ROYAL DUTCH SHELL PLC
2014 MANAGEMENT DAY UPDATE

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2014 MANAGEMENT DAY UPDATE WEBCAST TO MEDIA

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Ladies and gentlemen, a very warm welcome to you all.

First, the disclaimer statement.

Today's meeting is an opportunity for us to take a closer look at Shell's portfolio and strategy, and to go into some of the themes we discussed at the fourth quarter presentation in more detail. I will update you on the strategy and the competitive picture. Simon will recap on the financial framework and our reserves and resources.

We are following a consistent and long term strategy to grow our cash flow across the cycle and deliver competitive returns. Shell's focus on HSE, on technology and integration at a large scale, and of course capital discipline are core strengths for the company. Shell is an industry leader in deep-water, in LNG and GTL, in technology and integration and large scale project management. We have some of the most talented people in our industry working at Shell, they are working on adding more value for shareholders. Our dividend track record is, I think, second to none, underlining our commitment to shareholders. As I said in the fourth quarter presentation our ambitious growth drive in recent years has yielded a step change in Shell's portfolio and options-set, with more growth to come but at the same time we want to sharpen up our performance in a number of areas. We are moderating our spending and growth plans, increasing our divestments, restructuring some parts of the company, and putting more focus on performance management.

The health and safety of our people and our neighbours, and our environmental performance remain the top priorities for Shell. I believe we have the right safety culture in the company. Our track record is improving and competitive but we did regrettably have safety incidents in 2013 and we will continue with our safety drive, which is called goal zero to further improve here.

Let me make some comments on portfolio management. We invest and manage a portfolio that we expect to drive cash flow growth through the cycle and deliver competitive returns. In this way, Shell generates competitive results and finances an attractive payout for shareholders. Dividends are the main route for cash returns to our investors. This is a high priority for the company, and I think our track record is frankly second to none. Potential new projects are tested using consistent and conservative macro assumptions, $70 to $110 Brent, and $3 to $5 per mmBtu for Henry Hub, for example. We look for consistent high rates of return and long-term cash generation. We're putting a lot more emphasis on not only looking at the economics, but more fundamentally if the projects and portfolio are attractive from a scale and growth perspective, and if they are resilient to down-cycles and surface risk.

To deliver our strategic intent we are allocating capital on a global, thematic basis, and you can see the main categories here. The "engines" businesses, in Downstream and Upstream, are mature, and they provide strong free cash flow for our dividends and growth themes. The "growth priorities", deep-water and integrated gas, are where Shell has leadership positions in the industry and the "longer term" category covers potentially very large positions for Shell in the future like resources plays, heavy oil and Iraq, where we need to be careful not to over-invest at too early a stage. We need to make sure that we are applying rigorous capital efficiency here, and we haven't always got that right. This means investing in the projects that generate the best returns and cash flow, and getting out of plays where we can't add value for our shareholders. When we, as the senior management, look at the asset base today, and the new project proposals - and there are a lot of these - we need to be much more rigorous here. Are the outlooks, the plans and the proposals we are making really credible? Are they competitive? And are they affordable?

We've been following an ambitious growth strategy in the last few years. We've achieved a lot, with a strong recovery in earnings and cash flow since the credit crisis, driven by the macro by our new projects and by cost initiatives and we expect there's more growth in cash flow and returns to come. You can see some of that confidence in the future expressed in the payout, with a sharp increase in dividends declared and buy backs in 2013, some $16 billion compared to $12.4 billion in 2012 and an expected 4.4% increase in dividend for first quarter 2014. But as I said at our full year results, our momentum on returns, earnings and cash flow has slowed in 2013, at a time when Shell's spending increased rapidly. We need to improve here.

This chart shows the four drivers of the long term incentive plans for the senior management in the company. Our cash flow growth has been competitive in the last few years, and our absolute cash flow, $40 billion in 2013, was strong in our peer group. This performance was underpinned by project start ups, which come with high depreciation charges in the early years, which have dampened our earnings and returns. However, that's not the whole picture, since we have also had weak financial performance from some of our more mature businesses. Some of this is simply low industry refining margins, low US gas prices, and the security picture in Nigeria. We can't influence that, and we need to ask ourselves hard questions, perhaps we are simply too exposed as a company in some of these areas. Some of the underperformance comes from downtime in our most profitable late life portfolio, such as the North Sea. Overall, we are working hard to improve our competitive performance in some areas here.

Our overall strategy is robust, but as I told you at the Q4 results, 2014 will be a year where we are changing emphasis. Our financial performance can improve, with a more competitive picture on returns, as well as growing our cash flow, which drives our dividends over time. Improving the profitability in Oil Products and Americas Upstream are particular priorities for us. We want to enhance our capital efficiency, which will involve moderating the pace of growth investment, more asset sales, and hard decisions on new options. Of course we are integrating the 2013 acquisitions and continuing to deliver our projects successfully. Let me give you some examples in each of these three priorities, starting with our financial performance.

We have some $80 billion of capital employed combined in oil products and North Americas resources plays, and the financial performance there is frankly not acceptable. These two businesses have been the largest drag on Shell's profitability in 2013. Our

Upstream Americas resources plays portfolio was built to drive our cash flow growth. But the macro has changed there, and some of our exploration bets have simply not worked out. We are restructuring both of these portfolios, with asset sales and potentially further write downs and we are going to be much more selective on growth opportunities here. This is clearly a focus area for the company in what are going to be multi-year programmes to address these issues.

Let me make some comments on Shell's production performance, and I'll start with Oman, where the track record is very strong. PDO, which is the joint venture in Oman, have managed to offset the production decline there that set in about 10 years ago. This has been achieved with more investment and the rigorous implementation of well, reservoir, and facility management, to focus on improving recovery factors in older reservoirs, keeping a higher level of well and facility uptime and testing and deploying new technologies to enhance oil recovery in more complex reservoirs. The UK North Sea is of course a rather different environment and geological setting, but you can see a very different picture here on production performance. Our production there fell by 22% or 26,000 boe per day in 2013, in high margin barrels. Some of this is natural field decline in an ageing province. But some of this, about 15,000 boe per day, was due to high levels of maintenance downtime, including unplanned downtime. We have been repairing a number of our facilities, such as Pierce and Gannet and the non-operated Schiehallion FPSO is being replaced. High levels of maintenance are fact of life in these late life engines businesses. However, we have to be honest with ourselves that the North Sea has been disappointing for Shell in 2013, and we are looking carefully at the causes of this unplanned downtime. We need to figure out the credible and affordable plans to arrest decline in the North Sea, much in the same way as we have done in Oman.

Turning to Integrated Gas. Shell's Integrated Gas business delivered around $9 billion of earnings in 2013, $12 billion of cash flow, and 17% return on capital employed. This is a highly profitable business for Shell, and there is more growth to come. The acquisition of Repsol's LNG, which we closed earlier this year, has up to $1 billion per year of cash flow potential for Shell. This acquisition was part of a strategy to increase Shell's portfolio of directly managed LNG sales and trading opportunities. We expect our equity LNG capacity to increase by around 30% to some 35 mtpa once Gorgon and Prelude are on stream. Over the same period, our directly managed sales volumes should rise to be over 50% of our total, from around 40% in 2013. We are increasing our trading and arbitrage plays in the global LNG portfolio, adding more value to the bottom line in this important growth business. So, those are some comments on the financial performance and potential. Now, turning to the next priority, which is to enhance Shell's capital efficiency.

I want to open up a more detailed view of the financials in the company for you here so I hope you find this information useful. In a number of ways there are six very large and very different businesses inside Shell. Within the engines business, the upstream assets have a high return on capital from a heavily depreciated asset base and they generate a healthy, but fundamentally declining cash flow. Downstream engines, the returns are simply too low here. The growth priorities both deliver healthy returns, with more growth to come. And in the longer term plays, returns have been impacted by start-up timings in Kazakhstan, by Nigeria security where we are selling down some onshore blocks and by high depreciation charges and costs in North America shales. We want to be more competitive on returns, but we are not going to drive to a simple bottom line outcome here. I think it's very important to note the wide range in returns that the different businesses can deliver. For example the upstream engines returns are over double those from deep-water, although one is in decline and the other, deep-water, is growing. This is a complex industry with multiple timelines, markets and technologies to deliver growth.

Let me update you on how we are managing our project flow, and some changes in emphasis that I would like to make here. We have a long-established system of managing projects through a series of decision points from the very early stages of a potential investment through front end engineering, final investment decision and ramp up. You can see where the capital investment in 2014 sits on this project management funnel, and of course there are operating costs as well there. The largest part of the capital spending is after final investment decision. But by the time you reach the final investment decision, in reality there is very little room to change the project scope, and since this is where the majority of the capex is spent, the really important decisions are taken at an early stage, before the FID. I think in some areas we have continued to redesign new opportunities that deep down we don't really expect to become competitive. We can be more decisive here, getting out of unattractive plays at an earlier stage, and making more substantial investments in the winners. There is a capital ceiling in the company, so we need to make some hard choices. This means looking more closely at our options at an early stage, and asking ourselves are these projects really a good fit for Shell? You can see some of the hard decisions we have made on pre-FID options recently, US GTL, a pause on FIDs in Asia Pacific LNG and no drilling in Alaska this year. These are some of the examples, and we are taking these kinds of tough pre-FID decisions all the time. I think this approach and intervention on earlier stage projects will help us to drive better capital efficiency in the company.

Shell has a rich opportunity set, which we have built up in the last few years. This is a good position to be in. But we are capital constrained. At the same time, there are certainly some areas in the company where our assets are simply not competitive or large enough, where there is only limited growth potential or where we would simply invest our growth dollars elsewhere with greater benefit. We will go ahead with the most attractive investments on behalf of our shareholders. But we need to make harder choices on the portfolio. Are the project proposals and operating positions fundamentally attractive on their economics and growth potential? And are these positions resilient to price volatility and other risks? And are the plans for them credible, competitive and affordable?

We are now looking at the company in a different way. We've defined a series of what we are calling 'performance units', about 150 of these across the company. Looking at the company as a series of performance units shines the light on where we need to continue to invest for growth, or to make interventions to improve performance, or to exit. So far this year, we've announced over $4.5 billion of asset sales, including equity in BC-10, our Wheatstone LNG stake and most of our downstream businesses in Australia and Italy. There are more divestments to come reaching an expected $15 billion for 2014 and 2015 combined.

Here's an example. In our integrated gas business, Shell is option-rich, following on from a drive in recent years to increase our option set and OECD weighting. These projects run for decades with low decline, so that we can pace the investment decisions on a long term basis. We took the view at an early stage that Gulf Coast gas to liquids would have too much inflation risk and gas price uncertainty to fit in our portfolio. So we cancelled the project, at the end of last year. In Asia Pacific LNG, we have taken a view that there will not be any Shell final investment decisions in 2014, because the labour and materials markets are too hot, and we sold our Wheatstone position – this one was too small to be material for us. Overall I will drive a more top down approach in Shell in managing these different elements of our portfolio.

Here's a second example, our resources plays, such as shales in North America. Here, we've built up a large portfolio of dry gas resources, and exploration positions in liquids rich shales. But the landscape has changed, with low gas prices eroding the economics there, and mixed drilling results from the liquids plays. Overall, we are working through a fundamental shake up of the resources plays portfolio and the way we operate. We are responding to drilling results in liquids rich shales, with growth in the best plays and divestment of non-core positions and reacting to the changed outlook for dry gas. You can see from the chart, that there are some major decisions ahead of us, particularly on the dry gas side. This may lead to further divestments, and potentially more impairments. At the same time, we're continuing to work on the cost structure. This includes reducing the overall size of the organization around these assets, we're cutting down the portfolio and reducing our growth aspirations there. There's a lot of focus on portfolio and costs in resources plays, and we know we have a lot to do there.

Our 2013 spending was $46 billion, and should be some $37 billion in 2014, or around 20% lower than last year. Of course the final outcome for the year will depend on the timing of project flow, and the spending and accounting treatment associated with our acquisition and divestment programme. Organic investment for 2014, which excludes acquisitions, is around $35 billion, or 8% lower than 2013. This is part of the new emphasis in Shell to moderate our growth ambitions, and to improve our free cash flow and returns. Turning to projects. This is the third of the priorities that I set for the company for 2014 and beyond.

Post-FID projects are managed in a very systematic and rigorous way in Shell, and we have made a lot of progress on this, led by P&T. The Executive Committee reviews over 70 top post-FID projects on a regular and real time basis, as well as assessing progress on our new options. The Board is updated in this way every quarter, with detailed discussion on the largest projects, or areas where we need intervention, for example with governments or partners. We regularly benchmark our project delivery and the data on this chart shows the ranking from the IPA. This covers the cost performance of all of our top post-FID projects, in upstream and downstream. We've moved from bottom or mid tier positions to top quartile in the last five years.

Now, let me update you on exploration, where we're spending around $7 billion in 2014, made up of $4 billion on conventional exploration and $3 billion on resources plays. Last year's conventional exploration performance produced rather mixed results. Exploration charges were over $5 billion, of which $3 billion were dry hole expenses, for example in French Guyana, North America resources plays and China. That increase in exploration charge does come with a higher activity level, but I don't like to see these dry holes, and we need to carefully evaluate our frontier plays to understand what isn't working and what needs to change. Going forward, I want to put a more differentiated emphasis on the very different types of activity we have underway in exploration, different potential field sizes and development timelines. We made a large number of near-field discoveries in 2013 and on the frontier side, we had positive initial results from Albania, and entered the Libra field, which could be a multi-billion barrel project in Brazil sub-salt.

Turning to resources plays, such as shales. This is a potentially significant opportunity for the oil & gas industry on a world-wide basis, and at Shell, we are looking carefully where we can add value. In North America, we've built up a substantial gas position, and more recently drilled some interesting liquids rich plays. Outside of North America, I think we all know the pace is going to be slower, due to availability of rigs, pipeline infrastructure and permitting. More fundamentally, we need to find the right geology, in acreage with large enough positions to generate meaningful production. We are making some progress, with extended well tests for gas underway in China, and liquids rich shale wells in Argentina. However, this I would all characterize as exploration and appraisal at this stage, world-wide spending on resources plays exploration will be $3 billion in 2014, similar to 2013 levels.

OK. That's an update on strategy, delivery and priorities. Now I'll hand you over to Simon.

Thanks Ben. Good to be here today. Let me recap on our financial framework, and then we'll talk about reserves, resources, and the outlook.

Our financial framework is straightforward. We use growth in our cash flow from operations to fund both capital spending and payout across the cycle. We keep a conservative balance sheet. We take on debt in down-cycles or when the company is in a capital intensive stage. There is no formula for the right level of debt, but we want to keep gearing below 30%. We use our cash, after servicing debt, to fund a competitive dividend, and after that to invest for future growth.

It's important to look at Shell's financial position over several years, as well as annually and quarterly and perhaps also de-bunk a few myths. Cash generation over the last three years was some $140 billion, including $16 billion of disposals proceeds, with an average Brent price of $110 per barrel. Over the same period, cash outflow was $135 billion, in other words less than our inflows including $18 billion of acquisitions and $29 billion of dividends and buy backs. Factoring in debt movements, gearing sits around 16% at the end of 2013, a year that was clearly an outlier for us for net cash outflows. I am often asked "why $35 billion is the right level of capital spending for Shell?" The response is simple. We believe this is consistent with a reasonable level of through-cycle growth, we have a good selection of attractive projects in each investment theme, we have the operational capability to deliver these projects well, and crucially, we can afford it. But let me be clear on this last point. If the cash flow does not reach levels to sustain this investment through cycle, we will reduce the spending accordingly.

We've been investing for growth in cash flow in the last few years, and you can see the performance on the chart, rising from a low point in 2009 and 2010 to some $40 billion in 2013. From a competitive perspective, our cash flow has risen from the bottom of the peer group, to near the top, in the last five years. Growing our cash flow has been, and will remain an important part of our strategy. It's how we finance both new investments and cash returns to shareholders. At the same time, Shell – and industry – return on capital employed has been under pressure recently. It's important to say that there are distinct cycles of spending and delivery here, a very high return on capital employed may well be an indication of low growth potential in the future for example, and our return on capital employed is clearly competitive in most of our investment themes. We've seen a build up of capital employed from increased spending ahead of growth delivery, combined with weak downstream conditions and low US gas prices. We expect to see both continued growth in our cash flow and an improving return on capital employed in the coming years.

Turning to reserves and resources. You will find all the details of our SEC reserves in the annual report and 20F which was published this morning. Our 2013 headline proved reserves replacement ratio was 131%, and the 3-year average was 91%. Our 3-year average RRR on an organic basis was around 112%, or 123% in 2013, setting aside acquisitions, divestments and oil & gas price impacts. The reserves base stands at 13.9 billion barrels oil equivalent, or 11.5 years of reserves life at current production levels. We look at resources, not reserves to manage the business, and we have a substantial oil and gas resource base in Shell. The chart here is a sub-set of the total resources position, the part of our portfolio that is on stream or being actively worked towards production and returns. This represents around 31 billion boe, or about 26 years of current production. Shell has some 11 billion barrels of oil equivalent of resources on stream, a similar position to last year, and an increase of nearly 30% since 2009. We have a further 20 billion boe or so of resources potential under construction and in options, which should drive the cash flow to the middle of this decade, and beyond. These resources are where the growth investment is being targeted.

Here's how those resources move into production. We are managing the company to get a steady flow of final investment decisions, construction and start-ups, as we replace decline and deliver financial growth over time. We started up 7 new developments in 2013, totalling nearly 200 thousand barrels of oil equivalent per day of peak production potential for Shell in the future. Shell has taken final investment decision on further 9 developments over the last year, and all the projects listed here should deliver around 900 thousand barrels per day of peak production potential for Shell over time. With that, let me hand you back to Ben.

Thanks Simon. Let me sum up. Our strategy overall remains robust, but 2014 will be a year where we are changing emphasis. Our financial performance can improve here. This means a more competitive picture on returns as well as cash flow and over the medium term, addressing underperforming areas of the business more robustly. We need to further improve on our capital efficiency, there are some hard choices to be made there, more asset sales, $15 billion expected in 2014 and 2015 combined and moderating the pace of growth investment after a strong growth drive in recent years. We need to continue to work hard on project delivery, with a series of important start-ups in 2014, especially in deep water. Our strategy is designed to deliver through-cycle growth in cash flow and competitive returns and Shell's dividend track record underscores our commitment to shareholders. With that, let's take your questions.

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