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Shell full year 2014 update: Balancing growth and returns

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Shell's CEO Ben van Beurden today updates on 2014 performance and his priorities for the company, in presentations to financial markets.

Van Beurden commented: "Shell has delivered where it counts in 2014. We are stepping up our drive for stronger capital efficiency, whilst being careful not to over-react to the recent fall in oil prices.

- Successful delivery of 2014 programme. Improved financial and operating performance including $25 billion free cash flow: strengthening of the balance sheet; $15 billion of dividends and share buybacks; reduction of capital investment; early completion of $15 billion divestment target; and implementation of tighter performance management.
- 2015 to see continuation of 2014 drive to balance growth and returns. New restructuring programmes in world-wide resources plays and upstream engines, leveraging oil price downturn to capture multi-billion supply chain cost opportunities world-wide, and plans to reduce Shell's operating costs in 2015.
- Organic capital investment in 2015 is expected to be lower than 2014 levels, and we have curtailed over $15 billion of potential spending over the next three years. Shell has options to further reduce spending, but we are not over-reacting to current low oil prices and keeping our best opportunities on the table.

Shell's strategy is founded on disciplined capital investment, integrated operations, technological expertise and large scale. This is underpinned by an unrelenting focus on safety. Investment in long term opportunities is balanced with short term delivery.

Van Beurden continued: "We set out an agenda in 2014 to balance growth and returns in Shell, and our results in 2014 show that this strategy is impactful where it matters: at the bottom line. By successfully delivering against our three key priorities of better financial performance, enhanced capital efficiency and continued strong project delivery, we are improving Shell's competitive position in the oil & gas industry."

Delivery in 2014 included:

- Improved earnings and returns, including $25 billion of free cash flow, underpinning $15 billion of dividends and share buybacks.
- Tighter performance management and accountability implemented across the company, including increased shareholding requirements for senior management to further align interests with shareholders.
- Restructuring programmes and cost reduction in North America resources plays, where major portfolio changes a... Cookie Preferences ...Oil Products, where substantial progress has been made and new ...unched at the end of 2014.
- Increased asset sales – some $15 billion in 2014, completed before markets weakened across the end of the year, and reduced capital spending, as we make decisions on portfolio to improve Shell's capital efficiency.
- Successful delivery of new projects including deep water, and successful integration of the LNG portfolio purchased from Repsol, which delivered over $1 billion to CFFO in 2014.
- A firm uptick in the 2014 exploration performance, with 10 material discoveries in frontier and heartland basins, and a further 41 near-field discoveries.

Van Beurden continued: "Our strategy is delivering, but we're not complacent. Weaker oil prices underline that there's a lot more to do. The three themes of financial performance, capital efficiency and project delivery will remain as Shell's priorities in 2015."

In 2015, these priorities will include a focus on the following:

Financial performance

- This will include a continued drive to improve performance in Oil Products and North America resources plays, and new restructuring programmes in Upstream engines and International resources plays.
- Cost competitiveness is integral to our tighter performance management drive. Our established programmes and new initiatives are expected to move operating costs down in 2015.

Capital efficiency

- Given Shell's rich portfolio funnel and today's lower oil prices, investment levels are under severe pressure in the near term. Today's lower prices are creating opportunities to reduce our own costs and to take costs out of the supply chain, where there is multi-billion dollar savings potential for Shell.
- In addition, the company is deferring spending in many areas, without compromising on HSSE, exiting selective growth positions, and driving costs down in the supply chain. This should result in reduction of potential capital investment for 2015-17 of over $15 billion.
- 2015 organic capital investment is expected to be lower than 2014 levels. Shell is considering further reductions to capital spending should the evolving market outlook warrant that step, but is aiming to retain growth potential for the medium term.

Project delivery

- 2015 should see further ramp-up from the new fields brought on line in 2014. The company continues to invest in a competitive suite of new oil & gas fields and LNG, with the next wave of significant start-ups in the 2016-18 timeframe.

Van Beurden continued: "The agenda we set out in early 2014 to balance growth and returns has positioned us well for the current oil market downturn. However, lower oil prices and the impact of our 2014 divestments will likely reduce this year's cash flow."

Shell announced dividends of $12 billion in 2014 and repurchased $3.3 billion of shares. We slowed our buyback program at the end of 2014 to conserve cash, and near-term oil prices will dictate the buyback pace.

Van Beurden concluded: "We are taking a prudent approach here and we must be careful not to over-react to the recent fall in oil prices. Shell is taking structured decisions to balance growth and returns."

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