# ROYAL DUTCH SHELL PLC
# SECOND QUARTER 2018 RESULTS

**JULY 26Th 2018**

**SECOND QUARTER 2018 RESULTS WEBCAST TO MEDIA AND ANALYSTS**

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Ladies and gentlemen, welcome to the Shell second quarter 2018 results call. Before we start, let me highlight the disclaimer statement.

Today we are taking another important step towards the delivery of our world-class investment case, with the launch of a $25 billion share buyback programme. This move complements the progress we have made since the completion of the BG acquisition in 2016, to reshape our portfolio through a $30 billion divestment programme and new projects, to reduce net debt, and to turn off the scrip dividend.

This quarter, our cash flow from operations, excluding working capital movements, is the strongest since the first quarter of 2014, when the oil price was above $100 per barrel. Our financial framework remains unchanged. Our free cash flow outlook and the progress we have made to strengthen our financial framework give us the confidence to start our buy-back programme. Our intention remains to buy back at least $25 billion of our shares over the period 2018-2020, subject to further progress with debt reduction and oil price conditions. In today's call, I will first take you through Shell's performance across a range of critical areas, with updates on HSSE, portfolio, project delivery and more. Then Jessica will cover in more detail our financial performance, financial framework and some highlights from our businesses.

But before anything else, let me talk about our health, safety, security and environmental performance. Nothing is more important in Shell: it is the bedrock on which everything else is built. Goal Zero is our goal: zero harm to people or the environment. This is critical for the responsible delivery of energy and it is what society expects of us. We have to be known as a company that performs and behaves in the right way – one that does no harm – to achieve any of our strategic ambitions. This is true if we want to be a world-class investment case or thrive through the energy transition. And it is true if we want to maintain a strong societal licence to operate.

The industry had a powerful reminder of the importance to have a relentless quest for improvement on HSSE earlier in the month. It is now 30 years since the Piper Alpha disaster in the North Sea took 167 lives and turned many more lives upside down. Shell, and the industry as a whole, have improved in many ways since then, but it would be a betrayal of the lives lost in July 1988 if we thought the work was now done. It is never done. And if anybody is tempted to point backwards, admire the view, and say: "Look how far we have come", I will always point forwards and reply: "And look how much further we have to go."

You can see from this slide that progress continues to be made in many areas in Shell. In 2017, for example, we had our lowest injury rate ever at 0.8 injuries per million working hours and we continue to make progress on the environmental front. But I am not at all happy that we saw an increase in personal safety incidents in the first part of the year. We have to keep working to improve our HSSE performance, even if much good work has already been done.

I would like to cover some of Shell's financial highlights from the first half of 2018. Our CCS earnings, excluding identified items, for the first half of the year were around $10 billion, cash flow from operations was some $19 billion, and free cash flow was around $15 billion. All of this at an average Brent price for the first half of the year of $71 per barrel. Since the beginning of the year we reduced net debt by some $4 billion and gearing was 23.6% at the end of the second quarter. ROACE reached 6.5%. This performance builds upon the strong financial results we delivered in 2017. We came into 2018 with momentum and have maintained it with sustained performance and higher oil prices in the first half of the year. Let's move on now to some of Shell's recent portfolio highlights.

Our recent portfolio announcements show the progress we have made. In exploration, we announced two major discoveries in the Gulf of Mexico: Whale and Dover. We have also been successful in recent bidding rounds, in Brazil and Mexico and in July in accessing acreage in Mauritania. In our Deepwater portfolio, we took the final investment decision for Vito, one of our most competitive developments in the Gulf of Mexico, and for Gumusut Kakap phase 2 in Malaysia at the end of last year. We also announced final investment decisions in our conventional oil and gas portfolio in the UK North Sea, with the redevelopment of the Penguins field and the development of the Fram field. Both of these are examples of how we are unlocking opportunities with lower costs. In the Netherlands, Heads of Agreement have been signed with the Dutch State to provide clarity on commitments and obligations with respect to the Groningen situation.

During the quarter, we also started up two important projects. In Chemicals, we announced the start-up of our second cracker in Nanhai, strengthening our position in China. In Deepwater we announced the start-up of Kaikias, a full year ahead of schedule. We are also making good progress in New Energies. We announced the final investment decision for the 730 megawatt Borssele wind farm in the Netherlands, and we completed the acquisition of a 43.8% interest in Silicon Ranch: a solar energy developer with an existing portfolio of approximately 880 megawatt. Beyond generation capacity, we have also strengthened our position at the customer-facing end of the New Energies business with the acquisition of New Motion, one of Europe's largest providers of charging stations at the end of last year, and the acquisition of First Utility: a leading independent UK household energy and broadband provider. These developments are consistent with our strategy to develop a differentiated position in power. We are building a low-carbon offering that stretches end-to-end, from consumer all the way back to generation. And we are doing so by using the advantages we already have because of our existing power trading position, retail and gas businesses.

Finally, I should update you on how divestments continue to materially contribute to reshaping and simplifying our portfolio. This year we announced the sale of our Downstream business in Argentina; of Integrated Gas positions in Thailand, New Zealand and Malaysia LNG; and Upstream positions in Norway and Iraq. In Iraq, we announced and completed the sale of our stake in West Qurna in March, and in June we handed over operations of the Majnoon field to the Iraqi Government. Since 2016, on a headline basis, we have completed $27 billion of divestments, announced another $3 billion, and $4 billion are well advanced. When we acquired BG we announced our intention to deliver $30 billion in divestments before the end of 2018. We will achieve that.

In the Gulf of Mexico, we continue to strengthen our leading position. Today, we produce around 240 thousand barrels of oil equivalent per day in the Gulf and we expect to reach 400 thousand by 2020. Our growth in this area is built upon our continued success in exploration, drilling improvement, project development and operational excellence.

In exploration, we announced two material discoveries. One in the Perdido area – Whale – and another one in the Appomattox area – Dover. We also won nine key blocks in the Mexican side of the Gulf. This acreage is nearly three times larger than our existing position in the US part of the Gulf. So, these blocks are the equivalent of starting a whole new heartland in a single day. The proximity and technical similarity of these new blocks to our leading position in the US Gulf of Mexico will allow us to benefit from – and build upon – 40 years of experience in the region. These developments are entirely in line with our exploration strategy. This strategy is focused on near-field exploration, filling our hubs and seeking not only material volumes but also short lead times between discovery and first production.

Our most recent investment, Vito, will enter the construction phase with a forward-looking breakeven price below $35 a barrel, after we brought down costs by 70% from the original concept. Kaikias is another good illustration of our strategy: approximately four years from discovery to first production, a 30% cost reduction post-FID and, as I have already mentioned, first oil about one year ahead of schedule. Appomattox has seen a similar 30% cost reduction post-FID. And, following the completion of the pre-drill campaign and the sail away of the facility for offshore installation in June 2018, the project is on track for first oil delivery in 2019.

We are also making progress with operational excellence. Over the past two years we have reduced unit operating expenses in the Gulf of Mexico by more than 20%, andwe are looking to improve this further. And this year, we unlocked or restored more than 30 thousand barrels a day of production by optimising the performance of our existing wells, reservoirs and facilities.

Disciplined project delivery, of the sort that I outlined in the Gulf of Mexico, is an important part of our growth strategy. There are two important milestones which show our progress in this area. The first is our Nanhai joint venture with CNOOC in the Guangdong province, which I mentioned briefly earlier. There, we have completed the start-up of a new ethylene cracker and ethylene derivatives units. These new facilities increase the ethylene production capacity of the joint venture by more than 1 million tonnes per year, roughly doubling the previous capacity. This project also includes a styrene monomer and propylene oxide plant, which is the largest of its kind ever built in China. For the second milestone I would point to Prelude, our floating LNG facility off Australia. We successfully imported LNG to Prelude in June followed by a successful import of LPG into the facility. This means the facility is now live. With LNG and LPG onboard, the Prelude team can now start testing processes and systems before the subsea wells are opened. The offshore team is preparing for that moment, getting the seven wells tied to the facility and ready to flow. Based on our current commissioning schedule, we are on track to start up production this year.

And you can see from this slide how our progress with reducing our expected unit development costs and project break-even prices is feeding through into a portfolio of competitive options in Upstream. Our discovered resources represent more than 20 years of production. Importantly, we are continuously improving the competitiveness of these opportunities. Upstream forward looking breakeven prices for most new projects are now around $40 per barrel or below. We are embedding these lower development costs to make them a structural feature of our portfolio. This means lower costs that go far deeper than the attractive market conditions we have seen in recent years with contractors. This is Shell driving long-term improvements to the bottom line through a programme of deliberate self-help and discipline.

Of course, project delivery is nothing without cash delivery. And we have a powerful story to tell here as well. As you know, we expect new projects delivered since 2014 to generate $10 billion additional cash flow from operations by the end of 2018, and $15 billion by the end of 2020, at $60 per barrel real terms 2016. In the first half of 2018 we have delivered an estimated $5 billion. I am confident that we will deliver $10 billion by the end of this year. We remain on track to deliver our 2020 organic free cash flow outlook of $25 to $30 billion, or $50 to 60 billion cash flow from operations excluding working capital, at $60 per barrel real terms 2016. Jessica will cover our financial framework in more detail shortly. I would like to introduce this topic by repeating, again, our commitment to capital discipline. We remain firmly committed to our $25 to $30 billion capital investment range, and I can confirm that we continue to expect investment to be in the lower part of this range in 2018. For avoidance of doubt, this range includes all capital investment, organic and inorganic.

Discipline makes sense not only from a financial point of view, where you can see that we have made real progress with strengthening the balance-sheet of the company, but also from a strategic and portfolio point of view. In fact, consistency in our investment programme through the cycle is critical if we are to deliver competitive returns. It enables disciplined capital allocation, greater capital efficiency and counter-cyclical investments. As you know, we completed the BG acquisition when the oil price was in the 30's, and we have continued to invest steadily since then. Since 2015, we have maintained capital investment around $25 billion – an industry-leading level. Our clear and consistent investment and capital allocation strategy has positioned us well for growth. That is why we do not feel the need to catch up by accelerating capital investment beyond the $25 to $30 billion range.

As I said earlier, today we announced the launch of our share buyback programme. I am sure that you are as pleased to hear it as I am to announce it. And there could be no better time for me to re emphasise the importance of shareholder distributions in our financial framework. Since 2016, we have distributed more than $38 billion in dividend, of which more than $28 billion has been in cash. Over the same period, we have delivered more than 85% total shareholder return. This is an industry-leading performance. An attractive dividend is, obviously, a critical part of our world-class investment case and achieving competitive total shareholder returns. The share buyback programme will not only add to our shareholder distributions, but also reduce our share count to provide additional growth in our financial metrics on a "per share" basis. And of course over time a lower share count also means lower total dividend payments and therefore more flexibility in our financial framework to respond to the prevailing oil price environment. Let me now hand over to Jessica, who will cover our financial framework and Q2 results in more detail.

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Thank you very much Ben.

The pillars of our financial framework remain unchanged: Firstly, a strong balance sheet. We aim to achieve AA equivalent credit metrics through the cycle, for which gearing is a proxy. At this point in the cycle, we think that 20% is adequate, though we expect to go lower than 20% as we continue to reduce net debt over the coming years. Secondly, maintaining an attractive US dollar dividend per share. And thirdly, distributing surplus free cash flow to shareholders in the form of share buybacks.

The announcement of the share buyback programme today shows that we are confident that 20% gearing is within reach based on expected organic cash flows and divestment proceeds; that we are firmly committed to capital discipline through the cycle; and that we have confidence in our 2020 free cash flow outlook. Our financial framework has not changed. And our cash flow priorities have not changed either. We are progressing to 20% gearing, we removed the scrip in Q4 2017 and we generate enough cash to cover the dividend. We are confident that our cash generation and continued divestment proceeds in the coming years will be sufficient to allow us to reduce debt and deliver AA equivalent rating metrics, while using additional free cash flow to buy back shares. We want to deliver on our financial commitment in a disciplined and predictable manner, even though the actual pace of delivery might vary from one quarter to another as a result of performance or external factors.

Now, let us have a closer look at our financial performance at the end Q2 2018, on a four-quarter rolling basis. At an average oil price of $64 per barrel, CCS earnings excluding identified items amounted to $18.5 billion. ROACE on a CCS basis excluding identified items was 6.5%. ROACE is expected to continue to improve towards our outlook of 10% in 2020 as we continue to reshape our portfolio, start up new projects and improve performance and capital efficiency. Cash flow from operations excluding working capital amounted to $40 billion, and organic free cash flow was close to $13 billion. Over this period we distributed almost $16 billion in dividends to our shareholders, of which $13 billion has been in cash. Since 2016, we have received close to $26 billion cash proceeds from divestments and our MLP, of which close to $6 billion this quarter alone. The successful delivery of our divestment programme has allowed us to reduce gearing from almost 30% in 2016 to less than 24% this quarter, and it gives us line of sight to further gearing reduction. Let us move to the results of the second quarter.

Our Q2 2018 CCS earnings excluding identified items were $4.7 billion, which is $1.1billion – or 30% – more than in Q2 2017. Earnings excluding identified items in Upstream were more than four times, or $1.1 billion, higher than in Q2 2017, driven primarily by higher oil prices. Production was 7% lower than in Q2 2017, largely as a result of divestments. Excluding divestments, production was up 2% over the same period. In our Integrated Gas business, earnings excluding identified items increased by $1.1 billion, or 97%, compared to Q2 2017 – as a result of higher prices, a particularly strong contribution from trading and higher LNG sales volumes. Production was 16% higher than in Q2 2017. In Downstream, CCS earnings excluding identified items were $0.9 billion, or 34%, lower than in Q2 2017, driven by lower trading results, higher operating expenses and adverse exchange rate effects. Growth in marketing was partially offset by lower retail margins as a result of higher crude prices and price caps in some markets.

Overall, we saw a 5% increase in operating expenses since Q2 2017. A large part of this increase is driven by foreign exchange and portfolio effects. Our focus on cost reduction and efficiency gains remains unchanged and we see further potential to reduce our operating expenses. Another point of highlight is the particularly notable impact of differences in exchange rates this quarter. The appreciation of the US dollar reduced earnings excluding identified items by close to $300 million with an additional associated tax impact of close to $200 million. Cash flow from operations in the quarter was $9.5 billion, and excluding working capital movements this was $11.6 billion. As Ben mentioned, this is our strongest level of cash generation excluding working capital since Q1 2014, when oil prices were above $100 per barrel. Cash flow from operations was reduced by $0.8 billion cash in relation to margining on our hedging programme in Integrated Gas and $2.1 billion of working capital movements, largely driven by price effect on inventory.

In addition, cash tax payments were impacted by an agreement that Shell signed with the Government of Oman this quarter. This agreement results in a changed phasing of tax payments. Upstream cash flow from operations is expected to be impacted by higher tax payments of approximately $500 million for the full year 2018, of which more than $100 million were paid in the second quarter, and $500 million for the first quarter 2019. This will be followed by reduced payments in the subsequent four years. Let's move to a few highlights from our businesses.

In our US Downstream business, it has now been over one year since the completion of the Motiva separation. We are seeing some real tangible benefits from that separation. We are identifying and capturing additional value through the integrated approach we are now able to take across our Downstream assets in the US Gulf Coast. For example, we decided to continue operating the Convent cat cracking unit quickly after the dissolution of Motiva. This decision was based on an integrated value analysis of the Louisiana and US Gulf Coast markets. Value is generated through additional refinery margins, but also through integration with Norco Chemicals operations and with Trading. We expect to have a payback of approximately one year on the costs associated with this decision. At Deer Park, we have decided to improve the crude flexibility of the refinery. This will allow us to take full advantage of Shell Trading's global reach and access to a wide range of crude and feedstocks to deliver additional value. Other examples include the better integration of trading and supply with retail and distribution in the North-East of the US. We can now also better integrate our plant in Mobile with our marketing activities in this area, which was previously a Motiva marketing territory. We expect around $50 million per year additional gross margin from this stronger integration.

In Integrated Gas, we are expecting to take a "go-no go" decision on LNG Canada this year. As you know, we expect a supply gap in the LNG market in the early 2020s. We have an attractive portfolio of new supply options, including new projects, expansion of existing projects and third-party supply opportunities. We want to select the most competitive source of supply. LNG Canada is the most mature of these options. The strategic benefits of the project are well established: LNG Canada has access to abundant and low-cost gas and a short shipping distance to North Asia. It also has a lower greenhouse gas emission intensity than any comparable operating LNG plant. We now have a clear view on construction costs, as the joint venture has awarded a conditional lump sum contract for the engineering, procurement and construction of the project. In short: LNG Canada looks very promising, and together with our partners we need to finalize consideration of a few key items before we can take a positive final investment decision. Firstly, affordability: We know that the funding of our share of the project fits within our existing capital ceiling. Secondly, competitiveness: Can the project deliver LNG to North Asia at a cost that is competitive with LNG projects in the Gulf of Mexico? Thirdly, resilience: Will this project generate positive free cash flow across a range of commercial and energy transition scenarios? And lastly, attractiveness: How does this project compare against other investment opportunities over a similar time span? As you can see, we are taking a very disciplined approach and are being thorough in our evaluation of LNG Canada – as we are with all our major investment decisions. We see great opportunities, but we also have clear expectations when it comes to competitiveness, affordability and returns.

In Upstream, I would like to highlight how we have significantly improved our Shales business in the Permian. After significant restructuring between 2013 and 2015, we have adjusted the delivery model of this business with a strong focus on competitiveness and value. Our Permian asset has delivered significant growth to date – achieving some 85% production growth since 2016. We expect production to grow more than 30% annually through 2020 with similar levels of capital investment. We are actively developing our 260,000 net acre position in the Delaware Basin, and have been enhancing our position with swaps, allowing us to consolidate our blocks and further optimise our development plans. Delivering this potential will yield strong free cash flow growth, well into the next decade. As I have already touched on, we are developing the Permian following an improvement in cost competitiveness. For example, we have reduced drilling and completions costs for new wells. We have realised an overall 40% cycle time reduction in our well delivery process since 2017, and we expect we can still do more and reduce costs further despite supply chain pressures. We are confident that we can deliver strong organic growth from our shales business. In addition, the integration with our trading business allows us to maximise the value from our barrels.

Before I hand back to Ben, let me return to where I started. We remain committed to our financial framework and further debt reduction remains a clear priority. Our 2020 cash flow outlook is strong. We have excellent growth opportunities in the 2020s. Shell's future is bright, and we remain prudent and disciplined. With the launch of our share buyback programme we are taking another firm step towards transforming the company into a world-class investment case.

Thank you Jessica.

Today we announced the launch of our share buyback programme. This decision is founded on our strong performance track record, our cash generation outlook and strengthened financial framework, our unchanged commitment to capital discipline and rigorous capital allocation, and our strong confidence in the longevity and competitiveness of our portfolio. We are delivering on our commitments.

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

Thank you for your questions and for joining the call today. The third quarter results are scheduled to be announced on the 1st of November 2018, and Jessica will talk to you all then.

**ROYAL DUTCH SHELL PLC**

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Reserves: Our use of the term "reserves" in this presentation means SEC proved oil and gas reserves. Resources: Our use of the term "resources" in this presentation includes quantities of oil and gas not yet classified as SEC proved oil and gas reserves. Resources are consistent with the Society of Petroleum Engineers (SPE) 2P + 2C definitions.

Operating costs are defined as underlying operating expenses, which are operating expenses less identified items. Organic free cash flow is defined as free cash flow excluding inorganic capital investment and divestment proceeds. Clean CCS ROACE (Return on Average Capital Employed) is defined as defined as the sum of CCS earnings attributable to shareholders excluding identified items for the current and previous three quarters, as a percentage of the average capital employed for the same period. Capital employed consists of total equity, current debt and non-current debt. Capital investment comprises capital expenditure, exploration expense excluding well write-offs, new investments in joint ventures and associates, new finance leases and investments in Integrated Gas, Upstream and Downstream equity securities, all of which on an accruals basis. Divestments comprises proceeds from sale of property, plant and equipment and businesses, joint ventures and associates, and other Integrated Gas, Upstream and Downstream investments, reported in "Cash flow from investing activities (CFFI)", adjusted onto an accruals basis and for any share consideration received or contingent consideration recognised upon divestment, as well as proceeds from the sale of interests in entities while retaining control (for example, proceeds from sale of interest in Shell Midstream Partners, L.P.), This presentation contains the following forward-looking Non-GAAP measures: Organic Free Cash Flow, Free Cash Flow, Capital Investment, CCS Earnings less identified items, Operating Expenses, ROACE, Capital Employed and Divestments. We are unable to provide a reconciliation of the above forward-looking Non-GAAP measures to the most comparable GAAP financial measures because certain information needed to reconcile the above Non-GAAP measure to the most comparable GAAP financial measure is dependent on future events some which are outside the control of the company, such as oil and gas prices, interest rates and exchange rates. Moreover, estimating such GAAP measures consistent with the company accounting policies and the required precision necessary to provide a meaningful reconciliation is extremely difficult and could not be accomplished without unreasonable effort. Non-GAAP measures in respect of future periods which cannot be reconciled to the most comparable GAAP financial measure are calculated in a manner which is consistent with the accounting policies applied in Royal Dutch Shell plc's financial statements. The forward-looking breakeven prices (BEP) presented are calculated based on all forward-looking costs associated from FID. Accordingly, this typically excludes exploration and appraisal costs, lease bonuses, exploration seismic and exploration team overhead costs. The forward-looking breakeven price is calculated based on our estimate of resources volumes that are currently classified as 2p and 2c under the Society of Petroleum Engineers' Resource Classification System. As the projects are expected to be multi-decade producing the per barrel projection will not be reflected either in earnings or cash flow in the next five years. The financial measures provided by strategic themes represent a notional allocation of ROACE, capital employed, capital investment, free cash flow, organic free cash flow and underlying operating expenses of Shell's strategic themes. Shell's segment reporting under IFRS 8 remains Integrated Gas, Upstream, Downstream and Corporate.

The companies in which Royal Dutch Shell plc directly and indirectly owns investments are separate legal entities. In this presentation "Shell", "Shell group" and "Royal Dutch Shell" are sometimes used for convenience where references are made to Royal Dutch Shell plc and its subsidiaries in general. Likewise, the words "we", "us" and "our" are also used to refer to Royal Dutch Shell plc and subsidiaries in general or to those who work for them. These terms are also used where no useful purpose is served by identifying the particular entity or entities. ''Subsidiaries'', "Shell subsidiaries" and "Shell companies" as used in this presentation refer to entities over which Royal Dutch Shell plc either directly or indirectly has control. Entities and unincorporated arrangements over which Shell has joint control are generally referred to as "joint ventures" and "joint operations", respectively. Entities over which Shell has significant influence but neither control nor joint control are referred to as "associates". The term "Shell interest" is used for convenience to indicate the direct and/or indirect ownership interest held by Shell in an entity or unincorporated joint arrangement, after exclusion of all third-party interest.

This presentation contains forward-looking statements (within the meaning of the U.S. Private Securities Litigation Reform Act of 1995) concerning the financial condition, results of operations and businesses of Royal

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