Company Name: Shell
Company Ticker: RDSA LN
Date: 2018-04-26
Event Description: Q1 2018 Earnings Call

Market Cap: 211264.882519
Current PX: 2502.5
YTD Change($): 27.0
YTD Change(%): 1.091

Bloomberg Estimates - EPS
Current Quarter: 0.616
Current Year: 2.468
Bloomberg Estimates - Sales
Current Quarter: 82838
Current Year: 341909.5

Q1 2018 Earnings Call

Company Participants

- Jessica Uhl, CFO & Executive Director

Other Participants

- Alastair R Syme, MD and Global Head of Oil and Gas Research
- Biraj Borkhataria, Analyst
- Christopher Kuplent, Head of European Energy Equity Research
- Christyan Fawzi Malek, MD and Head of the EMEA Oil & Gas Equity Research
- Colin Saville Smith, Oil and Gas Analyst
- Iain Stewart Reid, Head of European Oil and Gas Research
- Irene Himona, Equity Analyst
- Jason Gammel, Equity Analyst
- Jonathon Rigby, MD, Head of Oil Research. And Lead Analyst
- Lucas Herrmann, Head of European Oil and Gas
- Lydia Rose Emma Rainforth, Director and Equity Analyst
- Martijn Rats, MD and Head of Oil Research
- Oswald C. Clint, Senior Research Analyst
- Robert West, Partner of Oil and Gas Research
- Theepan Jothilingam, Head of Oil & Gas Research and Analyst of Oil & Gas
- Thomas Yoichi Adolff, Head of European Oil & Gas Equity Research and Director

Presentation

Operator

Welcome to the Royal Dutch Shell 2018 Q1 announcement. (Operator Instructions) I would like to introduce the first speaker, Ms. Jessica Uhl. Please go ahead.

Jessica Uhl, CFO & Executive Director

Thank you, operator. Ladies and gentlemen, welcome to the Shell First Quarter 2018 Results Call.

Before we start, let me highlight the disclaimer statement. When Ben and I presented our results for 2017 three months ago, we promised to enter 2018 with discipline and confidence, committed to the delivery of strong returns and cash. Today, I want to share with you how we are delivering on that promise.

In today's call, I will first present our Q1 financial results, then I will update you on the growth and long-term resilience of our portfolio. And I'll conclude with emphasizing our commitment to our financial framework.

Let's move to the results of the First Quarter. Our Q1 2018 CCS earnings, excluding identified items, were $5.3 billion, $1.6 billion or 42% more than in Q1 2017. And our highest earnings since Q3 2014 when the oil price averaged $102 per barrel.

Earnings, excluding identified items in Upstream, were 187% higher than in Q1 2017, driven by higher prices. In our Integrated Gas business, earnings, excluding identified items, increased by 107% compared to Q1 2017 as a result of higher prices, higher volumes and stronger contributions from trading.

In Downstream, CCS earnings, excluding identified items, were 32% lower than in Q1 2017, primarily as a result of lower contributions from trading and less favorable refining market conditions.

Overall, higher prices and margins were the key contributors to higher earnings this quarter. The positive impact of lower depreciation, net interest expense and well write-off was more than offset by higher operating expenses. The main drivers of higher operating expenses were foreign exchange effects, followed by the consolidation of the costs associated with the former Motiva assets.

Cash flow from operations in the quarter reached $9.4 billion. And excluding working capital movements, this was $10.3 billion.

Compared to Q1 2017, higher earnings did not fully translate into higher cash flow this quarter, primarily as a result of higher tax payments and increased cash margin on derivatives and Integrated Gas. As we said in Q4 2017, our risk management strategy in Integrated Gas includes the use of some commodity derivatives.

A component of this strategy is to lock in the economic value of the difference between Henry Hub and Brent, an exposure that is difficult to manage or diversify otherwise. These are not speculative positions. They are linked to price exposure of physical deliveries.

The settlement of tax cases and audits was the main driver of higher tax payments this quarter, followed by taxes due to higher income in Upstream and Integrated Gas. On a 4-quarter rolling basis, cash flow from operations, excluding working capital movements, amounted to $37 billion in Q1 2018 at an average oil price of $57 per barrel over the same period.

Over the last 4 quarters, tax payments in relation to the settlement of various tax cases and audits amounted to around $1 billion. As was shared in Q4 2017, with the rising crude price forward curve, our hedges currently trigger margining requirements.

Margining requirements moved up or down daily as the forward curve moves. And this cash timing impact is compensated when physical LNG deliveries occur. These 2 factors, tax payments and margining requirements, are the main reasons for the relatively stable cash generation on a 4-quarter rolling basis, despite rising oil prices.

Let me highlight specifically the Integrated Gas performance in the quarter. Our Integrated Gas business had a great quarter. In a volatile market, we generated strong income from optimization, leveraging the optionality embedded in our portfolio. Strong operational performance at our LNG plants was another positive contributor.

As a result, the Q1 2018 CCS earnings, excluding identified items, were $2.4 billion, more than double as compared to Q1 2017. And on a 4-quarter rolling basis, the earnings were $6.5 billion with a return on average capital employed of 7.4%.

Cash flow generation was also particularly strong this quarter with $2.9 billion of cash flow from operations, excluding working capital movements, a record level since Q3 2014 when the oil price was $102 per barrel. Free cash flow on a 4-quarter rolling basis was $5.4 billion.

With the acquisition of BG, we accelerated our growth in LNG by a decade. And this growth is being delivered quarter after quarter with record liquefaction volumes achieved in Q1 2018. Since 2015, we've increased our equity LNG liquefaction by some 50% and our LNG sales by some 75%.

Since the beginning of 2016, at headline level, we have completed $26 billion of divestments. We have more than $5 billion in transactions being actively worked, of which more than $4 billion has been agreed. On a headline basis, we are on track to deliver our $30 billion divestment commitment by the end of 2018.

The announcement earlier this week of the sale of our Downstream business in Argentina to RaÃ-zen is an important strategic step. This agreement is consistent with our strategy to simplify our portfolio and allows us to continue to capitalize on the striving downstream market in Argentina through our successful RaÃ-zen joint venture with Cosan.

We published a number of important reports since the beginning of the year as we seek to increase our disclosure on climate and energy transition related matters. The Shell Energy Transition Report, the Sustainability Report and the annual report were released and provide important new disclosures on climate change and the energy transition.

In April, we released our second Shell Energy Transition Report, or SET Report, in which we assess and confirm the resilience of our portfolio to the energy transition. The report details the drivers for our resilience, including the increasing capital efficiency of our businesses, our cost competitiveness and the diversity and integration of our portfolio.

I think it is important to test our resilience as the SET report did. And it is deeply important to be transparent about these results. The Task Force on Climate-related Financial Disclosures, TCFD, is working to ensure transparency on climate-related risk and opportunities far beyond the energy industry. So SET reports and additional disclosures in our annual report sought to meet the TCFD recommendations.

Turning to reshaping our portfolio and growth. Let me share what we're doing in each of our businesses. At our Downstream open house event in March this year, we outlined our growth ambition for the business to 2025. We aim to grow Downstream's organic free cash flow from $6 billion in 2017, $9 billion to $12 billion by 2025. At the same time, we expect to increase our capital employed by more than 30% in Oil Products and more than 50% in Chemicals, delivering returns on average capital employed above 15% through the cycle. This is transformational and profitable growth.

We also illustrated how we are ensuring resilience of the Downstream business. Since growth in Downstream is closely connected to GDP growth, a balanced geographical split of our business, along with value chain integration, allows us to manage regional economic cycles.

In Chemicals, we're making our business more resilient by actively balancing feedstock types across our portfolio and regions in pursuit of competitive returns through the cycle. For Marketing, resilience is achieved by balancing growth in the B2B and B2C businesses, looking at attracting new customers, developing new sources of revenue and increasing our revenue from resilient sectors. In Refining & Trading, portfolio management, value chain integration and improved operational performance have contributed to a significant reduction of our breakeven margin.

To summarize, Downstream is pursuing transformational and profitable growth opportunities and a diversified portfolio that makes our results resilient to evolving market conditions and economic cycles.

Let me move to Integrated Gas. The profitable growth in resilience we've built in Downstream can also be seen in our Integrated Gas business. As we made clear in our second LNG outlook published earlier this year, the future of gas continues to look bright.

Demand for LNG is expected to continue growing in the 2020s at an average growth rate of more than 4% per year because of continued economic growth and policies that support switching from coal to gas to bring down local air pollution and reduced CO_2 emissions. As a leading IOC in the LNG market, we are well positioned to benefit from this growing market. And our strategy and capital allocation profile are designed to maintain our market share.

Moreover, we see a potential supply gap appearing in the early 2020s. Therefore, we continue to look at opportunities to increase our supply portfolio. Regardless of how the market evolves, we will not lose our discipline. Whether we purchase additional volumes, expand existing liquefaction capacity or develop a new LNG project, competitiveness of the cost to supply, returns and capital discipline will remain key decision criteria.

Profitable growth is also a feature of our Upstream portfolio. Between 2017 and 2020, we intend to more than triple production from our liquids-rich shale plays from around 100,000 to over 300,000 barrels of oil equivalent per day. In Deepwater, we intend to increase our production by over 200,000 to more than 900,000 barrels of oil equivalent per day by 2020.

Since the beginning of 2016, we've started projects that are expected to produce more than 400,000 BOE per day on a Shell share basis. Including shales, we indicated that we have more than 600,000 BOE per day of Shell share production capacity from new projects under construction. In 2018, we expect continued growth in the Brazil pre-salt. And in the Permian and Fox Creek as well as the startup of Tempa Rossa and Kaikias amongst others.

We're also taking steps to extend growth into the 2020s. Recent examples include the Vito FID, the Whale discovery in the Gulf of Mexico, the Libra development in Brazil and the successful exploration bids in U.S., Mexico and Brazil.

Now let me talk about the financial -- the final investment decisions we announced for Vito earlier this week. Vito builds on Shell's extensive footprint in the Gulf of Mexico as our 11th deepwater host. It is expected to produce around 100,000 barrels a day of oil equivalent at peak production.

Vito is one of our most competitive and resilient projects, with a forward-looking breakeven price of less than $35 per barrel, enabling positive returns and cash, even in a lower oil price scenario. This is driven by the significant transformation the project underwent to improve capital efficiency.

Since the initial concept, we have taken 70% of the capital cost out by fundamentally redesigning the project. The initial Vito concept required new technology and was designed to be a much larger project. By applying industry standard designs, we simplified the scope. This resulted in a simpler and smaller project working from the minimum requirements needed while maintaining safety and asset integrity.

And while we designed a simpler and smaller platform, we still have the ability to accommodate multiple tiebacks, allowing this to become a potentially significant hub. We are embedding the way we approach Vito across the Deepwater portfolio and more widely across Shell to deliver competitive and profitable growth.

Let me move to our financial framework and start with our cash flow priorities. Shell's financial framework is a key element of our overall strategy. And there is no change to our cash flow priorities: reducing debt, paying dividends followed by a balance of capital investment and share buybacks.

These capital allocation priorities mean that we will not increase capital investment above existing plans in response to the current oil price environment and that any excess free cash flow will be allocated to net debt reduction and shareholder distribution.

Consistent with these cash flow priorities, we apply the following principles to capital allocation: firstly, divestment proceeds are allocated with priority to reduce debt; secondly, through the cycle, dividend, net interest payments and capital investments should be covered by cash flow from operations. If necessary, capital investment can be reduced to maintain this balance. However, capital investment will not be increased in case of excess cash flow generation. Any excess will be allocated to debt reduction and shareholder distributions. These principles and the discipline with which we apply them, are important for us to deliver on our $25 billion share buyback intent and the world-class investment case.

We delivered $5.1 billion of organic free cash flow this quarter and $15 billion on a 4-quarter rolling basis at an average oil price of $57 per barrel. As you know, we expect to generate some $25 billion to $30 billion organic free cash flow around the end of the decade at $60 per barrel in 2016 real terms.

Organic free cash flow generation over the last 4 quarters is consistent with this outlook. And we expect close to $10 billion in additional free cash flow from new projects between 2018 and 2020. In average prices, around $65 -- $55 per barrel would add some $5 billion to the 4-quarter rolling free cash flow based on our oil price sensitivity rule of thumb.

Capital discipline, underpinned by capital efficiency, has been and will continue to be a key lever to increase free cash flow. At our Management Day last November, we indicated a capital investment range of $25 billion to $30 billion per annum until the end of this decade. This range is unchanged with $30 billion of hard ceiling and $25 billion of soft floor.

This level of capital investment fits our financial framework and is consistent with our growth aspirations. It includes organic and inorganic investments. And you should expect us to maintain capital investment in the lower part of this range in 2018.

Let's now look at divestments, net debt reduction and organic free cash flow coverage. First, divestments and net debt. Since early 2016, at a headline level, we've completed $26 billion in divestments. This program is a crucial part of our push to simplify and optimize our portfolio. We're confident that we will deliver on our $30 billion target. And beyond 2018, we expect to continue to divest more than $5 billion per year to further upgrade and refresh our portfolio.

Since 2016, we've received some $18 billion in proceeds from divestments and in addition, some $2 billion from our MLP. By the end of the year, we expect to have received another $6 billion to $10 billion in cash proceeds from divestments. Since Q3 2016, in line with divestment proceeds, we've reduced net debt by more than $13 billion, lowering gearing from 29.7% to 24.7%.

In Q1 2018, full cash payment of our dividend and share purchases for our employee plans and associated employment taxes impacted the pace of net debt reduction. An important element of our financial framework is organic free cash flow coverage of interest payments and dividends through the cycle. On a 4-quarter rolling basis, organic free cash flow has on -- have on average covered interest payments and cash dividends since Q2 2017.

So to sum up, our cash flow allocation principles are clear and we are implementing them with discipline. Our net debt is reducing in line with divestment proceeds. And we expect another $6 billion to $10 billion in cash proceeds this year. Organic free cash flow coverage has been consistent and we expect this trend to continue. And we are confident in our 2020 organic free cash flow outlook of $25 billion to $30 billion at $60 per barrel real terms 2016.

Our delivery is consistent with our intent to buy back at least $25 billion of our shares over the period 2018 to 2020. We are on track. But we're not there yet. As you've seen, cash flow generation over the last few quarters has been impacted by cash margining and tax. Our decision on the timing of initiating the share buyback program is driven by principle, meet our financial framework commitments as consistently shared and to move forward in the right sequence.

So what will happen next? In addition to continued capital discipline, operational delivery and sustained oil prices, we would like to see more progress to our divestment program, leading to a further reduction in net debt. With strong operational delivery and $21 billion in cash, it is not a performance or a financial capacity issue. It is a question of time, not intent, before we start the share buybacks. This is entirely consistent with the approach we confirmed at our Management Day last November.

Let me close out. We continue to focus on consistent delivery and performance in the short term. We are confident in our 2020 outlook. And we continue to reshape our portfolio for resilience and profitable growth into 2020, all of which is underpinned by a very disciplined management of our financial framework.

With that, let's go to your questions, please. (Operator Instructions)

Questions And Answers

Operator

(Operator Instructions) We'll take our first question from Oswald Clint from Bernstein.

Oswald C. Clint, Senior Research Analyst

Jessica, I guess given you spoke about it so much, the tax and cash margining -- kind of margining and the impacts of the last 2 quarters. I don't think you ventured with any numbers. I mean, I'd like to appreciate it and see if you could give us the quantum of that combined effect, certainly in the last quarter or 4Q or Q1 this year, please, if possible. Then secondly, I was looking at your Upstream geographical split. And it looks like the First Quarter, really since summer 2014 where all the regions are today profitable on a net income basis. So it looks like quite an achievement there. I just want to get a sense of -- are those Upstream businesses by geography fully optimized here? Or there's still Upstream cost that can be taken out at this point in the cycle? Or some of the potential inflationary forces are potentially starting to show up and I guess, unit margin per geography are probably normalized levels we can kind of use as we look forward?

Jessica Uhl, CFO & Executive Director

Thank you for the questions. Starting with the first, in terms of the tax impact and margin impact from a cash perspective, I'll speak to Q1. So people can immediately connect to the numbers. On a Q1 2017 to Q1 2018 perspective, our cash taxes increased by $1.3 billion. Roughly half of that was associated with increased earnings across the business. I'd say, half of that was underlying. The remainder of that was driven by the settlement of issues in various jurisdictions. We consider those things to be good outcome. But not necessarily underlying. So hopefully, that's clear in terms of the tax fees. So $1.3 billion, roughly half associated with increased profits and earnings. And that would be underlying. The other piece relating to settlements, which wouldn't necessarily be underlying. In terms of margining, the impact from a Q1 2017 to Q1 2018 basis was an increase of roughly $700 million. So you can see there, with the $1.3 billion and the $700 million, roughly a $2 billion impact on the quarter from a cash perspective versus last year, which I think largely speaks because whatever softness might be perceived in the cash flow numbers, I believe the $10.3 billion of cash flow generation remains strong. But nonetheless, this tax impact and the margining impact were material this quarter and they're not -- they're certainly not underlying cash implications going forward. Just on the margin piece quickly. The margin piece works itself out through time. These are derivative positions that are matched with underlying physical positions as those underlying positions roll out. This margining, whether it's positive or negative, is essentially offset by what happens in the underlying. So I think that's important to keep in mind in terms of thinking about the net impact of the margin on the business. In terms of our Upstream business, the underlying performance of the business for the quarter was actually very strong. There's a lot in those numbers. First of all, there's been obviously material divestments that have happened over the last year with the oil sands business in the U.K., Northeast assets coming out last quarter. If you remove that, the underlying growth and performance of the business, you would see production up by some 4% quarter-on-quarter. So there continues to be strong performance and growth across the regions. Literally, across the entire globe, we're seeing growth. In terms of, are we getting the most earnings or cash from that business and is there more opportunity? We continue to work the cost agenda across Shell. We do believe there's still opportunity whether it's at the corporate level or the asset level. So I believe there is still more room for us to go. And of course, we have assets ramping up and that will also contribute to increased cash flow. The last piece I'll say on that is that we have a number of new projects coming onstream. Just to remind people, between 2018 and 2020, with new projects coming onstream, we should be seeing another $10 billion in CFFO between 2018 and 2020 as new projects ramp up and come onstream. Thank you.

Operator

Moving on, we'll take our next question. That will come from Christopher Kuplent from Bank of America.

Christopher Kuplent, Head of European Energy Equity Research

Jessica, just wanted to ask you one question upfront. Where do you see opportunities right now when you look at your $25 billion to $30 billion budget that you've described? And you made the point that it's capturing organic as well as inorganic opportunities. Now when I look at Q1, it looks like light. But that's probably a feature of many Q1s. Just wonder whether you'd want to comment around whether that is a fair reflection, a fair assumption? And how you feel opportunities are currently lining up between your organic FID options? We've seen Vito, you've talked about it versus inorganic options that would be included in that budget.

Jessica Uhl, CFO & Executive Director

Thank you, Christopher. Indeed, our organic capital investment for the quarter was around $4.4 billion. And that is one of the lighter quarters that we've had. We've been clear in terms of our capital investment profile, running between $25 billion and $30 billion per annum. That guidance hasn't changed. We expect to be at the lower end of that. And in that sense, we would expect some pickup in capital spend as we go through the year. So there's some phasing that's impacting the quarter. I'd like to just take the opportunity though to point out a couple of things. I think it's a good proof point in terms of the discipline we're continuing to demonstrate in the company with respect to capital. As oil prices are running up, you're not seeing capital investment growing at the same pace. So we're continuing to ensure that we're picking the right projects and we're executing the projects in the most effective way and continuing to drive the capital efficiency agenda in the organization. We think we'll still end up on the lower end of the range as we get to the end of the year. But of course, we're continuing to look for opportunities to drive capital efficiency. What we found with our projects, such as Appo, even post-FID when we're developing those projects, we're finding real opportunities in terms of reducing well costs, project costs, et cetera. So we're continuing to drive that. But nonetheless, we would expect to end up between the $25 billion and $30 billion -- at the low end of the $25 billion to $30 billion range. And I would expect most of that to be organic. Thank you.

Operator

Moving on, we'll take our next question from Lydia Rainforth from Barclays.

Lydia Rose Emma Rainforth, Director and Equity Analyst

I just got two quick questions actually. And the first one. And if I come back to the share repurchase. And I mean I take your point around some of the seasonality within that. But the -- I guess to a point where you might run out of time to actually deliver all of that $25 billion over that 2018 to 2020 period. Then secondly, just -- hopefully, just tidying up a bit on Prelude, when do you actually start -- expect the startup from that?

Jessica Uhl, CFO & Executive Director

Thank you, Lydia. On the share buybacks, let me start. First of all, the intent and our commitment to the share buybacks is clear and want to emphasize that point. We're not worried about time in terms of achieving that within that time frame. So that's not necessarily an issue. I think what I've tried to lay out is that first of all, the intention is clear. Our financial framework has been clear in terms of our cash priorities and getting our net debt where we want it to be, maintaining the capital discipline. And we're trying to be clear in terms of our decision framework, be very principled in our decisions and make sure we have the right sequence in terms of when we do things so much like what we did with picking the scrip off in November of the year. So trying to demonstrate commitment to these principles and getting the right sequence right -- getting the sequence right. And a supportive macro with continued delivery from an operational perspective and a cash proceed perspective should create the conditions for us to start the share buyback program and work towards delivering on the $25 billion commitment. On Prelude, the project is going well in terms of hookup and startups. And we've indicated that startup would happen in 2018. And we're still on track for that to happen. Thank you.

Operator

Moving on, we'll take our next question from Alastair Syme from Citi.

Alastair R Syme, MD and Global Head of Oil and Gas Research

Jessica, 2 questions. Can you say what -- how much have Groningen produced in First Quarter and how that -- and what was the level produced in First Quarter 2017 for comparison? And second, I wanted -- there's been a little bit of trade press around LNG Canada. I wonder if you could just remind us around where that project sits in the Shell portfolio of opportunities and how you think the market conditions are for that project to proceed.

Jessica Uhl, CFO & Executive Director

Thank you, Alastair, for the questions. Starting with Groningen, perhaps just provide a bit of perspective. So the important decision was made by the government in terms of how to manage that asset and support transitioning out of gas supply from the NAM. We as a company and a shareholder remain fully committed to the asset and are working with all the stakeholders to manage that to the best outcome possible. That was an important decision in terms of expected production profile over the next decade. That led to NAM writing off that asset, which in turn led to our writing off that asset. It was really primarily accounting treatment. We'll continue to produce from that asset or NAM will continue to produce as expected for the next decade. There were a number of important details need to be managed and are continuing to be worked. So I'd say, it's a relatively dynamic circumstance. From a financial perspective, the impact on Shell, there was an impairment this quarter of some $240 million. That was the main implication for Shell. We're also expecting that there will be some write-down in reserve by the end of the year. Again, important details need to be worked to finalize those numbers. But that is expected and that was indicated in the QRA itself. On LNG Canada. So first of all, we remain very bullish on the LNG market. We continue to see very strong demand in a number of markets, particularly in Asia. That supported very strong pricing in the quarter. You're seeing that come through in our results. And overall, the LNG business continues to be a real source of strength for us. And we believe the market fundamentals will support that going into the 2020s. We also believe that there'll likely be a shortage in LNG supply coming into the 2020s and that new liquefaction capacity will be needed. Again, we think the fundamentals support that. So for us, it's a question of how best to source it and we look at buying options and we look at building options. We've got a number of build options in the portfolio. LNG Canada is one of the many good options that we have. It's relatively advanced in the funnel versus all of the others in the funnel. And the question will be ensuring that it is the most competitive project and we get the timing right in terms of when those volumes would come onstream. Thank you.

Operator

Moving on, we'll take our next question from Jon Rigby from UBS.

Jonathon Rigby, MD, Head of Oil Research. And Lead Analyst

Two questions. Firstly, I know some -- on the CapEx guidance, you talked about $25 billion to $30 billion and you clarified organic and inorganic. Can I just also clarify whether the lower end of that range guidance for 2018 is also on that basis. So both organic and any inorganic activity that you might have? The second question is just going back to Lydia's question. If I go back and look historically, Shell have had active buybacks before and quite aggressive ones. And I don't think it's really ever done much more than $2 billion or so of stock in any one year. And you might argue that those periods, probably volumes traded were higher. So is there some regard to that situation? Maybe you do have some capacity constraints around being able to complete, which is -- something which is quite a large buyback promise over the course of what is rapidly looking like about 2.5 years or so. So you are comfortable that there is capacity in the market to conduct that buyback?

Jessica Uhl, CFO & Executive Director

Thank you, Jon. Starting with your first question on capital investment. To be clear, we are committed to being at the low end of the range to include both inorganic and organic capital spend in 2018. And we are committed to that because we are committed to increasing shareholder distributions. We're clear about our financial framework, we're clear about our priorities, we're driving down our debt, we've reconfirmed our commitment to the dividend by taking off the scrip in November, we have -- we're clear on our capital investment profile and we're doing everything we can to increase free cash flow to initiate the buyback program. So that is a priority of management, that's a priority of the company. In terms of our capacity to deliver on the $25 billion, we look at these things carefully and there can be real constraints in terms of market abuse regulations and things like that. So we're very aware of potential constraints. We have that all in mind in terms of how we're thinking about our ability to deliver. But again, we take the commitment seriously and we're putting levers in place for us to move into the ability to start that commencement of the share buyback program and drive towards delivery of the $25 billion between '18 and '20.

Operator

Moving on, we'll take our next question from Thomas Adolff from CrÃ©dit Suisse.

Thomas Yoichi Adolff, Head of European Oil & Gas Equity Research and Director

Jessica, 2 questions for me as well, please. Firstly, just on the disposal plans. And obviously, you've made good progress there. So it's understandable that the process is slowing down. But intuitively, it should be the opposite with oil north of $70. And if I remember correctly, beyond the $30 billion plan, you've also talked about looking to kind of sell around 3% of your capital employed. So in theory, in a $70-plus world, the whole thing should be accelerating. You may want to -- or you could potentially deliver an excess of $30 billion by the end of 2018 or not. So I just wanted to kind of better understand the thought process. And the second question is on the oil price and the budget. Presumably, at the start of the -- at the end of last year, you clearly didn't budget with an oil price of $70. Now let's say it was $60 or less. So in essence, you are generating surplus funds. And I wondered, when it comes -- in regards to the surplus funds, whether it's $10 or $15 over your budget, is the financial framework the same? Is it those debt reduction before going to buybacks? Or you're more flexible around inorganic opportunities since you are generating now extra cash flow from a higher oil price?

Jessica Uhl, CFO & Executive Director

Thank you, Thomas. Starting with the disposal approach or philosophy. First piece of that is not only have we been trying to raise funds to delever the company post-BG. But importantly, with BG acquisition and a number of new assets coming into the portfolio, combined with further clarity in terms of our strategy and the portfolio we wanted to achieve, it gave us the opportunity to optimize the portfolio and align the portfolio to our strategy. And that has been an important driver over the last three years. We're very comfortable and confident in terms of how that program has progressed. And we're pleased with how we've reshaped the portfolio. And I think you see that coming through in terms of higher margins, higher cash flow generation across the business in today's price environment, particularly relative to prices in the $100. A big part of that is performance. But also, a big part of that is our portfolio and how we've reshaped it through the divestment program and by the ramp-up of new projects. I'd also say that we are pleased with how we've sold those assets and the price levels we've achieved with those assets. And so we were very careful and somewhat slow at the start because we wanted to make sure we achieved the right price level in those assets. And I'd say that we're -- we achieved essentially price levels that weren't in line with the prevailing price at the time. And so we've been able to achieve very competitive outcomes in terms of price and even retain some upside should prices increase in some of the transactions. So I wouldn't say that the increase in the oil price necessarily changes our strategy or creates necessarily new opportunities for us. We'll continue to optimize the portfolio. We've indicated beyond the $30 billion we expect to do -- have $5 billion to $10 billion of divestments per year. We would expect that to happen. We're constantly managing our portfolio, managing our tail and that should be a healthy part of the process. You can see in the numbers, we're well on our way in terms of delivering $30 billion. In principle, in theory, we could get beyond the

$30 billion in 2018, depending how things go. But there -- you can't always control the timing. So I think we'll get to the -- at least the $30 billion by the end of the year. We won't stop. We've indicated we won't stop and we'll continue to optimize the portfolio, again, in the interest of making sure we've got the right assets, the most kind of competitive assets and the ones that match our strategy going forward. In terms of the recent run-up in oil prices and the potential increase in cash generation associated with the run-up in the oil prices, what do we do with that cash? Where does it get priority? Go back to some of the statements I made in the speech where we're trying to be very clear in terms of how we're thinking about our financial framework and how we're trying to allocate cash. First, we start with debt. We have debt maturities that are happening in the next couple of years. That will happen as planned. And that was certainly part of kind of the base plan, if you will. Dividends are established. So then your next set of variables are capital investment and share buybacks. As I've said, $25 billion to $30 billion organic, inorganic capital investments for the coming years. For 2018 specifically, we'll be on the low end for both organic and inorganic. And to the extent we create more cash, generate more cash from the business, we're looking to give that back to the shareholders through the share buyback program. Hopefully, that's clear in terms of how we're thinking about it and how we're prioritizing. Again debt, dividend, capital investment, no more than the low end of the $25 billion to $30 billion range and then initiating the share buyback program.

Operator

Moving on, we'll take our next question from Christyan Malek from JPMorgan.

Christyan Fawzi Malek, MD and Head of the EMEA Oil & Gas Equity Research

Just 2, if I may. First, your cash breakevens have hedged up over the last few quarters from mid-40s in Q3 to mid-50s in Q4, to mid-60 in Q1. And while it's arguably not representative to track on a trailing basis, understand all the seasonality, I want to understand why the upper trend -- or put another way, why are higher oil prices failing to translate into proportion, moving free cash flow on a year-on-year basis? I mean, given oil is some-20% higher year-on-year, yet your free cash flow is down about a similar amount. The second question pertains to decline rates and how you see them trending when you mature at the medium term in light of the industry seemingly have to manage it below 3%. And linked to that, delivering a cash breakeven of below $35 a barrel in Vito suggests the deflation and cost curve remains a key area of upside. So I was wondering, do you think we've bottomed? Or is there more to do particularly in the areas like Deepwater?

Jessica Uhl, CFO & Executive Director

Thank you, Christyan. Very good question on the cash piece. So let me frame that or try and address that in kind of a larger frame in terms of what's happening from a cash perspective. So again, underlying cash generation for the business is fundamentally strong, particularly if you look at the cash generation today relative to what it was at $100 a barrel. And so I think the fundamentals there in terms of the performance of the business and the increase in cash margins that we're achieving across the business are there. Nonetheless, there have been elements of the cash story that haven't fully come through. I touched on some of those before. Again, we've had some unusual tax payments that aren't underlying. We have those both in Q4 and in Q1. It is a bit unfortunate to have those in 2 quarters in a row because it sounds a bit more like underlying. But I personally believe these are not underlying movements. These are settlements that are difficult to predict and to time. But it would not be what we would expect on a go-forward basis. We have the cash margining piece, which has also been tied to the rise in oil prices, that's also had an impact. Again, the underlying business aspects of that are good. And it reflects just a derivative position at a moment in time. But again, that relates to our Integrated Gas business. Q1 was a record quarter for Integrated Gas. What you're seeing in Integrated Gas is very strong cash generation in Q1 over the last 4-quarter basis. So to the extent there's a concern around the margining aspect, I would point to -- these things will work themselves out over time because there's a match between the derivative position and the underlying position and you'll see that come through. However, in the last 2 quarters, because of the increase in the oil prices and because of the increase in the forward curve, that's translated into higher margining. And of course, when you have an uptick in the oil price, you also have an impact on working capital. That's also impacted our cash flow as well. So these are some of the elements that I'd say are more of kind of circumstance versus performance. I would look to our underlying performance as a company. And what you see is an underlying performance, I think, is very strong. You have the Integrated Gas business, which I went through in some detail. So I won't highlight too much of that. But record LNG, liquefaction volumes, record sales volumes, very strong performance from the Trading business. Our Upstream business, a lot of growth happening, will continue to happen over the next two years. I mentioned $10 billion of new CFFO coming from new projects that are coming onstream between 2018 and 2020 across the portfolio. And in our Downstream business, if you look at the performance over the last two years, exceptional performance. A huge turnaround in that business has happened in the last five years and very strong performance in our Marketing business. You're seeing great results from our Chemicals business. Refining & Trading, a bit soft. But again, if you look through the cycle, very strong underlying performance from our Downstream business as well. So I have confidence in the underlying performance of the company. I think we have the basis to move and deliver on the free cash flow ambition we've set for ourselves. That's part of the messaging we're trying to get across in this call today. Yes. You may look at $10.3 billion and CFFO for the quarter even in Q4 to Q1 and say, I would have liked to see $1 billion or $2 billion more. Hopefully, I've made it clear, there's some very specific items that you can look to in terms of what might be driving that change or that difference in expectation. But the important thing is, do I believe -- does the company believe we have the capacity to deliver on the organic free cash flow targets that we've set for ourselves in the Management Day? We absolutely do. And that is the message that I'd like for you to hopefully take home today. In addition to that, with that level of cash generation, we remain committed to achieving our share buyback program of $25 billion between 2018 and 2020. It's a long answer to your cash question. Hopefully, that's addressed it. Decline rate, I don't think there's anything in particular to mention there. What I would say is that operational excellence has been an important part of management focus over the last couple of years as we've been trying to drive down costs, increase unit margins across the Upstream portfolio. That's led to improved WRFM activities and improved lower decline rates, improved production from our assets that's playing through and that's also part of what you're seeing in the result. With Vito, I think it's one of -- it's a great story for the company. And I think it is one of the best examples of how we have really transformed our thinking around capital stewardship, capital discipline, deepwater project development and deepwater project delivery. It really touches -- ticks all of those boxes in terms of how we're driving performance improvements in the company. I think it's fantastic that the deepwater business has been able to develop a greenfield project with breakeven prices of $35 a barrel on a go-forward basis. And I think that transforms what people think is possible with the deepwater business. Certainly, within Shell, it has and demonstrates the amazing capability of our P&T organization and our Deepwater business where we believe we have a leadership position. And projects like this, I think, demonstrate that.

Christyan Fawzi Malek, MD and Head of the EMEA Oil & Gas Equity Research

And just a quick follow-up on the cash flow point. Is -- are divestments on the critical path of your buyback? I just want (to understand) the relationship between divestments and buyback, i.e. if you don't deliver the (6%) to (8%) that you've sort of intimated, will you still do the buyback in the quantum that you've talked about?

Jessica Uhl, CFO & Executive Director

The divestment program has been an important part of our gearing story. And so again, we're managing the entire financial framework. We make these, all of these decisions, on a holistic, integrated basis. There's not one number, one metric we look to. Unfortunately, I -- it would be -- make all of these conversations perhaps easier if that were the case. But I can sincerely say that these are very important decisions. We want them robust, we want them principle based, we want them to stand the test of time, we want them to stand volatile conditions rather than being kind of, of the moment and not resilient. And so with that in mind, yes, the divestments are an important part of our degearing agenda, as it has been. And that is an important component. But it's not the only component. And again, looking across the macro, the performance of the business, the delivery of the divestment program, all of those elements will come into play in terms of when we commence the buyback program. Thank you.

Operator

Moving now, we'll take our next question from Theepan Jothilingam from Exane BNP.

Theepan Jothilingam, Head of Oil & Gas Research and Analyst of Oil & Gas

It's Theepan here, Jessica. I had 1 question. Just -- you mentioned $5 billion of cash flow from new growth projects. So I was wanting to know how much did the new project contribute in Q1. So we can model ahead. Then just coming back to the buyback, I just want a point of clarity. Is the buyback -- will it be prioritized over adding further resources or adding further resources in the Shell portfolio that's not inorganic and in your $25 billion?

Jessica Uhl, CFO & Executive Director

Let me start with the first -- the second question. So the share buybacks are the first priority for excess cash. So again, as I laid out in the speech. And I think I spoke to a moment ago, our cash is prioritized: debt, dividend, capital investment then share buybacks. Given the performance of the business and the macro, you would expect excess cash generation to happen. And with that excess cash, we will not be looking to make further investments. Now we're very clear, we want to make value-accretive decisions. The $25 billion of capital investment, both organic and inorganic or the low end of the range of $25 billion to $30 billion, will allow us to grow our resource base. Embedded in that number is the funds necessary to deliver on our strategic ambition across the company. And we have growth aspirations across most of our strategic themes. So that is part -- that is built into the financial framework, that's built into our thinking. So you can see some of that activity coming through. We're getting more resources through the successful outcomes we've had in a number of the exploration rounds in Brazil, Gulf of Mexico, U.S. as well as Mexico. So we are clearly investing in our future and in our resources. The Whale discovery would be another good example of how we are ensuring we have resources for the future. Of course, we need to find the right balance between securing the future, investing in the future and ensuring we provide the right level of distributions to our shareholders. We believe, at the low end of the $25 billion to $30 billion range, we can balance all of that. We can grow the company, we can secure resources for the future. And in the right macro environment and the right financial framework, we can increase shareholder distributions and deliver on the $25 billion intent and deliver on our world-class investment case ambition. In terms of the $5 billion and on a quarter basis, I would say just stick with the $5 billion for the year. I think that's probably the easiest way to do it. And as I said, $10 billion for 2018 to 2020. Thank you.

Operator

Moving on, we'll take our next question from Rob West from -- or I'm sorry, Biraj Borkhataria from Royal Bank of Canada.

Biraj Borkhataria, Analyst

I had a couple of questions. The first one was on Vito. You've obviously done some excellent work getting the cost down. I was wondering, through that process, are you sacrificing anything when you compare the new concept versus the old concept in terms of longevity of the project or recovery rates, et cetera? Any comments from that would be helpful. Then the second question is just following up on Alastair's question on LNG Canada. Is -- are there any comments you can make on cost for that project? I believe the only CapEx budget in the market is from a few years ago and is probably quite stable. But some of your peers are talking about getting LNG projects done in $500 a tonne to $1,000 a tonne range. Is that realistic for LNG Canada?

Jessica Uhl, CFO & Executive Director

Great. Thank you. First question on Vito, indeed, it's one of my favorite stories in the company. It's really impressive what the team has delivered. I saw Vito four years ago in its original incarnation when I was working in Houston. Then to see it come through in terms of FID in the last couple of months and see how that project has been transformed is really a pretty amazing thing to watch within the company. And what it represents was the team really taking a fresh look at how can we do this business fundamentally differently. How can we leverage simpler design principles, industry standards, a more risk-based approach in terms of how we think about the assets and think about value differently. So there's a number of elements that came together in all of that. An important piece from a value perspective, speaking to your point around recoveries, is you can potentially recover more from a given resource. But you need to pay attention to how much capital that might require. And I think in the past, in very high oil price environments, the industry tended to go for volume and not necessarily maximizing value. And Vito is an example of looking at how do we maximize the value of this project, which may mean potentially lower recovery rates. But in terms of the overall value proposition, improving the value proposition, which is the case with this project. But of course, it also makes it more resilient. You have a lower breakeven price, you have a shorter payback period, et cetera. But overall, a more robust and a more attractive project from an investor profile perspective, which I think is really important. And as I mentioned, that thinking has -- is part of the Deepwater organization and how we're looking at a number of our projects or how we're running the business today and bringing that thinking and ensuring that thinking exists in all parts of the company. In terms of LNG Canada and cost, again, we're looking to ensure that our future LNG supply is the most competitive. There's a number of elements to something being -- to determining whether the marginal tonne of LNG is competitive. You'll have the cost of the project, you'll have the cost of the gas and you'll have the cost of the shipping. All of those elements need to come into play. So it's not just one variable that you need to consider when trying to think about the delivered cost to a given customer. That's how we're thinking about it and we're looking to ensure that whatever decision we make on a buy and/or build basis is the most competitive on an integrated basis, delivered. Thank you.

Operator

Moving on, we'll take our next question from Rob West from Redburn.

Robert West, Partner of Oil and Gas Research

I'd like to ask a couple of quick ones on the quarter. When oil prices were going down, there were these beneficial parachute effects in the Downstream business. And as it had been going back up, I wonder, was there any weakening of the reported result caused by that lag effects where you'd get higher input cost immediately and pass on those higher costs slower? And if you quantify that, that would be helpful. Second quick quarterly one is just on the LNG volumes. And should I think about that 18.5 million tonne number as a normal number? Or was that extra trading that came through there because of the very strong industry condition? If you put any numbers down, that would be great. Then the final one, sorry to go to 3. I was just curious on the decision to write Groningen down to 0 on the -- or NAM down to 0 on the balance sheet. Can you talk about that 0 number and why 0? And just -- are there any -- just to rule it out, no provisions on the other side of that, that we need to be aware of?

Jessica Uhl, CFO & Executive Director

Thank you, Rob. Starting with your first question on the impact of the increase in oil prices on the Downstream business. Indeed, an important part of the Downstream story for Q1 was the softening of refining margins that we saw across our portfolio. So refining margins declined by some 10%, 20%. So there were -- macro conditions were an important part of the story. In our Marketing business, on the other hand, in our commercial fuels businesses, they had strong Q1s on a Q1-to-Q1 basis, above on an underlying basis. And of course, our Chemicals business had another strong quarter as well. Q1 last year was a particularly -- was a record quarter. But we're above consensus for Chemicals and again, a very solid Q1. So indeed, Downstream, Integrated business, you need to think of each of its parts. Marketing, commercial fuels, Chemicals, strong quarters. Refining & Trading impacted by the macro. And Refining margins in particular. And some softness in Trading. LNG volumes, in terms of thinking about what's driving that and is that going to -- will it continue with those levels or go higher? You'll see that it's been trending up. I think, again, an important part of the story is what you're seeing in the Integrated Gas business and in our LNG trading business is the -- what I consider the success of the BG transaction and the integration of that business into Shell. An important part of that was accelerating the growth of our LNG business. You're seeing that happening. And another important piece of that was combining the trading capability that BG had as well that Shell had. And again, I think you're seeing the benefit of that coming through where we now have an unmatched network of LNG supply as well as access to LNG markets around the world. And it allows us to optimize in ways that I think others can't match and allow us to deliver differentiated returns in this business, which you certainly saw in the First Quarter. So I think the strong trading volumes, I think you'll continue to see the actual levels I wouldn't want to signal. It is very market driven and circumstance driven to some extent, not to a full extent. But I think you should expect kind of the solid levels of performance and the trading levels relatively high, again, driven by the fundamentals of the strong trading business that we've created by the combination of BG and Shell, capability assets and positions around the world. On Groningen, in terms of the write-down. So again, that was an impairment of some $240 million in the quarter. This is primarily or entirely driven by accounting treatment. NAM is a separate entity. Itself wrote off the NAM assets down to 0 as it -- we have an investment in NAM and it's equity accounted that required us to also write down our assets. So it's really the accounting of it. Nonetheless, we expect production to continue and so -- and we continue to support NAM as it repositions itself and deals with the various challenges. So I think it will be a dynamic circumstance. That's not to say I expect any kind of material financial implications. But in terms of finalizing the impact in terms of reserves and what we think the expected production profile will be, there's a number of elements in those decisions and we'll work closely with the stakeholders to make sure we manage to the best of our -- to the best possible outcome for all the stakeholders. Thank you.

Operator

Moving on, we'll take our next question from Irene Himona from SG.

Irene Himona, Equity Analyst

I had 2 questions, please. Firstly, on tax, can you share with us whether there are any material remaining tax disputes which you may decide to settle in the rest of the year? Or if you can't, then can you say whether we should be using this year a cash flow tax rate assumption, including or excluding the $1.3 billion? And I was -- is it going to be 9% or 19%? And my second question, you made quite a number of disclosure and definitional changes in your quarterly statement today, which is useful. If I pick on one, which is that you started disclosing the pre; and post-tax identified item. But of course, you do not disclose a conventional adjusted income statement. So it's very difficult for us to make use of all the information. My question really, is there an intention at some stage to also align your financial reporting as regards the income statement to, let's say, your European peers?

Jessica Uhl, CFO & Executive Director

Thank you, Irene. So with your first question on the disputes, the number that I spoke to in the speech was $1 billion impact associated with disputes over the last 12 months. So I think that's a good indication in terms of the total impact associated with disputes that we would consider somewhat unusual and not necessarily underlying. There is no major disputes anticipated to be flowing through. Of course, these things are not fully predictable nor entirely in our control. Again, I think the fundamentals of what's happening in this space are good in terms of resolution on matters. So I think I'm comfortable and pleased in terms of what's happening and why things are happening. We are trying to provide clarity in terms of the financial implications and what we've deemed to be not necessarily underlying. And that's the $1 billion amount. I don't have anything on the horizon. However, these things aren't entirely within our control. So I'd want to caveat that. I think on the disclosure matter, just a couple of things there. The QRA, we did make important changes. The goal there was really to provide more transparency, more clarity and make it easier for people to make connections between, say, the working capital on the balance sheet and then the cash flow statement and also to bring more transparency to the derivative elements of the financial statements. And I think it's an important step forward. And hopefully, you all find that useful because that was entirely the intent, to bring more transparency and ease of use of our QRA. In terms of your follow-on statement, in terms -- are there other changes you think might be relevant, I'd suggest -- I'll have IR follow up with you and see specifically what you have in mind if there's perhaps further improvements you think might be necessary. Thank you.

Operator

Moving on, we'll take our next question from Lucas Herrmann from Deutsche Bank.

Lucas Herrmann, Head of European Oil and Gas

Just a couple of quick ones, if I might. First, a chunk of the growth the next two years is coming from the Permian. I just wonder whether in the near term, to what extent you may be facing or seeing constraints there. It feels as though that part of the industry is, let's just say, hotter and more active than anywhere else in terms of activity and bottlenecks. Secondly, last six months, in terms of the level of interest in your potential disposal, are you seeing the market free up? Notably, are you finding that others are coming to you or certainly showing more enthusiasm than they might have done previously? Thirdly, you talk about recycling capital and the level of divestments per annum. But if I think about your capital employed or your production in its entirety, what proportion of the business or what amount of the business is -- sits in the -- I'm going to use the word -- the phrase, question mark camp, I -- how much choices there around divestments for you now? Ben used to talk in ways about the first $30 billion program. And a potential second $30 billion program. I'm not suggesting for a moment that another program is on its way. But it's really just to get a scale of -- or an indication of the extent to which you have choice around divestment.

Jessica Uhl, CFO & Executive Director

Thank you, Lucas. Indeed, we have strong growth ambitions for our Permian business. And I mentioned that in a speech earlier in terms of -- we expect material growth to be happening with our Permian asset over the coming years. Indeed, it is a hot part of the industry and there have been midstream constraints. That's always been part of our planning and strategy to -- and that's true across the U.S. It goes part and parcel to building your business. You need to make sure you've got the integrated view of getting product to market and ensuring you've got the right processing and pipeline capacity in line. So what I would say is that goes hand in hand with our strategy and ambition to grow the business. We need to make sure that those pieces are in play. There can be short-term constraints. And you can see that happening to some of the players. Again, we've got teams working this. We've got a very strong trading capability that also supports in this area. This is one of the areas where having our strong North America trading business and being an integrated company can also help us have the capability in the organization to manage these issues and ultimately help manage some of the risk from a trading perspective or from an asset development perspective. Your question around kind of what's left in the portfolio and is there another $30 billion, I mean, I think, frankly, I'm in -- there's always the option to sell. So that's always the case. What I would say is that. And I mentioned it earlier, is that we've put a lot of thought from a strategy and portfolio perspective into the choices we've made around our divestment program. And I'd say most of the large decisions have been delivered. Now these things evolve and we're constantly challenging ourselves. Is this the right portfolio? Is this the right return profiles, the right risk profile? That is a normal part of our management cadence, is to manage the tail and to challenge ourselves, what's the best use of our capital. And in that sense, we could do something larger than $1 billion at some point in the future. But I'd say the major pieces of our strategic and portfolio shifts, we've delivered over the last couple of years. In terms of the market conditions around disposals and are we seeing more activity, in general, I feel like we've had pretty strong response over the last couple of years. So while there may be some more activity in this higher price environment, I wouldn't say it's going -- it has or would make a material difference to us at this point in time. Again, we're pleased with the assets we've sold. We're pleased with the prices we've achieved and the terms we've achieved in those divestments. And continue to have the market support to finalize getting to the $30 billion and to support the ongoing $5 billion to $10 billion. So I agree, it's -- in principle, it should be better conditions. I think some of that's happening. But in terms of our own program, we've had great market support already and have what we need in place to deliver on the $30 billion. Thank you.

Operator

Moving on, we'll take our next question from Jason Gammel from Jefferies.

Jason Gammel, Equity Analyst

Two for me, please. First of all, the noise that is caused with the cash flow in the last couple of quarters have highlighted the derivative positions that you're taking in the LNG business. I'm actually really just trying to take a step back and understand tactically why you're hedging that business in any event. And generally, you have used the strength of the balance sheet as you hedge against commodity prices. So really trying to understand why you would essentially diverge from that, especially given that you're dealing with counterparties that are evidently expecting a company of Shell's creditworthiness to actually post cash margin. Second question is on the core divestiture. I don't recall seeing anything about that transaction closing. And I noticed it was not on the slide that was detailing the further pending transaction. So apologies if I missed something here. But can you just talk about the status of that particular divestiture?

Jessica Uhl, CFO & Executive Director

I'm sorry. Jason, I'm sorry. Did you reference a specific divestment?

Jason Gammel, Equity Analyst

Yes. The Corrib divestiture, the natural gas asset in Ireland.

Jessica Uhl, CFO & Executive Director

Great. Starting with the first question on the derivative positions and why we're doing that. So first of all, it impacts a relatively small part of our portfolio, just to be clear. So less than 15%, 20% would be impacted by our hedging program. It's really quite specific. It's in the instances where we're, by the nature of the contractual arrangements, we have cross-commodity exposure. So it's in the circumstances where we believe it would be difficult for us to manage that cross-commodity exposure, we've put these hedges in place. So it's a relatively small part of the portfolio. That's why we provide guidance in terms of the rule of thumb with a $10 increase in the price. You see a $2 billion increase in CFFO from our Integrated Gas business, which wouldn't be possible if the entire portfolio were hedged. So just to be clear, it's a relatively small part of the position. It's driven by cross-commodity exposure. But as you said, otherwise, we ride commodity exposure. That's not something we necessarily try and manage out of the portfolio. It's really this particular circumstance. In terms of divestments and closing, we continue to work on the closing of Corrib. There's a few other assets as well. We expected it to close in 2018. So that isn't necessarily a surprise. There's always different elements that can take more or less with any of these transactions. But it continues to be worked, along with other transactions that we have signed and have yet to close. It's kind of normal course of business with a divestment program. Thank you.

Operator

Moving on, we'll take our next question from Iain Reid from Macquarie.

Iain Stewart Reid, Head of European Oil and Gas Research

Just a couple of things. Firstly, most of your peers have raised their dividends over the last couple of quarters. I wonder whether this might be something which investors would prefer rather than what's becoming a rather a squeezed amount of time, as Jon Rigby was saying, in order to actually get your -- this rather large share buyback down over the next 2.5 years. And have you thought about that? Where does that fit into, this kind of cash management strategy you outlined? And on the second point, just kind of a matter of clarification, on the Integrated Gas performance, as you say, it was a very strong quarter. Just on Slide 23, where you show this big other number, I presume that is the -- or most of that is the gas trading comparison between the quarters. Just clarify that.

Jessica Uhl, CFO & Executive Director

Great. Thank you. On your first question, on dividend levels and the share buyback, we continue to offer very healthy dividend levels with our share price. The share buyback program is front of mind. I hope that I've conveyed that today. I think what we're trying to demonstrate is a clear financial framework, a clear intent, the principles that underlie that and to be consistent with those principles. I'm hoping this will ultimately be rewarded, that we were clear on the basis of making our decisions and we stayed consistent with those principles as we work through our financial framework and delivered on each of our commitments. As I said, we remain committed to the $25 billion. And we are looking to deliver that between 2018 to 2020. We want to deliver a world-class investment case. We want to be #1 in terms of total shareholder return. We understand that we need to increase shareholder distributions to deliver on that world-class investment case. That's a clear part of our financial framework. It's a clear part of our world-class investment case. And that's why I keep going back to this cascade of priorities and what we believe it will take to move to the share buyback program, a good macro environment, strong underlying performance, delivery on the divestment program, all of which should create the conditions for us to commence the share buyback program. So the question you had on Integrated Gas, indeed, the other relates to -- essentially to Trading. So I think that's a pretty clear answer.

Operator

Moving on, we'll take our next question from Colin Smith from Panmure Gordon.

Colin Saville Smith, Oil and Gas Analyst

Two, please. First of all, just on the Refining & Trading result. That looked pretty weak despite the weakness in margins we had and the lower refining availability. And I just wondered if you could give us a bit more color around that. Then secondly, on the derivatives, again, is there anything you can give us to look at that might give us a chance of getting a feel for what the movement quarter-to-quarter might be? Because while you mentioned it's a relatively small part of the total exposure you've got, it did damage cash flows which were otherwise about 10% or short 10% (lighter) than they would have been otherwise.

Jessica Uhl, CFO & Executive Director

Thank you, Colin. Starting with the Downstream question and the Refining & Trading performance for the First Quarter. As I spoke to earlier, the main drivers for that softer performance Q1 2018 versus Q1 2017 in particular were soft refining margins, a weaker macro for the business and softer trading results. Q1 2017 had particularly strong trading results. So that generated an important part of the swing in the business. And the refining piece, some 20% -- 10% to 20% softer realized refining margins across the business, particularly in Europe, we were impacted. So it's really those 2 elements. On the trading piece, I'd like to note that I think it is somewhat difficult to assess the performance of the Trading business on a quarterly basis. Again, it's something that I think you need to look through the cycle and see the overall performance of this business over the last 12 months. And on average, the trading business continues to generate significant value for our Downstream business. As a counterpoint, it made an important contribution for the Integrated Gas business, which we were just speaking to. And so this is a little bit the nature of Trading. But on the whole, if you look through the cycle, you'll see very strong Downstream performance, Refining & Trading performance over the last 12 months and similarly in Integrated Gas, with Trading being an important component of that. In terms of the derivatives piece, what I would say is we've sought to provide a lot more transparency in the QRA and hopefully, that can take some mystery away from the numbers and provide clarity where it's needed. I've given you a sense of the impact in 2018 versus 2017, which was a $700 million margin impact for the quarter. You can get a sense of that in terms of the change in price and the relationship to that margin. But it's a tricky area. It's not an entirely straightforward area to explain and that's not because I want to be mysterious. But it's the nature of derivative accounting. So I would encourage you to probably spend some time with the IR team just talking through some of the new disclosures and how to think about these numbers. And again, I think the important piece there is if you look through the cycle, these margining positions move as the forward curve moves up and down. As the underlying transactions happen, the physical element of that hedge arrangement comes through, these things offset one another. But for more detail, I think it's worth spending a little bit of time with the IR team and talking through the disclosures in a bit more detail to make sure it's sufficiently clear. Thank you.

Operator

And moving on, we'll take our final question from Martijn Rats from Morgan Stanley.

Martijn Rats, MD and Head of Oil Research

It's Martijn. I wanted to ask you 2 things. First of all, I don't want to sort of repeat Christyan Malek's question from earlier on about cash generation. But I have to. It is quite noteworthy that now for the Fourth Quarter in a row, we've had net debt pretty much precisely at $66 billion. It -- the balance sheet degearing that was finding quite a nice pace in sort of late '16, early '17, it's sort of pretty much completely stalled over the last 4 quarters. And it's interesting in the context of, as you described, a very healthy operating performance of the business. Oil prices have reached levels that, a year ago, we wouldn't be dreaming of and also, you vastly outperformed in terms of the pace of disposals. Yet despite all these things, net debt is still going down. And I know that every quarter, there are things around tax payments and margin requirements and all that type of stuff. But it compounded over sort of pretty much a year now. Is there something else that prevents gearing from going down? Or are we going to see, from here on, quite a sharp reacceleration of balance sheet gearing? But still hoping you could say something about that because if we're stuck at that level of 25% and you -- then you've talked a lot about line of sight of 20%, I guess, that probably also plays with the buyback program from 25% to 20% at the current pace. We could be waiting for that for quite a long time. The second thing I wanted to ask you is perhaps a bit more technical. But I wanted to ask you about unifications of the A and the B shares. I mean, the Dutch government has made some progress on dividend withholding tax. We've seen the situation around Unilever. I was wondering if there's any update on that topic.

Jessica Uhl, CFO & Executive Director

Thank you, Martijn. On cash generation and net debt gearing, what's happening, are we going to really achieve the 20%, I think, is your question and why isn't it moving faster. First, let me highlight what we have done. So since the high point in, I believe, Q3 2016, we've paid down $13 billion of debt. And in the last 12 months, it's been a $10 billion reduction. So without kind of tying back to your numbers on the 4-quarter basis, we've -- $10 billion reduction has happened over the last year. The commitment is clear. We're paying down the maturities as they come due. And we have material maturities happening this year and next, which we -- which should be closed out as they mature. There have been a number of unusual cash items that I've spoken to before. Maybe I'd highlight 2 other things that happened in this quarter that also impacted net debt. So of course, we took the scrip off. We had full cash dividend payment this quarter of $4 billion. That compared to some $2.3 billion in dividend payments in the Fourth Quarter. So that's another $1.6 billion, $1.7 billion of cash that went to dividend payments. Another piece in the quarter was we purchased shares for our employee share plan. That was roughly $800 million. So there was some sizable uses of cash in the quarter, completely understandable, has nothing to do with performance, nothing to do with the capacity to generate cash. But those were elements that also contributed to relatively soft decrease in net debt. Again, the commitment remains strong for us to get to line of sight and delivery of the 20%. That is part of our financial framework. We're trying to balance all of these things and as I mentioned earlier, to remain principle in our choices. However, we are confident in terms of the underlying performance of the company and its ability to generate the cash and work through that financial framework as I've described, to create the cash either through our CFFO or through divestment proceeds. We also shared with you what our expectations are around divestment proceeds for the year of some $6 billion to $10 billion. We thought that was an important element of our financial framework to bring clarity to. That, of course, will be an important contributor to helping to further drive down net debt. Then, again, with continued strong underlying performance, if the macro continues to be strong, we deliver on the divestment proceeds as expected. Then we should be in a position to commence the share buyback program. Unification, there isn't really an update. So from the government's perspective, it needs to be enacted. And Martijn, you probably are up to speed in terms of some of the dynamics in the Netherlands. The government has supported it. And so our expectation remains that the legislation will go into effect and the dividend withholding tax will be eliminated. Once that happens, that creates the capacity for us to consolidate our shares and bring As and Bs together. Once that law is in place, we would then go to the board to get support to make that happen. We think it's the right thing from a capital structure and a capital efficiency perspective. We've been very clear about that from the beginning when we unified the company 10 years ago. This was an important piece and an agreement we felt we had with the Dutch government that eventually the dividend withholding tax would be eliminated. We could simplify our capital structure. So it's always been important to us. We've been clear in terms of our expectations and our desire to simplify the capital structure. We hope that the legislation goes through and then we can take the next steps from there. Thank you.

I think that was the last question. And with that, I'll thank all of you for participating in the call and for all of your questions today. To remind you, the Second Quarter results are scheduled to be announced on the 26th of July, 2018. And Ben and I will talk to you all then. Thanks very much.

Operator

And again, that will conclude today's conference. We do thank you for your participation. You may now disconnect.