the company in what are going to be multi-year programmes to address these issues.

Cost leadership and a drive for cost improvement is firmly embedded in Shell – this is part of the day-to-day business in the company – against a backdrop of industry-wide cost inflation. We use our global scale and reach to control our costs in the supply chain for example using global framework agreements for standard components is an important part of that. We achieve deep-water rig rates of over 10% below our competitors, by working on long term contracts with the best service companies and we are getting smarter at bundling our activities, such as drilling, to control our costs. Matthias Bichsel, who runs our Projects and Technology business, is joining one of the Q&A panels today, and I'm sure you will want to talk to him about this.

Let me make some comments on Shell's production performance, and I'll start with Oman, where the track record is very strong. PDO, which is the joint venture in Oman, have managed to offset the production decline there that set in about 10 years ago. This has been achieved with more investment and the rigorous implementation of well, reservoir, and facility management, to focus on improving recovery factors in older reservoirs, keeping a higher level of well and facility uptime and testing and deploying new technologies to enhance oil recovery in more complex reservoirs.

The UK North Sea is of course a rather different environment and geological setting, but you can see a very different picture here on production performance. Our production there fell by 22% or 26,000 boe per day in 2013, in high margin barrels. Some of this is natural field decline in an ageing province. But some of this, about 15,000 boe per day, was due to high levels of maintenance downtime including unplanned downtime. We have been repairing a number of our facilities, such as Pierce and Gannet and the non-operated Schiehallion FPSO is being replaced. High levels of maintenance are fact of life in these late life engines businesses. However, we have to be honest with ourselves that the North Sea has disappointed for Shell in 2013, and we are looking carefully at the causes of this unplanned downtime. We need to figure out the credible and affordable plans to arrest decline in the North Sea, much in the same way as we have done in Oman.

Turning to Integrated Gas.

Shell's Integrated Gas business delivered around $9 billion of earnings in 2013, $12 billion of cash flow, and 17% return on capital employed. This is a highly profitable business for Shell, and there is more growth to come. The acquisition of Repsol's LNG, which we closed earlier this year, has up to $1 billion per year of cash flow potential for Shell. This acquisition was part of a strategy to increase Shell's portfolio of directly managed LNG sales and trading opportunities. We expect our equity LNG capacity to increase by around 30% to some 35 mtpa once Gorgon and Prelude are on stream. Over the same period, our directly managed sales volumes should rise to be over 50% of our total, from around 40% in 2013. We are increasing our trading and arbitrage plays in the global LNG portfolio adding more value to the bottom line in this important growth business.

So, those are some comments on the financial performance and potential. Now, turning to the next priority which is to enhance Shell's capital efficiency.

I want to open up a more detailed view of the financials in the company for you here, so I hope you find this information useful. In a number of ways there are six very large and very different businesses inside Shell. Each of these has a different financial performance, reflecting these fundamentally very different businesses, hi-tech deep-water versus long life integrated gas versus high decline resources plays for example and reflecting that some of these segments are mature – the engines – and some are in the early stages of growth. The senior management in the company look at capital allocation and outcomes through these lenses.

Within the engines business, the upstream assets have a high return on capital from a heavily depreciated asset base and they generate a healthy, but fundamentally declining cash flow. Downstream engines, the returns are simply too low here and John will say more about that in a moment. The growth priorities both deliver healthy returns, with more growth to come. And in the longer term plays returns have been impacted by start-up timings in Kazakhstan, by Nigeria security – where we are selling down some onshore blocks – and by high depreciation charges and costs in North America shales.

We want to be more competitive on returns, but we are not going to drive to a simple bottom line outcome here. I think it's very important to note the wide range in returns that the different businesses can deliver. For example the upstream engines returns are over double those from deep-water, although one is in decline and the other, deep-water, is growing. This is a complex industry with multiple timelines, markets and technologies to deliver growth.

Let me update you on how we are managing our project flow, and some changes in emphasis that I would like to make here. We have a long-established system of managing projects through a series of decision points, from the very early stages of a potential investment, through front end engineering, final investment decision and ramp up. You can see where the capital investment in 2014 sits on this project management funnel, and of course there are operating costs as well there. The largest part of the capital spending is after final investment decision. But by the time you reach the final investment decision, in reality there is very little room to change the project scope, and since this is where the majority of the capex is spent, the really important decisions are taken at an early stage, before the FID. I think in some areas we have continued to redesign new opportunities that deep down we don't really expect to become competitive. We can be more decisive here, getting out of unattractive plays at an earlier stage, and making more substantial investments in the winners.

There is a capital ceiling in the company, so we need to take some hard choices. This means looking more closely at our options at an early stage, and asking ourselves are these projects really a good fit for Shell? You can see some of the hard decisions we have made on pre-FID options recently: US GTL, a pause on FIDs in Asia Pacific LNG and no drilling in Alaska this year. These are some of the examples – and we are making these kinds of tough pre-FID decisions all the time. I think this approach and intervention on earlier stage projects will help us to drive better capital efficiency in the company.

Shell has a rich opportunity set, which we have built up in the last few years. This is a good position to be in. But we are capital constrained. At the same time, there are certainly some areas in the company where our assets are simply not competitive or large enough, where there is only limited growth potential, or where we would simply invest our growth dollars elsewhere with greater benefit. We will go ahead with the most attractive investments on behalf of our shareholders. But we need to make harder choices on the portfolio: Are the project proposals and operating positions fundamentally attractive on their economics and growth potential? Are these positions resilient to price volatility and other risks? And are the plans for them credible, competitive and affordable?

We are now looking at the company in a different way. We've defined a series of what we are calling 'performance units', about 150 of these across the company. These are clusters of assets, markets or value chains, such as integrated refineries, or groups of oil & gas fields in similar geology and tax regimes. Looking at the company as a series of performance units shines the light on where we need to continue to invest for growth, or to make interventions to improve performance, or to exit. This is a new approach for Shell – something that I think will drive more commerciality in the company, and it will frame our investment thinking and divestment strategy. So far this year, we've announced over $4.5 billion of asset sales, including equity in BC-10, our Wheatstone LNG stake and most of our downstream businesses in Australia and Italy. There are more divestments to come reaching an expected $15 billion for 2014 and 2015 combined.

Here's an example. In our integrated gas business, Shell is option-rich, following on from a drive in recent years to increase our option set and OECD weighting. These projects run for decades with low decline, so that we can pace the investment decisions on a long term basis. We took the view at an early stage that Gulf Coast gas to liquids would have too much inflation risk and gas price uncertainty to fit in our portfolio. So we cancelled the project, at the end of last year. In Asia Pacific LNG, we have taken a view that there will not be any Shell final investment decisions in 2014, because the labour and materials markets are too hot and we sold our Wheatstone position – this one was too small to be material for us. Overall I will drive a more top down approach in Shell in managing these different elements of our portfolio.

Our 2013 spending was $46 billion, and should be some $37 billion in 2014 or around 20% lower than last year. Of course the final outcome for the year will depend on the timing of project flow, and the spending and accounting treatment associated with our acquisition and divestment programme. Organic investment for 2014, which excludes acquisitions, is around $35 billion, or 8% lower than 2013. This is part of the new emphasis in Shell to moderate our growth ambitions, and to improve our free cash flow and returns.

Turning to projects.

This is the third of the priorities that I set for the company for 2014 and beyond. Post-FID projects are managed in a very systematic and rigorous way in Shell, and we have made a lot of progress on this, led by P&T. The Executive Committee reviews over 70 top post-FID projects on a regular and real time basis, as well as assessing progress on our new options. The Board is updated in this way every quarter, with detailed discussion on the largest projects, or areas where we need intervention, for example with governments or partners. We regularly benchmark our project delivery and the data on this chart shows the ranking from the IPA. This covers the cost performance of all of our top post-FID projects, in upstream and downstream. We've moved from bottom or mid tier positions to top quartile in the last five years.

All of this translates into production and cash flow. Key start-ups from 2010 and onwards added over 600,000 boe per day to our 2013 production and around $9 billion to cash flow, over 20 percent of last year's total, as our investment translates into cash flow for shareholders.

Now, let me update you on exploration, where we're spending around $7 billion in 2014, made up of $4 billion on conventional exploration and $3 billion on resources plays.

Last year's conventional exploration performance produced rather mixed results. Exploration charges were over $5 billion, of which $3 billion were dry hole expenses, for example in French Guyana, North America resources plays and China. That increase in exploration charge does come with a higher activity level, but I don't like to see these dry holes, and we need to carefully evaluate our frontier plays to understand what isn't working and what needs to change. Going forward, I want to put a more differentiated emphasis on the very different types of activity we have underway in exploration, different potential field sizes and development timelines. Very long term plays like Arctic could deliver really substantial new oil & gas fields. At the other end of the spectrum, near field drilling can add high value barrels in a short time frame. We made a large number of near-field discoveries in 2013 and on the frontier side, we had positive initial results from Albania, and entered the Libra field, which could be a multi-billion barrel project in Brazil sub-salt.

Turning to resources plays such as shales.

This is a potentially significant opportunity for the oil & gas industry on a world-wide basis, and at Shell, we are looking carefully where we can add value. In North America, we've built up a substantial gas position, and more recently drilled some interesting liquids rich plays. Marvin will update you on that later. Outside of North America, I think we all know the pace is going to be slower, due to availability of rigs, pipeline infrastructure and permitting. More fundamentally, we need to find the right geology, in acreage with large enough positions to generate meaningful production. We are making some progress, with extended well tests for gas underway in China, and liquids rich shale wells in Argentina. However, this I would all characterize as exploration and appraisal at this stage. World-wide spending on resources plays exploration will be $3 billion in 2014, similar to 2013 levels.

OK. That's an update on strategy, delivery and priorities. Now I'll hand you over to Simon.

Thanks Ben. Good to be here today. Let me recap on our financial framework, and then we'll talk about reserves, resources, and the outlook.

Our financial framework is straightforward. We use growth in our cash flow from operations to fund both capital spending and payout across the cycle. We keep a conservative balance sheet. We take on debt in down-cycles or when the company is in a capital intensive stage. There is no formula for the right level of debt, but we want to keep gearing below 30%. We use our cash, after servicing debt, to fund a competitive dividend and after that to invest for future growth. We operate in a volatile world where our incoming cash can vary by over $10 billion per year. The scrip dividend and the balance sheet provide the flexibility to manage this risk, without jeopardising the dividend or potentially damaging value by short term swings in capital spending. If we get into a surplus cash position, then the first priority is buy backs to offset scrip dividends, and we have been doing that in 2013. If we get into a more substantial free cash flow position – we are not there today – then we have the option to increase buy backs.

It's important to look at Shell's financial position over several years, as well as annually and quarterly and perhaps also de-bunk a few myths. Cash generation over the last three years was some $140 billion, including $16 billion of disposals proceeds, with an average Brent price of $110 per barrel. Over the same period, cash outflow was $135 billion, in other words less than our inflows including $18 billion of acquisitions and $29 billion of dividends and buy backs. Factoring in debt movements, gearing sits around 16% at the end of 2013, a year that was clearly an outlier for us for net cash outflows. I am often asked "why $35 billion is the right level of capital spending for Shell?" The response is simple. We believe this is consistent with a reasonable level of through-cycle growth, we have a good selection of attractive projects in each investment theme, we have the operational capability to deliver these projects well, and crucially, we can afford it. But let me be clear on this last point. If the cash flow does not reach levels to sustain this investment through cycle, we will reduce the spending accordingly.

We use acquisitions to enhance Shell's growth potential, and asset sales to improve capital efficiency and to exit non-core positions. There's no precise formula, but A&D broadly balances out over time at Shell, for example with $18 billion of acquisitions in the last three years compared to $16 billion of divestments. Our free cash flow declined in 2013, as we moved through a phase of higher acquisitions and fewer asset sales. That position should improve in 2014, as the pace of asset sales increases, and we see cash flow growth from new projects. The dividend increase we are expecting for first quarter 2014 underlines our cash flow delivery in recent years, our confidence in future growth, and Shell's very strong track record on dividends.

We've been investing for growth in cash flow in the last few years, and you can see the performance on the chart, rising from a low point in 2009 and 2010 to some $40 billion in 2013. From a competitive perspective, our cash flow has risen from the bottom of the peer group, to near the top, in the last five years. Growing our cash flow has been, and will remain, an important part of our strategy. It's how we finance both new investments and cash returns to shareholders.

At the same time, Shell – and industry – return on capital employed has been under pressure recently. It's important to say that there are distinct cycles of spending and delivery here, a very high return on capital employed may well be an indication of low growth potential in the future, for example. Our return on capital employed is clearly competitive in most of our investment themes.

We've seen a build up of capital employed from increased spending ahead of growth delivery combined with weak downstream conditions and low US gas prices. We expect to see both continued growth in our cash flow and an improving return on capital employed in the coming years.

This chart shows a split of our capital spending in a slightly different way. Let me take a moment to give you some details on the moving parts here, because I believe there are some misconceptions on this in the markets and press. It's simply not correct to say that our spending is dominated by large growth projects. About 45% of the 2014 budget is on care and maintain activities, such as asset integrity programmes, maintenance, drilling near-field exploration, development infill wells, plus a series of small growth projects in downstream. Returns on small projects are usually attractive, and delivered quickly. About $11 billion of the spending, or some 30%, is targeted at larger post-FID growth projects, and the remainder, about 25%, goes into longer term pre-FID options and exploration. I must emphasise that there is only a limited amount of flexibility in the near-term spending. We are making multi-year investment decisions here, and it destroys value if we swing the capex up and down on a short term basis. A 12-month calendar period is artificial, and it's no basis for assessing delivery of a long term strategy. Acquisitions, divestments, scrip dividends and buy backs and the balance sheet are the tools for the management of the company to run a flexible financial framework.

Turning to reserves and resources. You will find all the details of our SEC reserves in the annual report and 20F which was filed this morning. Our 2013 headline proved reserves replacement ratio was 131%, and the 3-year average was 91%. Our 3-year average RRR on an organic basis was around 112%, or 123% in 2013, setting aside acquisitions, divestments and oil & gas price impacts. The reserves base stands at 13.9 billion barrels oil equivalent, or 11.5 years of reserves life at current production levels.

We look at resources, not reserves to manage the business, and we have a substantial oil and gas resource base in Shell. The chart here is a sub-set of the total resources position, the part of our portfolio that is on stream or being actively worked towards production and returns. This represents around 31 billion boe, or about 26 years of current production. Shell has some 11 billion barrels of oil equivalent of resources on stream, a similar position to last year, and an increase of nearly 30% since 2009. We have a further 20 billion boe or so of resources potential under construction and in options, which should drive the cash flow to the middle of this decade, and beyond. These resources are where the growth investment is being targeted.

Here's how those resources move into production. We are managing the company to get a steady flow of final investment decisions, construction and start-ups, as we replace decline and deliver financial growth over time. We started up 7 new developments in 2013, totalling nearly 200 thousand barrels of oil equivalent per day of peak production potential for Shell in the future. Shell has taken final investment decision on further 9 developments over the last year, and all the projects listed here should deliver around 900 thousand barrels per day of peak production potential for Shell over time.

This is an important and new chart. It shows you the financial impact of our growth plans, and you can see how the returns and cash flow from the various strategic themes could move in the next few years. It's important to note that these trends are not targets or projections, but this chart does give you an impression of where our financials are potentially heading. In aggregate, this investment programme should drive higher returns and cash flows in the majority of the strategic themes, with growth in returns and cash flow across a broad front here. You can see our upstream business, including growth themes such as deep-water and integrated gas are doing well. Deep-water is growing in the Gulf of Mexico and Malaysia, engines are set to grow in the North Sea, and Iraq is one of the factors that will drive the future opportunities category higher. Integrated gas is set for further growth from Australia later in the decade. You can also see the potential uplift from restructuring in downstream and resources plays in North America. Overall, this, I think shows where we are balancing cash flow growth with returns in the company in the next few years. I must also emphasise that inside the company, we are looking at all the performance units on this basis, aiming to maintain and develop aggregate performance by theme that is aligned with Shell's strategic intent.

With that, let me hand you over to John, to update you on the Downstream.

Good afternoon everybody and it's good to be here today to update you on where we are with Downstream.

Shell's Downstream has a powerful global brand, attractive and differentiated products for customers, all backed by a network of refineries, chemicals plants and distribution assets, as well as trading. But let me say that I know, and everyone on my management team knows that there are some substantial issues to address in this portfolio. Yes, there are some areas that go well – and I'll show you that – but we have a lot of work to do to deliver a more competitive financial performance from Downstream.

Let me make some comments on the macro environment. In Oil Products we are facing a changing and challenging competitive landscape – demand for gasoline has likely peaked due to increasing engine efficiency, substitution, demographics and consumer trends. Conversely, demand for middle distillates will continue to grow, with increasing economic output. Refining is suffering from overcapacity globally, due to declining demand in Europe and increasing capacity in India, the Middle East and China. At the same time, the growth in US LTO, and in NGLs globally are increasing the yield of lighter products such as naphtha, LPG and gasoline. These changes in supply and demand patterns are reshaping crude and product trade flows and causing price distortions. Overall we expect refining margins to remain depressed outside of North America for a time to come.

On the Chemicals side we expect global base chemicals demand to grow at or above GDP growth, due to growth in the developing economies, and the drive for energy and resource efficient products. We have seen North America re-emerging as a chemicals exporter and there have been significant feedstock price movements over recent years. This is being driven by developments like North America shales, declining gasoline demand in Europe, highlighting the need for feedstock flexibility elsewhere and exposure to gas feedstock pricing.

Now, turning to Shell's Downstream, and I'll start with operating performance. This chart shows some of the key operating metrics. Overall trends on safety are positive, and we are seeing the results of our multiyear effort there. Controlling unplanned downtime in our refineries and chemical plants is a very important profitability driver for us. We're running at around 4% unplanned in 2013, much improved but still not where we want to be. Capital discipline has become an area of renewed focus within downstream. Controlling our capital spend, and shifting a greater proportion of capex to the right kind of growth and ensuring this is delivering value are key priorities for us. We've continued to invest in Shell's brand, which is an important element of this customer-facing business.

Turning to the financial picture. We look at financial performance measured over two to three year timeframes, not just at the quarters. Shell has been working hard to reduce costs, with around $3.5 billion cost take-out in downstream overall since 2008. And we've simplified our business structure. However, costs are not the whole story, and you can't generate higher returns in this sector simply by cost cutting. It's rather clear that Downstream is not generating an acceptable or competitive level of return and cash flow, and we want to drive a better performance here. Downstream cash flow averaged $8 billion per year between 2011 and 2013, and clean ROACE averaged 7%. Downstream should be able to deliver ten to twelve percent return on capital employed, and around $10 billion of cash flow per year. We will measure that as averages over several years, to capture the impacts of the various business cycles in downstream. But we are not there today. In addition, we need to show the right level of capital discipline so that the free cash flow generation is an important part of financing the dividends and growth capex for the group overall.

From a competitive perspective, our returns have been under pressure, this is really in Oil Products, with a strongly competitive return in Chemicals. The key drivers of this competitive picture for oil products are legacy asset positions, where we have some advantaged assets, but others where there is simply a very tough competitive position. Despite a pattern from Shell of overall improvement in reliability and performance, some sites – for example Motiva on the Gulf Coast – have still not reached the desired level of sustained reliability. On an end-to-end basis, we've left money on the table in our value chains and in some cases we've over-spent on operating costs and capital projects, which depresses overall returns and the competitive picture. So that's where we are.

Now let me look at the business drivers in more detail and talk to you about our plans. Chemicals' performance has improved substantially in recent years, with earnings of $1.8 billion in 2013 compared to just $350 million in 2009. The chemicals business was improved by being much clearer on where the money can be made and by implementing distinct performance units, where management can rigorously track profitability and plans. Then for each of these performance units, we asked ourselves hard questions: Is this an advantaged position, where there is growth potential? Is this something to keep and essentially harvest? Or is this a performance unit where we are fundamentally disadvantaged or simply not competitive? In other words: is this a position we should fix or sell. This strategy and organisation has driven better capital efficiency, and led us to the right portfolio choices in chemicals.

Let me give you some examples. We turned the US base chemicals business around from losses in the 2007-2009 period to profits in 2010 onwards, through investment to replace liquids feedstocks with lower cost gas, and better commercial terms for our production. We also exited from several sites, like Yabacoa and Sabina, to upgrade the portfolio and to release capital funds which were better deployed elsewhere. At the same time, we've also laid the foundations for potential future growth options for the Chemicals business, for example in the Middle East and North America.

Turning to oil products. Our Oil Products returns are under pressure due to weak industry margins, and the legacy set up of some of our assets. We are restructuring this portfolio, including asset sales and potentially write-downs. We've made a lot of progress in Oil Products, but there's clearly more to be done. We've reduced the refinery portfolio by 1.4 million barrels per day since 2002, which is a 30% reduction, and by 400,000 barrels per day of capacity since 2008, or by 10%. On the marketing side, we have exited out of 5 countries, including Chile, Sweden, Finland, and New Zealand, with a partial exit or change to indirect business models in 45 other countries; we've established growth platforms in China and Brazil; and we've taken out costs. All of this has left us with an overall smaller footprint, and a more efficient business, but relatively high capital employed, and low returns.

This chart shows the downstream financial performance in a more detailed way. This is a business that is marked by complex and interdependent business cycles, refining and chemicals margins, market demand, and inventory effects in the customer-facing businesses. This is a very dynamic picture, and returns move between these different portfolio elements across the cycle. So it isn't simply a story of restructuring or selling the weakest returns elements from 2013 – but at the same time I do think we have parts of the portfolio that simply are not performing at an acceptable level over the longer term, and we want to address that.

We are using this detailed performance unit segmentation to really assess the attractiveness and resilience of the portfolio, which in turn leads to plans for incremental growth investment, or interventions to turn the performance around. Capital discipline is important here. The majority of downstream spending – 55% in 2013 – goes into asset integrity, turnaround & catalyst and maintain margin programmes. On the growth side, I think we need to be even more selective on our growth capex than in the last few years.

You'll see on the chart that the averages don't tell the whole story. For example there is a very large range of returns in the refining portfolio. Some refineries have an almost permanent advantage, from geography or logistics, for example low cost feedstocks or unique marketing positions. These types of facilities simply generate higher returns and cash flow than refineries in crowded refinery belts such as Singapore or North West Europe.

We are taking a much harder look at the building blocks that make up the downstream portfolio, and this will drive our portfolio strategy going forward. In some areas, we see interesting growth potential, where we have core assets and incremental growth potential, for example in chemicals, in retail and lubes in China, and in add-on investment at our best refineries. On the flip-side, there are parts of our portfolio where others can simply add more value, or where we would rather spend the capex elsewhere in the company. We've announced over $2.5 billion of divestments so far this year, in Australia and Italy, the majority of our Norway downstream is for sale, and there are more asset sales to come.

But there are substantial parts of the Oil Products portfolio where the financial performance or capital spending requirements mean that these assets simply don't look competitive for Shell. We need to fix those assets, and I want to be clear that this is a multi-year story, no quick fixes and this might involve further financial impairments.

Here are some examples of how we are addressing our asset performance. The Bukom refinery in Singapore is the largest Shell refinery in the world, with 500 thousand barrels per day of crude and condensate distillate capacity, and there's been refining activities on this site for over 100 years. In 2010 we added ethylene, MEG and BDX capacity in Singapore, at Bukom and Jurong. We have improved feed flexibility to the ethylene cracker in Bukom and we are currently adding 380 kilo tons per year of further derivatives capacity there in Jurong. The refinery performance unit delivered positive cash flow from operations over last 2 years combined, but returns are too low, primarily due to an oversupplied fuels market in the region impacting margins and the recent capital expenditure. We're addressing that at Bukom with a series of continuous improvement programmes underway, such as their Pride in Production program, LEAN initiatives, and crude and ECC feedstock flexibility. A significant cogen project is also under construction.

The second example is the Scotford refinery. This is already one of our most profitable refineries, with around 100 thousand barrels per day of capacity, and this is fully integrated with our upstream oil sands upgraders. Scotford is an advantaged refinery, and it's set up for heavy Canadian crudes. Scotford also has an advantaged configuration, with two hydrocrackers providing a high diesel yield, and integration with chemicals and Shell marketing businesses. You can see the margin uplift at Scotford on the slide, and we are looking at ways to debottleneck and further increase the value delivery from this site.

Here are two further examples, of areas where we have been investing for growth, and there's further growth potential. In China, Shell has multiple retail fuels joint ventures with local partners. We also have a good lubricants position, as the number 1 IOC by market share and by brand share preference in some of our brands. We've been upgrading and rebranding existing services stations through these joint ventures, and recently passed the 1,000 mark. These sites sell Shell branded fuels and lubricants. In Brazil, the joint venture with Cosan, which is called Raízen, goes well. This JV is the world's largest sugar cane ethanol producer, and has nearly 5,000 retail sites. Overall, these two, Brazil and China, are large positions for Shell in growth markets with more potential there.

So, I'll close here. We've done a lot in the last few years, reducing costs and improving our uptime but there are some significant issues to address in this portfolio. We're working hard on that, taking a close look at the portfolio in detail, with a performance unit approach. I expect to see a better financial performance from Downstream as we take hard decisions on this portfolio, in what will by necessity be a multi-year improvement story. With that, let me hand you over to Marvin.

OK, let me update you on where we are in Upstream Americas and I'm looking forward to discussing this with you in the break-out sessions. John Hollowell, who runs our deep-water, and Greg Guidry who is in charge of resources plays are going to join us for that.

Firstly on strategy. I think it's important to say that Shell's Upstream Americas contains some very distinct businesses. I'm going to take you through where we are with each of these and show you the key financial metrics for each of them. What we have is profitable and growing deep-water and heavy oil businesses, generating healthy returns and cash flows. There's growth investment under way in both heavy oil and the deep-water which will continue to produce competitive cash flow and returns for decades to come. In the longer term, we are looking into integrated gas options, such as LNG, and exploration in Alaska and Brazil's Libra field, and we're working on finding the best strategies and technologies to make these profitable businesses in the future. We have built a significant position in resources plays but there have been fundamental changes in the macro around us and I want to update you on what we are doing in response to that.

Running through all of this, we have a very strong drive underway in UA to improve our capital efficiency and cost structures. This means making sure the balance sheet is deployed in the right areas, and our running costs are competitive. We've done well in some areas, but overall we're not happy with the recent financial performance and we must improve here.

On the safety side – and that's a very strong focus for us – we've seen ~30% improvement in personal and process safety year to year. Upstream Americas produced around 735,000 barrels of oil equivalent per day in 2013 and 40% of the total was gas. Upstream Americas contains some of the largest undeveloped oil & gas positions in the company today, such as Carmon Creek oil and Groundbirch gas in Canada and deep water oil plays in the Gulf and in Brazil, and substantial potential in Alaska. All of this means that Upstream Americas has a disproportionate share of Shell's capex and development activity, compared to the size of the base business, some $13 billion of spending planned for 2014, or 40% of the upstream total. We're really laying down the foundations for Shell beyond 2020 here, as well as running the business today.

This chart gives you a breakdown of the Upstream Americas results by these strategic themes. Deep-water and heavy oil underpin the earnings and cash flow, with negative figures on the longer term plays. In deep-water, returns have been under pressure from growth spend, this is Gulf of Mexico primarily; maintenance programmes; upgrades driving shutdowns; and an usually-high level of exploration write off in 2013, nearly $900 million, including French Guyana.

There is a good pathway to stronger deep water cash flow and returns in 2014 from new start ups. Heavy oil, dominated by oil sands mining and California in situ, is a steady cash generator for Shell from a relatively large capital base and heavy capex programme. Resources plays are negative on earnings, from a large pot of capital employed, and that is an area we really want to focus on in 2014. The question is, how do we unlock this very interesting opportunity and turn it into profitable growth? Integrated gas will have a part to play there. On Alaska, we have paused our drilling programme, due to legal challenges against the government on the validity of the licence award and let's see where we get to there.

Upstream Americas generated $5.3 billion of cash flow in 2013, some 13% of the company total. But if we look at the earnings movements, we've gone from a profitable business in 2011 to a $900 million loss excluding identified items last year. Growth costs – that's exploration and pre-FID options – account for some $2.2 billion or almost over 50% of that movement. The remainder of the decline, just over $2 billion is a combination of higher costs, some related increased production, and price disconnects in North America, with some uplift from the portfolio growth we have delivered at places like BC10 in Brazil and Perdido in the Gulf of Mexico. On the balance sheet, around 60% of the capital employed is on stream, and the remainder is invested for potential future growth. This does lead to high overall depreciation charges, which were some $6.3 billion clean last year, of which $3.7 billion was from resources plays. Those are some comments on the financials.

Turning in more detail to portfolio and strategy. Firstly on resources plays. Shell has a long history of producing tight gas in western Canada, Pinedale and Texas. We took a strategic decision at the end of the last decade to move more aggressively into shales plays. This included a series of corporate and bolt-on acquisitions, such as Duvernay Oil Corporation and East Resources. We bought into recently-established gas positions, which were essentially de-risked, and we added significant new resources with appraisal drilling. More recently, really from 2010, we moved into liquids rich shales, and we deliberately chose an exploration route there, taking on exploration risk in exchange for lower entry costs. We're working through that portfolio, with some exploration successes and write downs, as we de-risk this acreage.

Today, we have around 11.5 billion boe of resources and prospective volumes established in our Americas portfolio, of which around 80% or 54 TCF equivalent is in dry gas. This is a very substantial resources base. However, the macro has changed in the past few years. Industry-wide drilling success and improved cost efficiency, combined with gas associated with liquid rich shale production, has resulted in much higher volumes and lower gas prices. We expect a $3 to $5 range and weak and volatile differentials for LTO and NGLs. We've launched a programme to restructure these positions, cutting spending overall – a 20% reduction in 2014 – and focusing our footprint and drilling dollars on liquids rich plays and filling existing facilities in gas plays. We are selling non-core assets, taking out costs, and redefining where we can really add value for shareholders from this portfolio. We're well underway on this programme and let me give you an update.

Starting with liquids rich shales or LRS. Shell is active in a number of LRS plays in North America. In addition we are selling our Eagle Ford, Mississippi Lime and Rockies LRS. Drilling results were mixed and this acreage doesn't have enough materiality for a company our size. This was the main factor behind the $2 billion after tax impairment charge we took in second quarter 2013. We're talking to several potential buyers and we'll tell you about progress on that at a later stage. Let me update you on two LRS plays where we are seeing positive early exploration and appraisal results: Duvernay and Permian.

In the Duvernay play, Shell is located in the Kaybob and Pembina areas of Alberta. We have an industry-leading position, with 360,000 net acres, and over 1,100 potential drilling locations. We are doing well in this area with 38 wells drilled in 2013 and recently achieved 10,000 barrels oil equivalent production for Shell. Further south in Texas, in the Permian basin we drilled 67 wells in 2013 with good results in the Wolfcamp exploration play, and we are further developing the Bone Springs and Avalon areas. We produced 25 thousand boe per day from the Permian in 2013 with some 70% as crude oil and NGLs. Overall, we are narrowing in on the sweetspots in LRS and we have over 30 wells with flow rate potential of over 1,000 boe per day, predominantly in the Duvernay and the Permian. This is a better set of results than we have seen in our other North American LRS acreage in the last few years.

Turning to the dry gas portfolio. Here the challenges are rather different from LRS exploration. We have a large resource base and around 250,000 boe per day production. We've reduced drilling activity in reaction to low gas prices, and we're focusing on gas wells to fill up our existing gas processing plants and other infrastructure, rather than building this out. We have a major review underway to take this gas portfolio forward. We are looking at where we realistically have the best options to monetize our gas through LNG or chemicals, and where do we fundamentally have geological sweetspots and / or logistical and cost advantages.

Overall, we are working through a fundamental shake up of the resources plays portfolio and the way we operate, responding to drilling results in liquids rich shales, with growth in the best plays and divestment of non- core positions, and adjusting to the changed outlook for dry gas. You can see from the chart that there are some major decisions ahead of us, particularly on the dry gas side. This may lead to further divestments, and potentially more impairments. At the same time, we're continuing to work on the cost structure. This includes reducing the overall size of the organization around these assets – we're cutting down the portfolio and reducing our growth aspirations there. We're continuing to work on drilling costs and supply chain costs. We want to achieve 30% reduction in facilities costs and have already taken steps to reduce headcount by about 30%. There's a lot of focus on portfolio and costs in resources plays, and we know we have a lot to do there.

Let me update you on progress with one of our integrated gas options, LNG Canada where Shell has a 40% stake. This could be 12 mtpa in the first phase, at our Kitmat location in western Canada. We recently signed option agreements for the LNG site with Rio Tinto, and planning and environment permitting is underway for both the LNG plant and the Coastal GasLink pipeline. This is an exciting opportunity, and we hope to go into FEED there this year with FID around middle of this decade followed by 4-5 years of construction and first LNG shortly after. In the nearer term, we're making good progress with Elba LNG, which is a smaller project, up to 2.5 mtpa, using third party gas in a joint venture with Kinder Morgan. Site construction awaits FERC approvals and work has already begun on the modular liquefaction units for Elba LNG.

Now, turning to heavy oil. We had over 210 thousand boe per day of heavy oil production in 2013, from California in situ, and Canada oil sands. Our production has increased by almost 25% in the last decade and we are driving a very competitive cost picture by reducing mining fixed costs and improving mine & upgrader reliability. In 2013, we took FID on the 80,000 barrels per day Carmon Creek in situ project, and at AOSP, we brought a 10,000 barrels per day debottlenecking project on line. We may come back to further growth debottlenecking at AOSP, but we are taking a time out on new FIDs there, given the drive for capital efficiency in the company.

Carmon Creek and LNG Canada are one of a number of integration plays we are assessing in the Americas. This includes trading and refining integration, as well as natural gas and natural gas liquids. Integration can be large scale, such as LNG plants or advantaged logistics and refining positions, or at a more local scale such as using gas and NGLs in our in-situ operations or as fuel for drilling rigs. I'm convinced that Shell is one of the few companies who can really leverage the full value chain in the North America environment and we are seeing some exciting opportunities there.

Now, turning to the last portfolio segment, the deep-water. Shell is one of the leading players, globally, in deep-water. We produced over 200,000 barrels of oil equivalent per day in upstream Americas in 2013. This was a slight reduction on 2012 levels, due to natural field declines, and due to higher levels of maintenance downtime in the Gulf and Brazil, some 40,000 barrels of oil equivalent per day. This includes downtime at our Auger TLP, to prepare for the growth from our Cardamom Deep discovery, and at Mars corridor, again as part of the hook up of new growth facilities. We benchmark ourselves closely on costs and Shell is consistently amongst the lowest cost operators in the Gulf, at around $8 to $9 per boe produced. Our absolute costs have remained flat in recent years, despite inflation, and increased on a unit basis due to production decline.

On the project side. I'm pleased to tell you that Perdido reached payback last month, after successful ramp up which started in 2010, industry's first production from the Lower Tertiary. A lot of companies talk about this trend. We are producing from it. Earlier this year, I'm sure you saw the start-up at Mars B, which is a new 100,000 barrels per day tension leg platform on the Mars field. We took FID on this one in 2010 when there was spare capacity in the yards, and cost opportunities in the supply chain. We felt good about our safety standards and designs despite the regulatory uncertainties at that time during the Macondo moratorium. Looking further into the future, we have a very competitive project flow in the Gulf. Cardamom should be on stream, as planned, in the second half of this year. Stones, our second Lower Tertiary development, took FID last year. Appraisal drilling at Vicksburg was part of a 100 million barrel increase in resources potential at Appomattox taking this one to some 600 million barrels, and we are aiming to take FID there in 2015. These, and other plays in the Gulf – such as Nakika – and Brazil – such as BC-10 – should continue to drive our production and cash flow in deep-water.

OK, that's a run through of the Upstream Americas portfolio and strategy. This chart shows the milestones for each of the strategic themes, precise plans for growth in deep-water and heavy oil, with deep-water growth coming in 2014. Restructuring in our onshore gas positions and exploration in liquids rich shales as well as progressing on integration options, as we look for the best pathway for profitability in the resources plays.

Let me sum up. Shell's Upstream Americas contains some very distinct businesses. We've given you an update on portfolio, strategy and the key financials for this business. We have profitable and growing deep-water and heavy oil businesses, generating healthy returns and cash flows, we're making progress with LRS exploration, and restructuring in resources plays for a more focused gas portfolio and lower costs. In the longer term, we are looking into integrated gas options such as LNG, and more exploration. I'll leave it there, and we are looking forward to discussing all of this with you in the Q&A sessions this afternoon. Ben, over to you.

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Thanks Marvin. Let me sum up. Our strategy overall remains robust, but 2014 will be a year where we are changing emphasis. Our financial performance can improve here. This means a more competitive picture on returns as well as cash flow and over the medium term, addressing underperforming areas of the business more robustly.

We need to further improve on our capital efficiency. There are some hard choices to be made there, more asset sales – $15 billion expected in 2014 and 2015 combined – and moderating the pace of growth investment after a strong growth drive in recent years. We need to continue to work hard on project delivery, with a series of important start-ups in 2014, especially in deep-water.

You've heard from John and Marvin what we are working on to improve in Downstream and Upstream Americas, really that's a restructuring story in oil products and resources plays. Our strategy is designed to deliver through-cycle growth in cash flow and competitive returns and Shell's dividend track record underscores our commitment to shareholders.

With that, let's take your questions. Let's keep this Q&A relatively short and high level, and there are sessions later this afternoon for more detailed questions. We'll start with questions in the room and also go to the phones for Q&A.

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MARCH 13th 2014

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