ROYAL DUTCH SHELL PLC
2014 NEW YORK SEPTEMBER MANAGEMENT DAY

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2014 NEW YORK SEPTEMBER MANAGEMENT DAY WEBCAST TO ANALYSTS

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

First, the disclaimer statement.

It's good to be here in New York again today, to give you an update on where we are with Shell, and to see some familiar faces from the meeting we had here back in March of this year. Most of 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. And of course you will all get an opportunity to join each of the three panels.

I will update you on the strategy. And then I've asked John Abbott and Marvin Odum to give you an update on the Downstream and the Upstream Americas portfolios, the two main areas where we want to deliver a more competitive performance for shareholders. And Simon Henry, our CFO, will recap on the financial framework.

We want to discuss areas where there are challenges that are impacting our bottom line, and the progress that we are making to turn this around. We'll step over the other sections of the company more quickly in the presentation, themes like the macro and the LNG business. And of course you might like to go into some of that in the Q&A.

As I said last time I was in New York, 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 are sharpening up our performance in a number of areas.

We have made some changes in 2014. We have moderated our spending and growth plans, increased our divestments, and we are restructuring some parts of the company. I am determined to get a tighter grip on business performance management in the company, and improve the balance between growth and returns.

Energy demand could double in the first half of the 21st century. And the world will need many forms of energy to meet this demand. Meeting this energy demand growth is a major challenge for governments, society and energy investors, and it is an important business opportunity for Shell. We are following a long term strategy, to grow our cash flow across the cycle and deliver competitive returns. Shell is an industry leader in technology and integration, and large scale project management. And our dividend track record is, I think, second to none, underlining our commitment to shareholders.

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 continue to have safety incidents in the first half of 2014 and we will continue with our safety drive, which is called goal zero, to further improve here.

We are making good progress with the three priorities I set out at the start of 2014, to balance growth and returns, by focusing on better financial performance, enhanced capital efficiency, and continued strong project delivery. Our financial performance is improving, but I want to see more competitive results right across the company, and particularly from Oil Products and North America resources plays.

We are taking firm actions to improve our capital efficiency by selling selected assets and making tougher project decisions. We've continued to ramp up new production, and our exploration program is delivering, with new finds in the Gulf of Mexico and Malaysia. All of this underlines the company's recent improved performance and future potential.

Let me give you some examples in each of these three priorities, starting with our financial performance.

On a 12 month rolling basis, we've delivered some $21 billion of underlying earnings and $39 billion of CFFO. Free cash flow was $7 billion over the last 4 quarters, and $8 billion in Q2 2014 alone, as our acquisitions and divestments turn to a net positive. But as I said at our mid-year results, our momentum on returns, earnings and cash flow can improve here, and there is no complacency at Shell. Shell's main route to return cash to shareholders is through the dividend, and we have distributed over $11 billion of dividends in the last 12 months.

We are expecting over $30 billion of distributions to shareholders in 2014-15, in the form of dividends and buybacks, which underlines our commitment to shareholders, and our confidence in the outlook.

We've set clear priorities for 2014 and beyond, consistent with Shell's long term strategy, and at the same time we are sharpening up in a number of areas, particularly around appraisal of the portfolio and our people. I firmly believe that sharper accountability in the company will mean that we target our growth investment more effectively, focus on areas of the business where performance improvement is most needed, and drive asset sales in non-strategic positions.

We've implemented a series of new 'performance units' in the company for a more robust appraisal system - about 150 of these - which are clusters of assets, markets or value chains, such as integrated refineries, or groups of oil & gas fields in similar geology and tax regimes. And we continue to drive stronger alignment between the company and the shareholders, with increased shareholding requirements expected for the senior leaders in Shell, beginning from 2015. These new shareholding requirements will complement our existing remuneration programs, which include a company-wide annual scorecard, individual performance assessment and long term incentive plan with performance measures including total shareholder return relative to competition.

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. 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.

We have just over $70 billion of capital employed combined in Oil Products and North America resources plays, and the financial performance there is frankly not acceptable. There has been an improvement so far in 2014, some of that is the macro, and some is due to our restructuring. But there is a lot more to do here. The Downstream portfolio should be capable of around 10-12% return on capital employed and $10 billion of cash flow across the cycle, compared to 7% underlying ROACE and $7 billion of CFFO in the last 12 months. Our Upstream Americas resources plays portfolio was built to drive our cash flow growth. But the macro has changed there. We are restructuring both of these portfolios, including asset sales, write downs and cost programs, and we are being 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 programs to address these issues.

Now, let me make some comments on capital efficiency. Shell is opportunity rich and capital constrained, and this is driving hard choices in the portfolio. This involves moving ahead with growth projects, such as LNG Canada and Appomattox in the Gulf of Mexico, where we are in front end engineering and design, and at the same time being more selective on new FEEDs, with a routine in place now where I review FEEDs with $500 million or greater cost implications with my colleagues on the Executive Committee.

The asset sales program is making good progress, with around $10 billion completed so far this year. We are working through a more active phase of asset sales this year, and in the longer term, I would expect to see around $5 billion per year of asset sales as the 'norm' for Shell, as we apply rigorous portfolio management, on an on-going basis. There's no change in our plans for around $35 billion of organic capital spending in 2014, or 8% lower than 2013. This is part of the drive in Shell to moderate our growth ambitions, and to improve our free cash flow and returns.

Our investment programs translate into production and cash flow. Key Upstream start-ups from 2010 and onwards added over 600,000 boe per day to our production and around $11 billion to cash flow over the last 12 months, over 25 percent of the last year's total, as our investment translates into cash flow for shareholders, and we have some important new production coming this year. Mars B, in the Gulf, is ramping up; we also announced the start-up of the Bonga North West project offshore Nigeria; and Cardamom in the Gulf and Gumusut-Kakap in Malaysia are on track for start-up in the second half of this year.

Now, let me update you on conventional exploration, where we're spending around $4 billion in 2014. We have put a sharper emphasis on the very different types of activity we have underway in exploration, widely-ranging potential field sizes and development timelines. Very long term themes like Arctic, and other frontier basins could deliver really substantial new oil and gas fields. At the other end of the spectrum, near field drilling can add high value barrels in a short time frame. And we expect to continue to add new discoveries in our heartland basins, typically in lower political risk countries, building on our knowledge of these basins to add more value. And it's in these heartlands where we've had some excellent well results recently.

In the Eastern Gulf of Mexico, the Rydberg discovery, which we announced in July, is our third find in the Norphlet play, where Shell is the industry leader. Rydberg takes the headline discovered potential in the Appomattox area to around 700 million barrels. This continues a strong run in Gulf of Mexico exploration for Shell, with over 1 billion barrels of potential resources added in just over 5 years. Just recently, we made a further discovery in the Gulf, in the Mars area, called Kaikias. This one is still being appraised, and should be a new tie-back into the Mars or Ursa facilities. In the Malaysia offshore, a combination of stand-alone discoveries in deeper water, and near field exploration has added around 400 million boe for Shell, or 2.3 TCF equivalent. This is mostly gas, which is well placed to feed into existing LNG schemes in Malaysia. Looking into the next few months, we have important exploration wells drilling in Albania, and appraisal wells on the Libra discovery, in the Brazil pre-salt play. And let's see how those wells turn out.

Now, let me make some comments on our North America position. John and Marvin are going to talk to you in more detail on North America. This region accounts for 32 percent of Shell's capital employed, and about 35% of Shell's shareholder base is here. Shell has leading positions in the industry in several areas in North America, and there are growth opportunities here for Shell and our shareholders, both upstream and downstream. Many of these plays offer new integration opportunities, where Shell is very well placed to add value. Overall, lots to go for in this region, and some interesting choices for us to make.

With that, let me hand you over to Marvin, on Upstream Americas. After Marvin, we will move into Downstream with John, then Simon on the financial framework, and then we will have a Q&A. Marvin.

Thanks Ben. 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 - will take one of those panels with Joe Leone, and Greg Guidry - who is in charge of resources plays - along with Paul Goodfellow will take another panel. I will participate in those as well.

Shell's Upstream Americas contains some very distinct elements. What we have is profitable and growing heavy oil and deep water oil & gas businesses, which generate healthy returns and cash flows, and both of which have growth profiles. We have built a significant position in resources plays. And for the longer term, we are progressing integrated gas options, such as LNG, and keeping our options open in Alaska. I'm going to focus on resources plays and deep water in this session, and would be happy to discuss things like Arctic and heavy oil in the breakout sessions.

Running through all of this, we have a very strong drive underway in Upstream Americas to improve our capital efficiency and cost structure. We've seen substantial improvement, with profits in the first half of 2014, but there's plenty more to do, and my entire team are energized to continue improving our results here.

Shell's Upstream Americas contains some of the largest undeveloped oil and gas positions in the company today, such as Carmon Creek oil and Groundbirch gas in Canada, which have integration value uplift; and deep-water oil plays in the Gulf and in Brazil, plus long term potential in our Alaska acreage. All of this means that Upstream Americas has a disproportionately large share of Shell's capex and development activity, compared to the size of the base business, around 40% of the Upstream total.

We've been investing for growth, some $63 billion of spend since 2010; and growing production, by around 5% in the last 3 years; and selling non-core portfolio, delivering just over $7 billion of divestment proceeds since 2010, including announcements over the summer. We're really laying down the foundations for Shell beyond 2020 here, as well as running the business today.

Let me update you on the financial position in more detail. Upstream Americas generated $6.3 billion of cash flow over the past 12 months, a $1 billion increase from 2013, and earnings increased substantially from H1 13 levels. Total operating costs have increased in the first half of the year, mainly due to portfolio growth, from new oil and the Repsol LNG acquisition – so these are good costs. Earnings are likely to remain volatile in Upstream Americas, driven on a quarterly basis by the timing of exploration charges, and oil and gas prices. But we are seeing underlying improvements. Further increase in underlying profitability is expected from growth in deep-water oil; growth in liquids rich shales; and cost take-out. On the balance sheet, just over 60% of the capital employed is on stream, and the remainder is invested for potential future growth. Those are some comments on the financials.

Now, turning in more detail to portfolio and strategy. Firstly on resources plays. Resources plays remain an important longer term growth opportunity for Shell, with around 10 billion boe of resources and potential in the portfolio. We want to be competitive at the bottom line in this business, and the key to that is accessing the best geology, advantaged evacuation routes, and taking out cost. We're not there today, but we are making good progress. Resources plays remained in loss in the first half of 2014, about $400 million, although this does represent a positive earnings swing of some $900 million on the first half to first half basis, and we continue to work hard on focusing the portfolio, ensuring competitive costs, developing the most valuable resources, and bringing the segment into profit.

The portfolio is stabilizing now after a phase of asset sales - major divestments of non-core positions are essentially complete, totaling more than $3 billion in cash announced this year. Production in second quarter 2014 was some 280,000 boe per day, of which 20% was liquids rich. Once we complete all the divestments we have announced, this will have reduced to around 170,000 boe per day, some 40%, of which 40,000 boe per day is liquids rich. In dry gas, we have a strong resources position in Western Canada, which will be targeted at LNG. We have also increased our acreage in Appalachia, where we are appraising some interesting new discoveries in the Utica – I will come back to this.

In liquids rich plays, we have retained Western Canada and Permian acreage for further appraisal and development. In total, what we have is a reasonable 40% success rate from our original, exploration-led entry into liquid rich plays. We've reduced spending in resources plays this year by more than 20%. Some 30% of this is aimed at dry gas, where production is likely to decline somewhat, ahead of growth into Canada LNG later in the decade. And 70% of this spending is going into appraisal of liquids rich plays, with growth potential. We are progressing to a more competitive cost structure here. Well costs continue to drop with 60% of new wells now at top quartile against competitors. The organisation is also leaner, nearly 40% fewer overhead staff and professional contractors over the last 12 months, excluding impacts from recent portfolio actions. We are on track to reduce capital and operating costs by about $500 million in 2014, excluding divestment impacts, which is a substantial cost program. Taking out cost remains a major focus for us in Upstream Americas.

This slide shows the three main areas where we are appraising high potential plays. These three - West Canada, Permian LRS and Appalachia dry gas - could all become growth hubs in the future. Let me highlight the recent well results in the Appalachia Utica, where we have seen initial, single-well production rates as high as 26 million cubic feet per day of gas, in a play where we should have over 400,000 net acres - once we've completed our asset swap with Ultra Petroleum. In the Permian, our joint venture with Anadarko was producing more than 35,000 boe per day Shell share, at the end of Q2 2014. We have additional Permian evacuation capacity secured on the Permian Express Two line starting in 2015 and are seeing promising well results, so the pieces are coming together for a larger development there. In Canada, we continue to de-risk our exploration LRS acreage in the Montney and Duvernay formations in both Alberta and British Columbia. We are very encouraged from the early exploration and appraisal well results, these projects could offer additional value uplift opportunities through integration with the chemicals business at Scotford or our heavy oil Carmon Creek project.

Let me update you on progress with our integrated gas options, LNG Canada, and Elba LNG. LNG Canada is the larger of these two. This could be 12 mtpa in the first phase, at our Kitimat location in western Canada. This is an exciting opportunity. We are aiming for FID in about two years 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 where Shell has LNG off-take rights for 100% of the project. FEED is almost complete, and we hope to take full FID on Elba in 2015 after receiving FERC approvals and other permits, with site construction to follow and first LNG in the 2016-17 timeframe.

Now, changing tack, to the deep-water. And I'll start with the Gulf of Mexico. Shell is one of the leading companies in the deep-water Gulf of Mexico, and we've been producing oil and gas since the late nineteen seventies, starting with the Cognac field. And we have a strong flow of new projects, and a successful exploration program here, which should sustain and grow our production into the next decade. Mars B is ramping up, Cardamom is on track for a start-up this year, and we recently discovered oil with our Kaikias well, providing Shell with further upside in the prolific and highly profitable greater Mars basin area. Stones, which is our second Lower Tertiary development, is progressing, with the FPSO under construction in Singapore. And further out, we're really excited about the production potential in the Norphlet play, in the eastern Gulf, with Appomattox now in FEED. The recent Rydberg discovery in the Norphlet takes the resources potential there to 700 million barrels, which could be produced through the Appo hub.

The deep-water Gulf is a high margin area for Shell, over $70 per boe of CFFO over the last 6 months, and over $30 per boe earnings. The aftermath of the BP Macondo blow-out has seen higher industry costs, and a decline in our production, due to the drilling moratorium and changing regulatory requirements. Our production is growing again in 2014, driven by Mars B, and after substantial planned downtime in the Mars and Auger areas, preparing for new tie-ins at those facilities. Shell continues to benchmark in the top quartile of unit costs in the Gulf of Mexico. This has been achieved through a disciplined application of LEAN-based principles resulting in improvements in our base costs in areas such as logistics and materials. And I think there's more to come on costs here. Exploration in the Gulf has added over 1 billion barrels of potential resources in the last five years or so. These are the barrels that will drive our production profile in the Gulf in the longer term - well into the next decade.

This chart shows you the status of the Mars B development start-up, the industry's first new platform in the region since Macondo. We took final investment decision on Mars B during the 2010 moratorium, when we saw a reduced cost opportunity in the supply chain. First oil was 6 months earlier than we had originally planned for, and we've moved more quickly than competitors who took FIDs around the same time. Mars B is currently producing just over 40,000 boe per day from two wells. We expect to start a third well later this year, with production plateau likely in 2016.

Lastly on deep-water, let me update you on Shell's deep-water position in Brazil. In Q2 2014 we produced around 86,000 boe per day on a 100% basis, from two fields, BC-10 and Bijupira Salema. This is up from 29,000 boe per day in Q2 last year, driven by the BC-10 phase 2 project and the Bijupira Salema redevelopment, which is also now complete. At Libra, a joint project team has been set up to benefit from the skills and capabilities of all the partners, and we spudded the first well last month.

Let me sum up, Shell's Upstream Americas contains some very distinct elements. We have a profitable and growing deep-water and heavy oil business, generating healthy returns and cash flows. We have built a significant position in resources plays. We're restructuring that business to drive better value for shareholders, appraising new liquids and gas potential, looking into LNG opportunities, and taking out costs. And in the longer term, we have exploration opportunities such as Alaska, Brazil and more to come in the Gulf. Running through all of this, we have a very strong drive underway in Upstream Americas to improve our capital efficiency and cost structures. We've seen improvement across the whole portfolio – as reflected in the first half earnings, but there's plenty more to do, and I'm looking forward to discussing all of this with you in the breakout sessions.

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

Thanks Marvin. And it's good to be here today to update you on where we are with Downstream in Shell. 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.

We have a lot of work to do to deliver a more competitive financial performance from Downstream. Financial performance needs to improve here, both returns and free cash flow. This is going to be a multi-year story, there are no quick solutions, but we are making progress. We're driving a strategy of getting advantaged, low cost feedstock into our refineries and chemicals plants; selling down non-core portfolio, assets with low returns and low growth potential; working on our costs; and at the same time maximizing returns in our marketing portfolio by leveraging distinctive customer offerings and brand and selective investment in growth.

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 downtime in the last 12 months, much improved but still not where we want to be. You may have seen that there was a fire at our Moerdijk chemicals plant in the Netherlands, in July of this year. This is a reminder that we can't be complacent on HSE, and of course this is going to reduce our chemicals availability for some time.

Turning to the financial picture. We've had better results recently, $2.9 billion of clean earnings for the first half of 2014, despite weak European and Asian refining margins, but we want to see ROACE in the 10-12% range and cash flow from operations around $10 billion per year, so there is a lot more to do here. From a competitive perspective, our returns have been under pressure, although we are gradually moving up in the pack.

This is really in Oil Products, where the last 12 months underlying ROACE was 5% with a strongly competitive return in Chemicals, averaging 15%. This is due to: legacy asset positions, where we have some advantaged assets, but others, where there is simply a very tough competitive position. 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.

We are taking a hard look at the building blocks that make up the Downstream portfolio, and we've divided the business into a series of performance units, some 70 of these. This is a powerful lens to assess performance, and to make decisions on portfolio and capital allocation. In some areas, we see interesting growth potential, where we have core assets and incremental growth opportunities. We will continue to grasp margin and value generating opportunities in these areas to improve our cash generation and competitive positioning. 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. I'm pleased to see the progress we are making with asset sales this year, with some $3 billion in the bank. And 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 that is what we are doing now. I want to be clear that this is a multi-year story, no quick fixes.

Let me make some comments on Shell's Downstream business in North America. It's an important region for us. Over a third of our Downstream capacity, strong brand recognition and market share, in the largest oil products market in the world. But it's also a region where we want to drive a better financial performance. Scotford, in Canada, is one of the most profitable assets in our Downstream. But there are other parts of the portfolio, particularly on the Gulf Coast, where the financial results have been much weaker.

You will, I'm sure, have seen the MLP proposal we have filed with the SEC. This would include a number of Shell pipeline assets on the Gulf Coast, with potential for future drop down into the MLP. The initial fundraising is expected to be $750 million. This MLP is part of Shell's drive to enhance our capital efficiency, and I'm looking forward to talking more about this, once the MLP prospectus has been launched.

We define advantaged crude feedstock as light domestic (>34 degrees API) or discounted Canadian. In the first half of 2014 we continued to increase advantaged crude feedstock runs and capability in our North American refineries. We have the capability at the moment to run 40% advantaged crude on an equity basis with a longer term goal of 50% based on our current plans. This has been achieved primarily through minor capex projects and logistics improvements. Scotford, as I mentioned earlier, is a vital link in a value chain from upstream through chemicals and marketing and we continue to work on debottlenecking to enhance and grow our advantage there. Mobile refinery on the US Gulf Coast is another positive story for us, using domestically sourced crudes with a large proportion of their current crude slate being LTO.

Now, let me update you on our Motiva Joint Venture. This is a 50-50 partnership with Saudi Aramco. Motiva is a major player in the United States. It has 1.1 million barrels per day of refining capacity in three refineries, and a substantial base oils plant with a capacity of 40,000 barrels per day. Associated with that, Motiva has a network of pipelines, terminals, trading capabilities, and access to over 8,000 Shell branded retail sites in the region. The largest of the refineries, Port Arthur, was expanded to around 600,000 barrels per day in the last few years, making this the largest refinery in the United States. However, that expansion project suffered a series of technical problems in the 2012 start-up, meaning that the unit was delayed, as repairs were made. This was not a good experience, but I'm pleased to say that today, Port Arthur is fully on line, and made a substantial positive contribution to the bottom line in the first half of 2014. Port Arthur is only part of the story here. Motiva, despite its considerable potential, lost $230 million in the first half of 2013. This was due to high levels of unplanned downtime and a series of suboptimal commercial decisions.

You can see the improvements that have been made here. We have worked closely with our partner Saudi Aramco to make changes. We've replaced the senior management in the joint venture, bringing in expertise from outside of Shell and Aramco to lead this joint venture, including Dan Romasko who was previously Executive Vice President Operations at Tesoro. He's here today if you want to talk to him. Motiva have been pursuing a range of improvement activities, including, improved refinery reliability and improved maintenance efficiency, reduced crude costs, for example better logistics to give greater access to advantaged North American crudes, an end-to-end optimisation focus and value capture across all assets and markets, supported by improved product logistics. And I think there is more to come here, as we make further changes to the manufacturing assets to improve yield and uptime, and in general reduce our costs.

Turning to fuels and lubes. Our lubricants have market-leading positions across consumer, commercial and industrial sectors, with major brands such as Pennzoil & Rotella. Key to our US strategy in this area is growth in premium lubricants, that will further strengthen our position and will leverage our upstream GTL base oils. In fuels marketing, our strategic focus on being the consumer brand of choice has led to a very competitive performance in this region. We know this market is highly competitive and continues to evolve but our focus remains on fuels quality and differentiation, combined with offering valuable loyalty and rewards programs and consistently delivering a great customer experience at every site.

So, I'll close there. We've done a lot in the last few years, reducing costs and improving our uptime, but there are still 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 Simon.

Thanks John. Good to be here today. Let me make some brief comments to recap on our financial framework.

Our financial framework is straightforward. We use growth in our cash flow from operations to fund both capital spending and pay out 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. If we get into a surplus cash position, then we have the option to return cash to shareholders through buy backs.

The last three years' cash flow, some $127 billion with $110 oil prices, was slightly ahead of net investment and payout, and broadly balanced over the last 12 months. Free cash flow has improved sharply recently, and was nearly $8 billion in the second quarter of 2014, compared to some $7 billion in the last 12 months, and this was driven by CFFO performance, fewer acquisitions, and an increase in asset sales. Gearing at the end of the second quarter 2014 was 13.4%. We cancelled the scrip program recently, underlining the confidence we have in Shell's cash flow and free cash flow growth, and it means that we are free to buy back the A shares or the B shares, whichever is the most commercially attractive option. Buy backs for 2014 and 2015 combined should be $7 to $8 billion, of which $2 billion has been delivered so far this year. This contributes to our expectation for over $30 billion of returns to shareholders in 2014 and 2015 combined.

There is no change to our outlook for organic spending of around $35 billion in 2014. We allocate 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, and the "longer term" category covers potentially very large positions for Shell in the future, like resources plays, and heavy oil. About 45% of the 2014 budget is on care and maintain activities, such as asset integrity programs, maintenance, drilling near-field exploration, development of infill wells and a series of small growth projects in Downstream. Returns on small projects are usually attractive, and delivered quickly. This 'care and maintain' spending is the major element of Shell's capex program. 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. These longer term options get a lot of headlines, despite their lower weighting in the company.

We aim to add shareholder value with sustainable 'through cycle' growth in dividends. In financial terms, this means our on-going operations must be able to finance both our organic investment, and growth in the dividend. The chart on the left of this slide shows the track record on organic free cash flow and dividend declared. Strategically, we will aim to ensure the cumulative surplus of these two trend upwards over a cycle. And our on-going priority is to reinforce this rising trend, growing CFFO ahead of investment so that we 'earn before we spend'. The right hand chart on the slide shows Shell's track record on acquisitions and divestments, and the strategic intent here is to focus and high grade the portfolio. Our acquisitions and divestments have been of a similar magnitude in recent years, with a surplus since 2005. There is not a precise target to balance these out, and this is not an essential part of the financial framework. We can plan the balance sheet assuming a regular contribution from divestments, and we retain flexibility for acquisitions, which are inherently more opportunistic. Our other tools for the financial framework are the gearing and share buyback programs, all in the context of a strong balance sheet.

This next chart shows how all these elements have combined over time to drive the financial framework. You can see the impact of both the global credit crisis and our investment choices, and we have used all the available levers in a prudent way to meet financing needs. Although we did reduce cash distributions to shareholders in recent years, our investments have delivered underlying growth in cash flows, and we have begun to increase cash distributions again since 2012. And all of this supports our expectation, absent black swan events, that we will distribute over $30 billion to shareholders in 2014/15.

This chart is an update on where we are with returns and cash generation for each of our strategic themes. The outlook here is the same as we showed you in March of this year, with an update of the delivery over the last 12 months. 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, Shell's investment program should drive 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. And 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.

Before I hand you back to Ben, let me update you on the competitive position. We take a dashboard approach here, and we are looking for more competitive performance on a range of metrics over time, not single point outcomes. Our CFFO development has become more competitive in the sector, and this has been a major strategic objective for Shell in the last few years. It's good to see return on capital employed and free cash flow trending higher this year, but we know we need to do more, to drive these, and other metrics, higher. There's no complacency here, and there's a lot to do.

With that, Ben, back to you.

Thanks Simon. Let me sum up. Our strategy overall remains robust, although 2014 is a year where we have changed emphasis. I am determined to get a tighter grip on business performance management in the company, and improve the balance between growth and returns. Our financial performance is improving, but we can do more 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 robustly. 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 morning 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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ROYAL DUTCH SHELL PLC

SEPTEMBER 5th 2014

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Reserves: Our use of the term "reserves" in this presentation means SEC proved oil and gas reserves.

Resources: Our use of the term "resources" in this presentation includes quantities of oil and gas not yet classified as SEC proved oil and gas reserves. Resources are consistent with the Society of Petroleum Engineers 2P and 2C definitions.

Organic: Our use of the term Organic includes SEC proved oil and gas reserves excluding changes resulting from acquisitions, divestments and year-average pricing impact.

Resources plays: our use of the term 'resources plays' refers to tight, shale and coal bed methane oil and gas acreage.

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