ROYAL DUTCH SHELL PLC
FIRST QUARTER 2017 RESULTS

MAY 4TH 2017

FIRST QUARTER 2017 RESULTS WEBCAST TO MEDIA

BY JESSICA UHL, CHIEF FINANCIAL OFFICER OF ROYAL DUTCH SHELL PLC

Ladies and gentlemen, welcome to the Shell first quarter 2017 results call. It is a pleasure to be on this call today. I came into this role about two months ago. The handover went well and it is good to be here today to talk about the company and our Q1 results.

Before we start, let me highlight the disclaimer statement.

We are making good progress in re-shaping Shell towards the goal of a world-class investment case with a focus on delivering a higher return on capital employed and free cash flow per share and reducing debt. Simply put: higher returns for shareholders. The strategy we have outlined to deliver a world-class investment case is working. Following the successful integration of BG, we are pushing ahead to transform Shell rapidly at all layers through a consistent and disciplined execution of our strategy. This includes investing some $25 billion this year and the delivery of new projects with an expected $10 billion in cash flow from operations by 2018 from start-ups since 2014. We are on track to deliver on the 2020 expectations set out at the capital markets day last year. 2016 was a transition year and 2017 is the year in which we follow through on the delivery. This is not just about managing the down-cycle. This is about transforming Shell through the reshaping of the portfolio and a structural change in our culture and ways of working. We want Shell to be more competitive and resilient through the cycle.

The first quarter of 2017 was another strong quarter for Shell. Our Q1 2017 CCS earnings excluding identified items were around $3.8 billion with cash flow from operations of $9.5 billion and free cash flow was $5.2 billion at an average Brent price for the quarter of around $54 per barrel, and in Q1, for the third consecutive quarter, free cash flow more than covered the cash dividend.

There is no change in the dividend intention, we expect the Q2 2017 dividend to be $0.47 per share.

Our results today show that we are successfully pulling on powerful financial levers. We continue to re-shape Shell's portfolio and to transform the company with some $20 billion of divestments completed or announced that strengthen the balance sheet as they are completed.

We continue to reduce our operating costs, with the underlying operating cost at around $9 billion in Q1, lower than Q1 2016.

Stepping back from results for a moment, we also want from Shell to be a leader, to reduce Shell's carbon intensity and that we want to contribute to shared value. We need to succeed in each of these themes to deliver the world-class investment case.

Turning to our Q1 results. We've seen a strengthening of oil prices: Brent was almost 60% higher than year-ago levels. Our realised gas prices were some 10% higher than year-ago levels, and on the Downstream side, refining margins were higher than a year ago, in all regions except for the US West Coast and Singapore, driven by strong supply and in Chemicals, industry cracker margins strengthened across all regions.

In summary, excluding identified items, Shell's CCS earnings were $3.8 billion – a more than 100% increase in earnings per share from the first quarter of 2016. On a Q1 to Q1 basis we saw higher earnings in all business segments.

I will speak about Upstream shortly.

In Integrated Gas our earnings excluding identified items were some 19% higher than in Q1 2016. This was driven by favourable market conditions, higher LNG volumes and an increased contribution from trading, partly offset by lower Pearl production volumes and the accounting reclassification in Q2 2016 of Woodside.

In Downstream our results improved, driven mainly by Chemicals, where earnings excluding identified items were some $800 million, up more than 120% from year-ago levels. This was driven by better asset availability, improved operational performance and stronger margin environment in Asia and the US and to a lesser degree in Europe.

Return on average capital employed was 3.3% excluding identified items and cash flow from operations was around $9.5 billion, or $11.3 billion excluding working capital movements. Our dividends distributed in the first quarter of 2017 were $3.9 billion, or $0.47 cents per share, of which $1.2 billion were settled under the scrip programme.

In this quarter we again delivered and sustained the cash flow momentum driven by a focus on the four levers: divestments, reduction in capital investment, reduction in operating costs and delivery of new projects throughout our integrated portfolio. Cash flow from operations on a 4-quarter rolling basis was some $29 billion; excluding working capital movements this was around $34 billion. Free cash flow on a 4-quarter rolling basis was $11 billion at an average Brent price of around $49 per barrel.

Turning to the Upstream business segment in more detail. Upstream earnings excluding identified items for the first quarter 2017 were $0.5 billion, which is some $2.0 billion higher than in Q1 2016. This figure includes a $1.6 billion oil and gas price impact. Q1 to Q1 also saw a $300 million increase from higher production volumes mainly from new assets but also from improved operational performance. In the quarter, Upstream cash flow from operations, excluding working capital effects, was some $4.7 billion. On a 4-quarter rolling basis this is $13 billion, which is almost $8 billion higher than in Q1 2016. In Q1 2015 Brent was at the same level for the quarter $54 per barrel, and compared to Q1 2015, our CFFO excluding working capital this quarter was $2.8 billion higher: $4.7 billion versus $1.8 billion - more than double cash generation at the same oil price, with only part of this driven by production increase. Let me re-iterate that our Upstream operating performance continues to improve, our focus on reliability and uptime improvement as well as operating costs reduction is paying off in the form of higher production, better margins and stronger cash generation.

Moving to our cash flow priorities. Shell's financial framework is a key element of our overall strategy. There is no change to the priorities for cash flow. Reducing debt. Paying dividends and turning off the scrip, followed by a balance of capital investment and share buy-backs. We are working four performance levers to manage the financial framework: divestments, capex, opex and new projects. These levers are adding significantly to cash flow. We are demonstrating good delivery against these levers and I want to further strengthen the momentum with a strong focus on performance management, simplicity and costs. Fundamentally, this is an important opportunity to improve Shell's competitive performance, irrespective of oil prices. This is about transforming the company for the future - more value- and bottom-line focused and nimbler to drive change and improvement across the business.

Debt reduced end Q1 2017 from Q4 levels and our net debt position at the end of Q117 was $72 billion. Despite no material divestment proceeds this quarter we have reduced our debt levels and gearing at the end of the quarter was 27.2%. Dividends declared over the last 12 months were $15.3 billion. In Q1 2017, for the third consecutive quarter, free cash flow more than covered cash dividend.

Turning to divestments. We are using asset sales to re-shape the company and better match our portfolio with our strategy. Asset sales are an important factor in reducing our debt and have my strong attention. Divestments are important for 3 reasons: firstly, re-shaping the portfolio to align with our strategy, being more competitive, differentiated and resilient; secondly, accelerating cash flow to reduce debt, and lastly, simplifying the company. During Q1 we announced several large transactions, examples are shown on this slide. The split of the Motiva joint venture was completed on the 1st of May. From this date we will now fully consolidate the retained businesses and fully integrate the Norco and Convent assets and the other businesses into our Downstream portfolio. The full end-to-end integration of our Downstream assets is essential to maximising value across Upstream, Refining and Trading, retail and Chemicals. Another example, the oil sands mining divestment where we reduced our share in the Athabasca Oil Sands project from 60% to 10%. It represents a net consideration of $7.25 billion with benefits for buyer and seller, it reduces the eight strategic themes to seven and contributes to re-shaping Shell and simplifying of our portfolio.

Our asset sales programme is expected to total $30 billion for 2016 to 2018 combined. We completed $5 billion in divestments in 2016 and we have announced some $15 billion in the last 4 months – ahead of the "5 + 5 + more than 5'' expectation set at the beginning of the year. You can clearly see we are on-track to achieve at least half the target by mid-2017. We are confident that we will deliver.

Developing new oil & gas should, of course, drive new cash flow and free cash flow over time. Our portfolio is geared to deliver an improvement in production, and more importantly in cash flow from operations and free cash flow, in 2017 and beyond. We have a set of projects under construction for start-up, particularly in the 2017-18 timeframe, for example Prelude, 4 new FPSOs in Brazil pre-salt and in the Permian as well as Gorgon Train 3, Clair phase 2 and Schiehallion. By 2018, start-ups since 2014 in the combined portfolio should be producing more than 1 million barrels per day, some $10 billion of CFFO annually at average $60 oil prices. 2016 project delivery was consistent with our expectations. New field start-ups and the continuing ramp-up of existing fields, in particular Lula Central, Lula Alto and Lapa in Brazil, Kashagan in Kazakhstan, Sabah Gas Kebabangan in Malaysia and Stones in the Gulf of Mexico contributed some 140 thousand boe/d to production compared with the first quarter 2016, which more than offset the impact of field declines.

Let me cover Upstream operational excellence and our growth priorities.

In Chemicals, Shell has had a solid performance over the last 5 years with a record quarter in Q1 2017 and returns have averaged some 15% over the last 5 years. We concentrated our footprint of integrated sites from 133 to 15, and focused on Shell's core competences and advantaged feedstocks which has become a real competitive advantage for us. Chemicals is a growth priority for Shell. Shell's Chemicals strategy focuses on activities with a clear competitive advantage. We optimise returns from using different feedstocks, invest in our existing first-class footprint, and continue to focus on enhancing our customer relationships and service. The global portfolio now offers both a regional balance and a balanced exposure to both gas and liquids, and exposure to a range of different value chains. This ensures we can capture good margins in a range of volatile market environments.

Upstream continues to drive change throughout the organisation. Operational excellence is part of this change. Cost reduction continues on the trajectory with 8% delivered in 2015, fully absorbing BG costs with no increase in 2016 and a reduction of another 2% quarter on quarter in Q1 this year.

We value examples of substantial changes, however this time I would like to share with you a few examples from the frontline of the Upstream business. In Brazil we embarked on a purposeful change in organisational culture and mind-set in our operated business leveraging our Upstream operational excellence programme, providing a disciplined focus to deliver cost reduction and production optimization, with availability moving from 83% in 2016 to 96% in Q1 2017.

In ONEgas, the operator of offshore gas assets in the southern North Sea, we improved availability from 74% in 2016 to 92% this year with a stronger focus on identification, prioritisation and resolution of reliability challenges in an hourly, daily, and weekly rhythm. We are simplifying existing platform equipment, reducing logistics costs such as the number of helicopters and marine supply vessels used. In addition, with what we have learnt from our UK operations, we unbundled an integrated service contract within 6 months and delivered $50 million per annum savings and a reduction of almost 130 FTEs.

In the Gulf of Mexico, we developed a technology for opening closed-in wells with oil foamer. It has been applied to a well and opened some 1,000 barrels of oil equivalent per day production on 100% basis, a real opportunity for replication across deep water, with 20 wells identified already.

Moving to deep water and specifically Brazil. Shell's global deep water business is a growth priority. An important area for growth is of course Brazil. In the Santos basin 3 new FPSOs started production in 2016 with the last one close to the end of the year, so still ramping up into 2017.

Production in Q1 2017 was at some 325 thousand boe per day against the average for 2016 of 230 kboe/d and we expect a further 2 FPSOs to come on-stream as well as the Libra extended well test FPSO in 2017 as per plan. In addition to an impressive project delivery track record, Petrobras is demonstrating significant gains around the learning curve in the pre-salt, drilling wells and ramping up FPSOs much faster over time. Our teams are closely collaborating with Petrobras, for example helping to optimise well designs and execution practices based on our deep water experiences elsewhere within Shell. Our current programme provides us good visibility on continued, low break-even, growth into the next decade. Beyond that, we will review upcoming bid rounds as a potential opportunity to further extend our position.

Let me close out. Remember, we are aiming with our strategy and performance to create a world-class investment case for Shell. 2016 was a year of transition and we are now delivering. Our strategy is starting to pay off. This year is another year of progress for Shell to become a world-class investment. In the end, you will measure this as total shareholder returns. And so will we. I think that by doing a better job on delivering higher, and more predictable returns and free cash flow per share, and underpinning all of this with a conservative financial framework, we can create a better investment case – a world-class investment case.

With that, let's go for your questions please. Please could we have just one or two each, so that everyone has the opportunity to ask a question.

Thank you for your questions today. The second quarter results are scheduled to be announced on the 27th of July 2017 and Ben and I look forward to talking to you all then.

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