ROYAL DUTCH SHELL PLC
SECOND QUARTER 2017 RESULTS

JULY 27TH 2017

SECOND QUARTER 2017 RESULTS WEBCAST TO ANALYSTS

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I would like to welcome everybody to today's call and thank you for joining us. Before we start, let me highlight the disclaimer statement.

I am pleased to report that the second quarter of the year was another strong quarter for Shell, with CCS earnings excluding identified items of $3.6 billion, compared to $1 billion in the same quarter of 2016. We increased cash flow from operations to $11.3 billion, from $2.3 billion in the previous year.

With this quarter, we now have a very solid track record over a 12-month period with $38 billion of cash flow from operations at an average oil price of less than $50 per barrel. We have more than covered the cash dividend for the fourth consecutive quarter we have reduced net debt by almost $9 billion and reduced gearing to 25.3 percent from 28.1 percent a year ago. These are great measures of the progress we are making. They show that our strategy of delivering a world-class investment case is working. They show that we are transforming Shell through the re-shaping of the portfolio as well as through structural changes in our culture and ways of working. Becoming that world-class investment case involves Shell being a leader, reducing its carbon intensity and contributing to shared value with society. It means having a strategy that is resilient for the long term.

Today, I am going to talk to you about how we are transforming Shell so that we can become more competitive and more resilient in the future and about the results so far. And I will show you how we are strengthening our financial framework by pulling on four powerful levers: divestments, capital investment, operating costs and new projects.
Then our Chief Financial Officer Jessica Uhl will take you through the details of this quarter's results with a focus on the Downstream business, which has reported one of its best quarterly results.

But first I would like to start with some of Shell's highlights in the last quarter which you can see on this slide. In June, Prelude, our floating liquefied natural gas facility, left the construction yard in South Korea and arrived two days ago at gas fields off the coast of Australia. The liquefied natural gas that it produces will be sold around the world and Shell expects to see cash from the project during 2018. In Brazil, deep-water production started at our tenth floating production, storage and offloading vessel in the pre-salt fields of the Santos Basin. In the North Atlantic Ocean, production has started at the Schiehallion deep-water oil field. And we have continued the launch of a new version of our premium fuel V-Power. It is now sold in more than 60 markets around the world and is the number one differentiated fuel

among international oil companies, delivering not only great performance and efficiency to our customers but also high margins for our group. These are all important milestones for us they will make a significant contribution to our financial performance over time. Another important event was the ramp up of production at Pearl GTL in Qatar. The plant is now operating at full planned production, including base oils.
I would also like to highlight that Shell is supporting The Task Force for Climate-Related Financial Disclosures, that was set up at the request of the G20 countries and its efforts to improve transparency around the risks and opportunities that the transition to lower-carbon energy presents. We look forward to working with the task force on the details.

Now I will give you an update on the first of the financial levers.

I mentioned at the beginning of my talk divestments which are an important part of the re-shaping of our portfolio. This was a quarter of completions including two large transactions the sale of the majority of our oil sands business in Canada, and the split of the Motiva joint venture in the USA. We also completed the sale of our Australian aviation fuels business and the sale of our stake in Vivo Energy, which distributes and markets Shell-branded fuels and lubricants in Africa. More recently, we announced the sale of our stake in the Corrib gas venture in Ireland for up to $1.2 billion. These deals bring us to more than $25 billion in completed, announced or in progress divestments setting us well on track to meet our target of $30 billion of divestments between 2016 and 2018. So far, we have completed $15 billion of that $25 billion and we have received $11.5 billion in cash. We expect that these divestments will lead to higher returns, as we have sold businesses with a lower return on capital employed than the average for our group. We have provided you with figures showing the impact of some of the main divestments on our portfolio. We included this impact in the 2020 outlook we provided during our Capital Markets Day last year.

Now let's look at the second of our financial levers: capital investment. We have said that we would operate with capital investment in the range of a "soft floor" of $25 billion and a "hard ceiling" of $30 billion every year until 2020. We confirm that we will be at the lower end of that range this year, with $25 billion of capital investment of which $23 billion is expected to be in cash. In the current economic environment, the lower end of that range is the right level. It is affordable and it is consistent with our free cash flow growth to 2020. We continue to look for ways to use our capital more efficiently driven partly by a deflationary market environment but mostly by changes in the way we design and execute our projects. You will see three examples on this slide. The first is our Appomattox deep-water project in the Gulf of Mexico. We have saved around 20 percent on this project, compared to our original investment proposal by reducing the number of wells, and renegotiating contracts with suppliers, among other measures. At our Geismar chemicals plant in Louisiana, USA, we have reduced costs on the construction of a fourth linear alpha olefins unit by 17 percent compared to the original proposal. And we have reduced costs on the redevelopment of the Gannet C field in the North Sea by more than 20 percent. We now deliver more for less, which means that growth becomes more affordable and that we are more resilient when oil prices are low.

And this brings me to the third of our levers operating costs. We have made good progress in this area too. We have reduced underlying operating costs by more than 20 percent – or $11 billion – since 2014 while growing the company's free cash flow. We have spent $38 billion over the last 12 months, below the $40 billion level we indicated last year. We have achieved these reductions by cost-cutting but also by changing our company's culture, by changing how we work, and by adopting what we call a "lower forever" mindset.
I will give you two examples of what I mean the first is the greater use of Shell Business Operations that support the whole company from a few countries including India, Malaysia, the Philippines and Poland. We think we are one of the leaders in this area and that will continue. Shell Business Operations help us reduce costs and, just as importantly, allow us to standardise, simplify and, increasingly, digitalise the way we work in operations such as IT, finance, human resources, contracting and procurement but also in customer services and technology. Shell Business Operations now hold over 12,000 employees and generate significant savings. The second example comes from our Upstream business in the UK. Taking practices from the shipping industry, we have retrained the crew on our Curlew floating production, storage and offloading vessel in the North Sea so that they can do more maintenance themselves. This training has reduced our reliance on outside contractors by half since 2014 helping us reduce costs by 35 percent between 2014 and 2016, and increase the availability of our assets. These are just two examples of structural changes to the way we do business we now have 13 percent less employees than we did at the beginning of 2016. To be clear costs must continue to go down and stay down.

The final lever that I am going to talk about today is the delivery of new projects. As you can see from this slide, we have a portfolio of large projects that we have either delivered, or are about to deliver. By 2018, we expect these projects to be producing more than one million barrels of oil equivalent per day that represents some $10 billion of cash flow from operations at a $60 oil price. You will see from this slide that most of these projects are now producing such as our Stones deep-water oil and gas project in the Gulf of Mexico the Kashagan field in Kazakhstan or our Queensland Curtis liquefied natural gas plant in Australia and, of course, the 10 FPSOs in Brazil.
The projects still under construction are either at an advanced stage – like Prelude – or are replicating a successful model, as in Brazil. I am confident that we are on track to deliver these projects and expect half of the $10 billion cash flow to contribute to our financial results this year.

As much as we are focusing on our four financial levers safety and day-to-day operational excellence remain top priorities for Shell. I would like to share with you three examples to illustrate this. The first example is in the Gulf of Mexico, where better surveillance of our equipment has halved our unplanned downtime between 2015 and 2017. The second example is from our Pernis refinery in the Netherlands, where we have increased availability by 6 percent between 2012 and 2017, compared to the period between 2008 and 2011. And the third example is our Gumusut deep-water project in Malaysia, where we have had a strong process safety record in the past two years while we have reached availability of 98 percent in 2017. This is an excellent performance and one I am extremely proud of. In all these examples, we have seen operational performance going hand-in-hand with safety performance. There is simply no trade-off between the two.

And now I will hand over to Jessica who will talk to us about this quarter's financial performance in more detail.

Thank you Ben and welcome everyone on the call.

As Ben has said, one of our main strategic aims is to be a world-class investment case and that means being a competitive and resilient company with a relentless focus on performance management to deliver better returns to shareholders. We are making good progress towards that goal. I am especially pleased to say that we continue to demonstrate the resilience and competitiveness of our business in this quarter. In short, our strategy of capital efficiency, reducing costs, delivering new projects and divestments, is translating into higher earnings and strong cash flow momentum.

You can see that in the figures in this slide we have increased CCS earnings excluding identified items to $3.6 billion in the second quarter of this year, from $1 billion in the same quarter of the previous year. And we have generated $11.3 billion in cash flow from operations, $9 billion more than in the second quarter of 2016. At $12.2 billion, our free cash flow includes $6.7 billion of cash proceeds from divestments. It is $15.3 billion higher than in the second quarter of 2016. We have increased our return on average capital employed in the second quarter to 4.2 percent from 2.5 percent in the same quarter of the previous year. Higher oil prices and better industry conditions in chemicals and refining have contributed significantly to our stronger earnings in addition to the growth in our Upstream and Integrated Gas businesses and the improved operational performance in Downstream. Upstream earnings have also been supported by lower depreciation, including the impact of assets held for sale and divestments. In Downstream, strong performance from refining and marketing has offset the effect of the split of the Motiva joint venture.
The strongest evidence of the impact of the BG acquisition and of the effectiveness of the four financial levers Ben has talked about is our cash flow momentum.
As this slide shows, cash flow from operations excluding working capital has risen to $38 billion over the past four quarters when the average oil price was less than $50 per barrel. The last time we achieved a comparable level of cash flow from operations the oil price was close to $100 per barrel.

I would now like to look at the performance of Downstream in more detail. As you have heard, Downstream had another strong quarter increasing CCS earnings to $2.5 billion, almost 40 percent higher than in the second quarter of 2016. The trend of improved cash generation and returns in Downstream is a great example of how we are making Shell a more competitive and resilient company. We have strengthened our Downstream business by reducing costs and increasing asset availability while refocusing the portfolio through divestments. We are disciplined about how we use capital and we are leveraging the strength of our brand and marketing. As you can see from this slide, our Downstream business now delivers around $10 billion per year in cash flow from operations excluding working capital and a 15 percent return on capital employed at different points in the economic cycle. The integration of our refining, trading and marketing activities as well as the performance of our chemicals business is improving margins and making Shell's portfolio more resilient to lower oil prices.

Shell's brand and retail network are two great strengths of our Downstream business. Shell is the most valuable brand in the oil and gas industry and as you can see here, we are the world's largest fuel retailer. Every day, Shell serves more than 30 million customers across our 43,000 sites in close to 80 countries. That is more sites than Starbucks it is more than McDonalds. Our marketing business is not only profitable, delivering over $4 billion in earnings per year, it is also growing rapidly and offers attractive short-cycle investment opportunities.

As we have said, the acquisition of BG Group has worked well for us on many levels. It has given us growth in deep water and integrated gas. And it has also been a catalyst to reduce costs across the business to make Shell a more competitive and resilient company and we are making good progress here. Based on the same assumptions for exchange rates we had at the time of the BG combination, we expect to achieve $4.5 billion already by the end of 2017. For example, we have already achieved half a billion dollars of savings in contracting and procurement. We are delivering more and faster than we initially expected. We are confident that we will achieve the synergies that we have announced and they are included in our operating costs and capital investment guidance. Put simply, we are now operating BG and Shell combined with lower costs and fewer employees than it took to operate Shell alone before the combination we have reduced the number of employees from 98,000 at the time of the combination to 85,000 in the middle of 2017.

What does our cash flow momentum mean for our financial framework? It means that even though the oil price was at less than $50 per barrel over the last 12 months we were able to maintain capital investment at a level that still delivers growth cover our cash dividend for the last four quarters reduce our net debt and reduce gearing to 25.3 percent from 28.1 percent a year ago. This gives you a sense of the resilience of our financial framework. Still on cash flow, there is no change to our priorities; reducing debt, paying dividends and turning off the scrip, followed by a balance of capital investment and share buy-backs. As Ben has highlighted, the delivery of our divestment programme and new projects is on track. We have also made significant progress in reducing operating costs and reducing capital investment. We expect to pull even harder on these levers in the future. This is an important opportunity to improve Shell's competitive performance.

Looking forward, this slide has some indications for the third quarter of 2017. Today's quarterly results announcement provides more detail.

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Thank you very much Jessica. I will end our presentation with some numbers that demonstrate that our strategy is working. As you can see here, we have increased our free cash flow excluding divestment proceeds to $16.6 billion on a four-quarter rolling basis compared to an average of $5 billion in the period between 2013 and 2015 at a time when oil prices have fallen more than 40 percent to $50 per barrel.
Our strong results this quarter show that we are delivering on our strategy following the integration of BG Group they show that we are succeeding in re-shaping the company into a world-class investment case. The external price environment and developments in the energy sector mean that we will remain disciplined, with an absolute focus on the four levers within our control namely capital efficiency, cost reductions, the delivery of new projects and divestments to continue to high-grade our portfolio.

I look forward to updating you further on our progress during presentations by our Scenarios team and Chemicals business later in the year, and during the next management days in November. I hope you will be able to join us then.
In the meantime, I am sure that you have plenty of questions to ask us so we will open the floor to you now. Thank you.

Thank you for your questions today. The third quarter results are scheduled to be announced on the 2nd of November 2017and we look forward to talking to you all then.

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Discovered and prospective resources: Our use of the term "discovered and prospective resources" are consistent with SPE 2P + 2C + 2U definitions.

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

Shales: Our use of the term 'shales' refers to tight, shale and coal bed methane oil and gas acreage.

Underlying operating cost is defined as operating cost less identified items. A reconciliation can be found in the quarterly results announcement.

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