ROYAL DUTCH SHELL PLC
2015 MANAGEMENT DAY

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2015 MANAGEMENT DAY WEBCAST TO ANALYSTS

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Ladies and gentlemen, welcome to today's presentation. This meeting is an opportunity for us to take stock on where we are with the company, and our plans for the recommended combination of Shell and BG.

Before we start, let me highlight the disclaimer statement.

Shell's senior management team is 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 the recommended combination with BG. Simon will talk to you about deep water, LNG and exploration and I've asked Harry Brekelmans and John Abbott to give you an update on the Projects and Technology and Downstream portfolios.

Our integrated business mix is helping to support our results. However, low oil prices are driving significant changes in our industry. I am determined that Shell will be at the forefront of that, and emerge as a more focused and more competitive company as a result. BG rejuvenates Shell's upstream by adding deep water and integrated gas positions that offer attractive returns and cash flow, with growth potential. These are industries where Shell has leading capabilities and technologies. With larger positions in both of these themes, Shell can focus down on the best positions, and drive a more structured and predictable investment programme. We are re-shaping the company and this will accelerate once this transaction is complete. Shell is becoming a company that is more focused on its core strengths, a company that is more resilient and competitive at all points in the oil price cycle and that has a more predictable development pipeline.

With the BG combination, we'll 'grow to simplify'. This, I am convinced, will improve our shareholder returns.

Our results are of course lower with the lower oil and gas prices, and were impacted by large identified items. However, our integrated business is offsetting some of that and Downstream is delivering a strong and much improved performance supported by industry margins and self-help. The performance drive we launched in 2014 is impacting the bottom line and there is more to come there. The balance sheet gearing remains low, despite the downturn.

The oil price downturn that began in late 2014 is triggering significant changes in our industry. We are planning on a prolonged downturn and Shell is responding with urgency and determination. This is all about making sure that we can continue to pay attractive dividends for shareholders and maintain a sensible investment programme for the medium-term. Of course we are using today's environment as an opportunity to further reduce Shell's cost structure and to make fundamental changes in the way we are working in areas such as the supply chain. Harry Brekelmans is here and he will give you an update on that.

We're pulling on powerful financial levers in the oil price downturn to protect our ability to pay dividends and to keep a sensible and high-value investment programme underway for the future. This is a substantial package of measures - maintaining a flexible balance sheet, reducing capital and operating costs by a total of $11 billion in 2015, with more to come in 2016, and continuing with asset sales and project growth. Let me update you on delivery in some of these themes.

We are on track for a $4 billion reduction in operating costs, which is a 10% reduction in 2015. Operating costs fell by 11% in the first nine months of 2015, as our sustainable cost reduction programmes gather pace. Costs should further reduce in 2016, as we continue to work on the supply chain, our own overheads such as IT, and targeted programmes in certain areas. We have announced that some 7,500 staff and contractors are leaving Shell, as part of this cost drive. On the capital investment side we are on track to deliver 2015 capital investment at around $30 billion. This is a 20%, or $7 billion reduction from 2014 levels, and 35% less than the recent peak in 2013. This reflects a measured, pragmatic response to managing the financial framework in lower oil prices, such as FID pace and cost opportunities in the supply chain. Looking into 2016, and we can give more details on this when the BG transaction has closed, we are expecting combined spending to be lower next year, around $35 billion assuming current macro conditions.

Tough decisions on capital investment are driving the right outcomes here. Only the most competitive projects are going ahead, just two major final investment decisions so far in 2015, and many potential projects have been purposely delayed, re-phased, or cancelled. This is to manage affordability and get better value from the supply chain in the downturn. You will have heard last week that we have halted work on Carmon Creek in-situ heavy oil, in Canada. This didn't rank in our portfolio. Carmon Creek would have been a several billion spending programme from 2016 to 2020 and we will wind that down now. These are difficult and impactful decisions. This is all leading to a very healthy tension in the company, and our supply chain, around capital allocation. We are looking for low NPV break-even projects here, certainly less than $70 per barrel, and we see opportunities typically nearer $50 per barrel. Managing the pace of FIDs is a powerful tool to drive lower costs, plan our capital spending and to make sure that only the most attractive and affordable investments go ahead.

Here are two examples where we are making sustainable cost improvements in our businesses. In heavy oil we are driving down our operating and capital costs, which are currently 20% lower than last year. These are sustainable, structural reductions to ensure this business is competitive in a lower oil price environment. In addition to the lower costs, we are seeing record production levels through increased focus on reliability, which have driven the unit operating costs down by 30% in 2015 versus 2010 levels, and are running at $25 per barrel in Q3 2015. In North America shales we expect to reduce capital and operating costs by another 35% this year. We are also making significant progress on unit costs which are almost 40% lower in 2015 than in 2013. Much of this is due to cuts in our overhead and support structure as we right-size the organization for our re-structured portfolio. We have reduced our organic capital expenditure by 55% since 2013, yet continue to grow production and resources through enhanced efficiency.

We use asset sales to manage our portfolio, and to crystalize value. This is normal business for Shell and the natural outcome of the performance unit appraisal in the company. For 2014 and 2015, we are expecting some $20 billion of asset sales, of which $19 billion were completed to the end of the third quarter of this year. We have further deals in the pipeline, such as Showa Shell, which has a headline value of $1.4 billion and have plans in place for a $30 billion divestment programme for 2016 to 2018, as we consolidate BG into the portfolio. We have identified significant opportunities, beyond that $30 billion headline. The buyers are there, particularly in Downstream and some local gas markets and in non-traditional routes such as MLPs, private equity, and other oil & gas companies.

Our MLP vehicle allows Shell to create additional shareholder value from our extensive network of infrastructure assets while retaining strategic control. As the Sponsor, we are firmly committed to the success of the MLP for the long-term as we look to build the scale and size of the new entity. With just a year since the IPO, the MLP has already delivered strong value to its shareholders with 26% distribution growth since the first distribution. So we're off to a good start and look forward to continued success from our MLP.

Turning to project flow. Developing new oil & gas should of course drive new cash flow and free cash flow over time. This portfolio is geared to give an improvement in production, and more importantly to cash flow from operations and free cash flow, in 2017 and beyond. The ten largest projects in this growth wedge together have the potential to add around $10 billion per year to our cash flow from operations, once they reach plateau production. This project flow is a strong and a complementary fit with BG, where we would expect to see a shift from capital investment to free cash flow in the near-term, coming from Brazil, Australia and other plays.

OK, that's a recap on the some of the levers we are pulling in the downturn to manage the financial framework, underpin the dividend commitment, and to retain an investment programme for medium-term shareholder value creation. Now, turning to the BG transaction, which we announced in April of this year.

The recommended combination with BG is expected to enhance our free cash flow…from BG's growth from 2016 and beyond and this would be highly complementary with Shell's 2017+ growth potential. The recommended combination with BG creates an IOC LNG and deep water innovation leader accelerating and de-risking our strategy and adding value by applying its technology and know-how at a greater scale, and at a lower cost. The combination with BG is a springboard to change Shell into a more focused and profitable company concentrated around three pillars - Upstream and Downstream engines, deep water and LNG.

Let me give you an update on where we are with all of this.

Back in April this year, when we announced the BG recommended combination, we had identified some $2.5 billion of externally verified pre-tax synergies per year from 2018 onwards. This figure was in addition to the other cost programmes we had in place in Shell, and any plans underway in BG. We have continued to look at the synergies that could come from the recommended combination with BG. We have been able to use more people to look at this than was possible before the 2.7 announcement due to confidentiality then. As a result, we are updating today that the cost savings from the deal are expected to be $2 billion, an increase of $1 billion, bringing the total externally verified synergies to $3.5 billion in 2018, an increase of 40%. The $1 billion increase is in operating cost synergies and has arisen from both de-risking our original assumptions and identifying further opportunities. Plans also call for $1.5 billion of synergies for the combined exploration portfolio in 2018.

Here are some examples of this increase in expected synergies. In procurement we were able to broaden the synergy review team: we can leverage Shell's global supply chain reach using enterprise framework agreements. I'm convinced that our Projects and Technology business can play a major role here. On corporate costs, we can make savings moving more activities to Shell's global network of shared service centres, and make further savings for example on real estate. These two categories we now expect to contribute close to $2 billion of synergies.

This chart shows some of the key numbers around the BG deal. More capital efficiency from increased synergies, reduced investment, disposal of non-core or non-strategic assets and delivery of growth projects. All of this comes together to improve our free cash flow and to enhance Shell's ability to pay dividends and return cash to shareholders through buy backs. Although oil prices have fallen in 2015, the valuation case for the BG acquisition still looks compelling today for both sets of shareholders.

When we announced the deal in April of this year, we described cash flow per share accretion from 2016 and earnings per share accretion from 2017 and a neutral impact to ROACE in 2018 with potential for growth thereafter. The oil price deck in the April announcement was not Shell's forecast it was the market view at that time, which was a useful way to map out the deal. Since April the market view on oil prices for 2016 and beyond has fallen by $10-15 per barrel on average over the period to 2018. On this lower oil price deck, we see the same basic shape of cash flow per share accretion in 2016, earnings per share accretion in 2017 and ROACE neutrality in 2018 with growth potential thereafter and plans for share buy backs remain unchanged. More fundamentally, we look at net asset value to assess this transaction, and the oil price required to add value above Shell's discount rate.

The breakeven on an NPV basis following the April announcement was in the low $70s. Today, it is in the mid $60s taking into account the transaction structure and reduced operating cost forecasts and capital expenditure over time, together with other factors, including synergies. The transaction is structured with a large equity component. When we announced the deal this was around 70% equity and 30% cash, so that the break-even point moves with the Shell share price.

There's no change to the financial priorities we set out back in April. There is no change to the guidance we have given for asset sales, $30 billion for 2016-18, scrip dividends off in 2017 and $25 billion of share buy backs in 2017-20. The precise timing of when scrip is turned off and buy backs are turned on will depend on progress with debt pay down and the oil price. Regardless of start date, the share buyback programme is expected to be at least $25 billion in aggregate for the period 2017 to 2020. The objective is to offset the shares issued under the Shell scrip dividend programme, and to significantly reduce the equity issued for the purchase of BG.

Some of you have asked us about dividend affordability against the backdrop of lower oil prices today. Let me show you how we think about this one. We plan the financial framework on a long term basis, a multi-year basis, and not on a given year or quarter. We aim to balance cash-in and cash-out across the cycle. You can see on the chart here that Shell has delivered on this strategy both on a long-term basis and a short term basis. The oil price break-even point does, of course move with oil prices, which links, with a time-lag, to industry costs. Shell's oil price break-even point over the last 12 months has been around $60 per barrel on a cash basis.

We have options to further reduce that level, such as asset sales and capital spending. As an example, $5 billion of after tax divestment proceeds in a given year approximately equates to a $10 shift in oil price break even on a cash flow basis, other things being equal. The combination with BG enhances Shell's free cash flow and improves our dividend potential in any expected oil price environment. In the future, one of the key elements of the BG deal is moderated capital spending, a higher rate of asset sales, and more of shareholders' cash returned as buy backs.

We are working hard today to prepare the company for a successful integration with BG upon completion of the deal. A joint integration planning team has been in place since mid-June this year. This team is planning on day one, day thirty, day sixty etc, to deliver what we call a world-class integration upon completion of the deal. Shell is today announcing a new, simpler Upstream organisation that reflects recent changes in the company's portfolio, and will facilitate our planning for a more efficient integration of BG assets and staff. This will help speed up the streamlining of the portfolio following closure of the deal. Integrated Gas, which has grown into a $11 billion earnings-per-year business, will be established as a stand-alone organisation in a move that reflects both its enlarged scale and investment potential. A new Upstream organisation will span Shell's world-wide conventional oil and gas businesses. Separate to that, we will have a new Unconventional Resources organisation, spanning heavy oil and shales activities in the Americas. As the recommended combination with BG moves towards completion, Shell intends to retain the best talent in the combined group.

Shell has been taking deliberate actions to review and reduce our longer term option set. This is all about refocusing the company to engines, deep water and LNG. We've halted Carmon Creek in-situ heavy oil, from here, heavy oil activity is all about performance and profitability in the around 225 thousand boe per day we have on stream today at AOSP and Aera. Alaska exploration has been halted and we have completed the portfolio restructuring in shales positions around the world. Elsewhere in this longer term theme we have been reducing our acreage position in Nigeria SPDC and we are looking forward to new growth in Kazakhstan.

This chart shows the potential future shape and priorities of the company. I think this shape and strategy will enhance our shareholder returns. There is a really different, more focussed and profitable Shell coming through here. Strategically, this is what this deal is all about.

Three pillars – engines, deep water, integrated gas and longer-term themes.

This is an opportunity to accelerate the creation of a simpler and more focused company. What we are calling 'grow to simplify'. This means we can really capitalize on our core strengths at a larger scale. It means we can have more predictability in the company and a lot smarter sequencing of the project opportunity funnels in each theme. Overall, this should result in a company that is more resilient to changes in the external environment, such as oil prices and Downstream margins and become more competitive than we are today, where it counts at the bottom line. A higher return, higher cash generative company with better shareholder returns.

This is a new shape for Shell and we are laying a platform for a fundamentally better company in the future, in any expected oil price environment.

Now, I will pause here, and hand you over to Simon, Harry and John. Simon will give you an update on LNG and deep water followed by Harry on the opportunities for capital efficiency in the supply chain, then John with a Downstream update and then we will have a Q&A.

Thanks Ben.

Shell and BG are a great fit.

The expansion in deep water and LNG will give us a stronger baseline and new financial flexibility, resulting in an enlarged company that is more focused on scale, profitability, and growth potential. LNG and deep water are rather different businesses in detail. But they have some strong similarities, which we think make them attractive as investment themes and attractive for shareholders. Returns are robust, typically in the mid-teens, in businesses with high levels of growth capital and growth potential. High upfront capital intensity in LNG, followed by lower spending and cash harvesting. More of an on-going capex profile in deep water, to manage declines. Success in deep water and LNG requires substantial capital to become a major player, and a requirement for strong technology and operating capabilities. All of this plays to Shell's strengths and makes the recommended combination with BG a compelling one.

Let me talk to you about the LNG and deep water portfolio, and I'll start with LNG. The global LNG market is strong, it's broad, and it's growing. LNG demand has risen by some 8% per annum since 2000 to a level of 240 million tonnes per annum and we expect global LNG demand to grow to 460 mtpa by 2030 at 5% per annum, assuming sufficient supply. In recent years, both LNG demand and supply have substantially diversified with currently 30 importing and 20 exporting countries. This is expected to grow to as many as 50 and 25 respectively by early next decade. Those are the long term trends.

In the shorter term, it's important to remember that LNG demand is broadly the same as LNG supply. There has been very little supply growth in the last five years and that is set to change, with more than 100 mtpa of new LNG supplies coming on stream to 2020. Most of this gas, which is coming from Australia and North America, has largely been contracted out. However, this rapid growth may well lead to weaker spot prices and I think the industry is expecting that.

For Shell, we have contracted out almost all of the LNG that we have on stream and under construction. Shell is investing to develop new LNG demand, through offtake contracts and new LNG regasification projects. We are in advanced discussions for new market access positions in China, Philippines, India and we are exploring options in Myanmar, Vietnam, South Africa and Brazil amongst others.

85-90% of our LNG is sold on longer-term contracts, 2 to 20 years, linked to oil prices and gas hub prices. Between 10 to 15% of Shell's LNG is sold on a short-term basis, also called spot sales, but remember these are not deep or liquid areas as you see in oil and other commodities so really in LNG, spot means 'LNG that is ordered for the next quarter'. LNG buyers typically look for security of supply, and LNG producers generally need offtake contracts to finance new LNG projects. There are changes in the supply mix, for example new Australia and America volumes, but the fundamentals of this market look as robust now as in the past to us. Existing LNG contractual terms, particularly price formulae, can be re-opened and reviewed, generally in cycles of 3 to 6 years. This does not happen for all contracts and where they do get reviewed our experience is that the outcomes are incremental adjustments to traditional terms and indexation not dramatic shifts preserving the intent and sanctity of the contract. We don't expect that to change.

Turning to Integrated Gas profitability. In 2014 underlying earnings for Integrated Gas were $10.4 billion, a 470% increase since 2009, with a return on average capital employed of 18%. This year, earnings and ROACE have fallen with lower oil and LNG prices, and one-off effects such as lower dividends and exchange rate effects. Integrated gas has been some 41% of Shell's clean CCS earnings and 21% of the cash flow over the last 12 months, which shows you how significant this business has become for us.

BG is a great fit for Shell in LNG. BG's equity LNG production including Trinidad & Tobago where Shell is already a partner together with Queensland and Shell's growth plans will together add around 73% to Shell's 2014 equity LNG capacity. Both companies play an LNG aggregator role, whereby we buy third party LNG, often from our other joint venture partners and trade this gas to a world-wide customer base. That is a scale business and clearly there is potential to add more value here as well as cost synergies from the combined shipping operations and trading platforms

Shell's LNG sales have grown substantially in recent years, up 40% since 2010. We see strong growth potential in Australia, from Shell's share in Gorgon and Prelude and BG's Queensland LNG, totalling 44 mtpa of equity liquefaction capacity by 2018, based on projects that are under construction today, an increase of around 70% in equity liquefaction capacity compared to Shell alone at 25.6 mtpa at the end of 2014.

Here is a snapshot of how these two portfolios would look together. This would be a world-class, highly competitive and profitable LNG business. Both companies have substantial capacity on stream today, with growth projects under development, BG with lifting rights at Sabine Pass, and Shell with two greenfields in Australia and additional lifting rights. Looking beyond that post-FID flow, there is a clear opportunity to review all the options here, and invest in a more structured and predictable growth funnel. This will allow us to enjoy the cash flows from the portfolio today, and better manage affordability and cost cycles in new LNG projects.

Turning to deep water. Shell is a strong and well established player in deep water. We've been in this for decades, and over 10% of our world-wide production is in this, mostly from the Gulf of Mexico and Nigeria. Shell has deep water technology and capabilities that are recognised as among the best in the industry. Deep water returns have averaged 9% over the last three years, in a business with substantial growth capital, and cash flow averaged

$5 billion per annum over this period, where oil prices averaged $92 per barrel. Shell, and more recently BG, have highly competitive project flows, which have driven higher production volumes.

Similar to the LNG overview I just showed you, this slide gives you a snapshot of how these two deep water portfolios could look together. This would be a world-class, highly competitive and profitable deep water business. Both companies have substantial capacity on-stream today. For Shell, the next suite of new growth comes from the Gulf of Mexico. For BG, this is all about the Petrobras operated positions in Brazil. Looking beyond that post-FID flow, there is a clear opportunity to review all the options here, and invest in a more structured and predictable growth funnel.

BG's undeveloped resources positions, particularly in Brazil, combined with Shell's recent uptick in exploration performance, particularly in the Gulf of Mexico, means that we can dial back on exploration activity in the next several years. We are planning to reorganise the exploration priorities, and re-think our exploration strategy. This will lead to high grading – exits from some plays and more investment in others. By 2018, combined exploration spend should be less than $3 billion, a 40% reduction compared to recent spending levels. This is all part of the streamlining and simplification of the company following on from the BG acquisition.

With that, let me hand you over to Harry, who is going to update you on the Projects and Technology side. Harry.

Thank you Simon.

Good morning ladies and gentlemen. Ben already mentioned the new improvement programme we have launched in our Projects and Technology organisation. Let me share some more detail about that programme and what we will achieve. First let me give you an idea of the scope of P&T.

Shell was one of the first IOCs to bring together our projects and technology capabilities into one focused delivery organisation in 2009. Today, P&T covers safety and environment, research and development, field development planning, wells, project execution, technical and technology services including licensing and sales to third parties and finally, contracting and procurement.

Right now, with low oil prices triggering structural changes throughout our industry, we know that we must act swiftly to stay competitive. Specifically, we need to further reduce our cost structure and make fundamental changes to the way we work.

Our objectives are clear, on safety, we want to realise 'Goal Zero' and want excellence in process safety risk management, we want to improve capital efficiency, and in the short term delivering $4 billion of capital efficiency savings in 2015-16. And in parallel we're looking to improve returns on existing assets and find further capital efficiency improvements for the future. We want to provide and deploy breakthrough and affordable technology because we know that technology boosts our competitive position and materially contribute to capital efficiency and stronger asset performance. There's a lot of urgency and determination here.

Safety is at the heart of what we do. We design our facilities to reduce the likelihood of incidents and to reduce their impact should something unexpected happen. In 2014, we achieved our lowest ever numbers of Tier 1 and Tier 2 process safety events, our lowest ever number of injuries per million working hours and our lowest level of recorded operational spills. I'm pleased to say that in 2015, the downward trend is continuing, but the fact that there are still incidents continues to trouble us. We are aiming for Goal Zero - and we're continuing to learn from all incidents to help us to get closer to that objective.

Turning to project delivery. P&T has a good track record in project delivery. We've seen 75 material project start-ups since 2011, including world-leading projects such as Mars-B in the Gulf of Mexico and Pearl in Qatar. Our technologies, such as Gas-to-Liquid (GTL) and Floating LNG facilities are changing our industry and, thanks to a number of improvement efforts in recent years, we are getting better at delivering our projects.

We see a steadily improving trend on externally benchmarked cost performance. Our externally benchmarked Front End Loading scores have also steadily improved over the last few years which should lead to stability later in the funnel. Around 75% of the number of our Shell operated projects are delivered with less than 10% cost overrun versus their original P50 investment promise compared to a 2014 World Economic Forum study covering 100 major projects in the oil and gas industry which showed that only 18% of the number of projects delivered on budget versus final investment decision.

Looking at the percentage of weighted average cost overrun of Shell projects versus budget at investment decision, the percentage is 10%. The WEF study showed a weighted average cost overrun of around 50% versus original investment promise for 100 major projects in the industry. We made progress on schedule performance, with around 60% of projects delivered with less than 3 months delay versus the schedule as per their original P50 investment promise. And a step up schedule performance continues to be a priority area. However, it's fair to say that like many of our peers, we have struggled with soaring project costs, increasingly complex projects, more stringent regulation and declining productivity levels in design and construction. We know that we must adapt to market realities and do so quickly if we are to maintain and extend our competitiveness. That is why in P&T we have put a programme in place to address that.

The programme is built around Shell's strategic themes - our two cash-generating Engines; our growth priorities - Integrated Gas and deep water; and our longer-term options. We have focused and prioritised our improvement initiatives under four transformation themes, supply chain transformation - essentially this is about spending money on third parties more efficiently and more effectively, competitive scoping - addressing project scopes and eliminating late changes by using target costing, more standardization and reducing complexity in the project scope, efficient execution - looking principally at the execution stage of the project cycle and aiming to improve field productivity, reduce construction times and simplify processes and standards that govern the way we work, and affordable technology, ensuring that our technology makes a greater cost contribution to Shell's projects and assets and is deployed more decisively and consistently.

Under each theme we’re looking at those projects or activities that will deliver most value, the quickest. Based on the actions taken this year we’re on track to deliver $4 billion of capital efficiency savings in 2015-16. And this is reflected in the cost and capital investment guidance we have in the market. In supply chain for instance, the low oil price has given us an opportunity to renegotiate or re-tender many of our contracts in order to make savings. So far, around 6,000 contracts representing over 75% of Upstream, wells and projects third party spend have been reviewed with suppliers. Elsewhere, we're using targeted project interventions – that means sending fresh pairs of eyes to work quickly with the existing project team to assess if and how new value opportunities can be realised. So far this year, we have completed around 20 of such interventions and another 10 are taking place now, with many more to follow. Together they have already delivered significant savings in deep water and Integrated Gas. Let me give you a few examples.

In the Gulf of Mexico we've seen more than $1 billion of capex savings from the Stones project. Mainly through simplified and innovative well designs and supply chain savings associated with the FPSO, subsea equipment and wells. Appomattox, which took FID earlier this year, has seen 20% savings through the removal of two wells, Front End Loading optimisation and supply chain action. The nearby discovery of Powernap has also offered us the opportunity to re-evaluate development options at Vito, subject to regulatory approval. In addition to being able to maximise recovery, substantial cost savings are being identified there.

In fact, over time, our deep water efforts have been a real success story. As you can see from this chart, we significantly improved Expected Ultimate Recovery from our deep water hubs. The resources growth on this chart – over 1.4 billion barrels – presents strong value creation for shareholders through project management and technology.

In the supply chain we see three routes to extract more value, improving our own demand management, simplifying our specifications and negotiating lower prices. We're making savings across all three areas. For example, in the Gulf of Mexico we have recently saved $60 million by improving our logistics and materials management, and greater standardisation and reduced complexity of wells associated with the Mars and Ursa platforms is set to deliver around $95 million in savings this year. Supply chain excellence, in combination with more effective execution, is helping us find more value from the way we use rigs. We secured highly competitive, long-term rates for deep water rigs – well ahead of our IOC competitors, supported by variable spread rates in the Gulf of Mexico coming down quarter on quarter, and we are working hard to avoid having expensive rigs standing idle, either by renting these out, or by better scheduling of our own drilling programmes. And you can see that it is paying off.

It all adds up to simpler, more standardised wells, more stable rig sequencing with fewer expensive schedule disruptions leading to a fast increasing number of top quartile and best in class wells delivered, supported by a series of Enterprise Framework Agreements that help us to secure attractive and competitive market rates for a range of kit.

The key to successful technology development is harnessing and directing it to those parts of the business where it can add most value. In 2015, we spend $1.1 billion on our Technology Program. About two thirds of our R&D budget is invested in improving our asset base, projects in execution and associated capabilities. The remainder is devoted to research aimed at securing our long-term competitive position. As always, our approach will be collaborative and we will be working closely with key players – industrial and academic – as well as continuing with technology venturing. We want to drive cost innovation of basic design and execution by moving to greater use of digitisation and automation. SmartConnect is a good example. This is a condition monitoring system that we developed to remotely monitor vital rotating equipment. We now have 4,800 machines connected to the system across the globe. In 2014, we estimate that the system saved Shell more than 3 million barrels in lost production.

Before closing, a brief update on our Prelude project. We are making good progress. All 14 topside modules and all 6 turret modules have now been installed on the facility, 7 wells have been drilled to depth with only 3 well completions and tests to go. The Prelude FLNG supply base in Darwin is now complete and operational, and the first in-field support vessel has been launched in Singapore. We expect to see cash flow from Prelude in 2018, as planned.

Let me close. Goal Zero remains the number one priority. We are continuing to do our utmost to avoid harming people or the environment. We know we must improve capital efficiency and we are working towards some challenging targets. Technology – well directed and affordable – is key in supporting both project delivery and asset operational performance. I hope I've given you an impression of the urgency and determination we have in P&T to drive improved capital efficiency and take advantage of the downturn around us today. And, I'm looking forward to discussing that with you in the breakout panels today.

With that, let me now hand you to John. John.

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

I will update you on the progress implementing our Downstream strategy. I showed you this slide a year ago at this event, and it hasn't changed. We are getting advantaged low cost feedstock into our refineries and chemicals plants, more closely integrating our refining and trading activities. We are well advanced with 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 the brand and distinctive customer offerings and making selective investment in growth. Financial performance is improving here, both returns and free cash flow. We have had a successful first 18 months of what we have said is going to be a multi-year story, there are no quick solutions, but we are making good progress. Turning to the macro environment.

In 2015 we have seen strengthened refinery margins, low oil prices have stimulated strong transport fuels demand growth particularly in OECD countries, and margins have been supported by delays to mega-refinery start-ups, and outages which have brought product supply pressures. Over the longer term we expect to see demand for gasolines to continue to be impacted by the competing pressures of increasing engine efficiency, substitution, demographics and consumer trends.

Meanwhile, despite many factors at play, demand for middle distillates will continue to grow, with increasing economic output, predominantly in non-OECD countries. In Chemicals 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 expect to see North American chemicals production to continue to grow due to advantaged feedstocks and lower cost of energy, and you will have seen that new Asian capacity has been introduced and there have been significant feedstock price movements over recent years. Now, turning to a broad view of Shell's Downstream.

This chart shows the main pillars in Downstream at Shell. Downstream often gets interchanged with refining, however, refining is only one of the core businesses that we have. We are only in refining in places where we think we can deliver integrated value. In addition we have a truly global Trading business that trades around, and leverages our refinery assets. We have strong marketing businesses - our retail and lubricants businesses - which continue to strengthen, and these are stable cash surplus generating businesses with strong returns that need limited capital reinvestment. Another pillar is Chemicals, which is a business that underwent a major turnaround and restructuring in 2009/10 and has provided consistently good returns since 2010. Let me now make some comments on the financial drivers.

We've had better results recently, $8.2 billion of clean earnings for the first nine months of this year, driven by higher refining margins and strong operating performance, alongside excellent results from marketing and self-help programmes. We are undertaking a substantial standardisation programme, delayering, reduction of global and regional roles and offshoring of activities that will serve to address our cost competitiveness. Controlling unplanned downtime in our refineries and chemical plants is a very important profitability driver for us. We're running at around 3% unplanned downtime for refining and 3.4% in Chemicals year-to-date.

Overall, Downstream should be able to deliver ten to twelve percent return on capital employed, and greater than $10 billion of cash flow per year. We measure that as averages over several years, to capture the impacts of the various business cycles in Downstream. In addition, we need to show the right level of capital discipline, so that the free cash flow generation from Downstream business is an important part of the group's financial framework overall. Free cash flow for Downstream in the last 12 months was around $12 billion.

We continue with our performance focus and portfolio restructuring, 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 60 of these. This is a powerful lens to assess and drive performance, and to make decisions on portfolio and capital allocation. I'm pleased to see the asset sales progress in 2014 and 2015, with some $500 million in the bank so far this year and approximately $4 billion yet to be completed for the combined 2015 and 2016 period. We will continue to high-grade the business for example, the exit from Showa Shell in Japan, which is further reducing our refining footprint. There are parts of the Oil Products portfolio we need to continue to fix and that is what we are doing, and we are making good progress there. We see great potential to make the Downstream business a more robust and higher performing and more competitive business.

We have significantly reduced our footprint in refining over the last years, exiting non-competitive and non-core assets, so we are down to a more competitive and profitable core. This high-grading, our operating model change and performance focus, means our refining business is doing much better today. In refining, we have pushed up the utilisation of the assets by processing more advantaged crudes and feedstocks not only in the US but also in Europe and the East. And to enable advantaged feedstock processing and improve competitiveness, we are making selective investments in key core assets such as Scotford in Canada, Pernis and Rheinland in Europe and Pulau Bukom in Singapore.

Here are some examples. Scotford refinery in Alberta is a high margin refinery, integrated with oil sands, Chemicals and our marketing business. We will further improve this refinery with a hydrocracker debottlenecking project which is due to start-up towards the end of next year. At our Rhineland and Pernis refineries in Europe, we have implemented crude and feedstock flexibility projects at both sites, Pernis has an aromatics plant in construction and a new Solvent De-asphalting project approaching FID. This offers an attractive, capital efficient and very competitive means of residue upgrading. We have commissioned a series of projects in 2015 that improve the competiveness of our Singapore value chain: ECC debottlenecking, a Cogeneration Unit and new Chemicals derivatives plants. All of these incremental investments are designed to improve profitability in our manufacturing sites. Turning to Chemicals.

Chemicals has performed strongly since 2009/10. The portfolio has been much simplified, and is better regionally balanced, and it also has shifted to more advantaged feedstock. In Chemicals demand is expected to grow at, or above GDP, we see opportunities to invest in new, profitable, facilities as well as in expanding and strengthening our existing sites. We are also seeing strong growth – with low capital investment – in our marketing businesses through things like differentiated fuels, customer offer and premium lubricants.

This includes a focus on premium quality products convenience retailing and services, both in mature heartlands, continuing to leverage synergies between lubricants and retail fuels, as well as growing strongly in the emerging markets. These are areas where we can grow, and achieve good returns in a growing business, for example in China as shown on the slide, but also in newer areas for Shell such as India, Indonesia and other emerging markets. In Brazil, Raĺzen, the biofuels and retail joint venture with Cosan, continues to go well. This JV has averaged returns of 13% in the last 12 months across the value chain.

We have been averaging around $5 billion per year of capital investment in the last few years, following a higher level of spending at Motiva earlier in the period. Capital discipline is key in this sector. Pulling out of Al Karaana chemicals is a recent example – it simply did not have the potential for returns that we look for. We do have some attractive greenfield and brownfield opportunities coming up for investment decision. And these projects will have to compete for capital across the company.

Let me close with an update on the competitive position. Our returns have improved, but are still not competitive enough, although we are moving up in the pack. Over the last 12 months underlying ROACE is much improved at 19% and cash flow from operations was more than $16 billion. Returns are improving in oil products, which has been a difficult area for Shell, as well as in Chemicals. It is good to see that. But there is more to do here.

So, I'll close there. We've done a lot in the last few years, reducing costs and improving our uptime, and a significant divestment program that is well advanced and with more to deliver. We have had a successful first 18 months of what is going to be a multi-year story, I expect to see a better and competitive performance from Downstream as we continue to take hard decisions on this portfolio. With that, let me hand you back to Ben.

Thanks John.

Before we close, 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. The trends are downwards here, tracking oil prices. However, 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 average capital employed and free cash flow trending higher in the competitive range, but we know we need to do more, to drive these, and other metrics, higher. Our aim is to be competitive across the price cycle, and there's still a lot to do.

Let me sum up. I am determined that Shell will emerge as a more focused and more competitive company as a result of the recommended combination with BG. BG rejuvenates Shell's upstream by adding deep water and integrated gas positions that offer attractive returns and cash flow, with growth potential. These are industries where Shell has leading capabilities and technologies.

We are re-shaping the company, and this will accelerate once this transaction is complete. Shell is becoming a company that is more focused on its core strengths, a company that is more resilient and competitive at all points in the oil price cycle and that has a more predictable development pipeline. With the BG combination, we'll 'grow to simplify'. This, I am convinced, will improve our shareholder returns.

With that, Simon will join me for a short Q&A session. Let's keep this at the high level, and there will be plenty of time for your more detailed questions and discussion in the break out Q&A panels.

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