ROYAL DUTCH SHELL PLC
SEPTEMBER 2015 LONDON
BERNSTEIN STRATEGIC DECISIONS CONFERENCE

SEPTEMBER 30th 2015

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Ladies and gentlemen, welcome to today's presentation. It's good to be back here at the Bernstein conference.

Before we start, let me highlight the disclaimer statement.

Shell's integrated business and our performance drive are helping to mitigate the impact of low oil prices on our bottom line. Our results show that we are successfully reducing our spending and our costs. We have to make sure that the company is resilient in a world where oil prices remain low for some time, whilst keeping an eye on potential recovery, which we believe will come.

The three priorities I put in place in early 2014 remain unchanged – financial performance, capital efficiency, project delivery – all underpinned by a rigorous performance units appraisal system.

There's no change in the dividend commitments we have made. $1.88 per share this year, and at least that amount in 2016. And no change to the buy-back commitment we made for $25 billion from 2017, following the completion of the BG transaction.

Capital spending is expected to be $7 billion lower this year, a reduction of some 20% and operating costs are expected to be $4 billion lower, or around 10%, as we restructure the company and take out cost. All of this is in place to ensure that we have the capacity to continue to pay attractive dividends for shareholders.

At the same time, we are making good progress with the combination with BG which should enhance our free cash flow create one of the LNG and deep water leaders in the IOCs and be a springboard to change Shell into a simpler and more profitable company, essentially 'grow then simplify'. These are challenging times for the industry, but exciting times here at Shell.

The oil price downturn that began in late 2014 is triggering significant changes in our industry. Today's oil price downturn could last for several years - we don't have a crystal ball here. Shell's planning assumptions reflect today's market realities. We are planning on a prolonged downturn although we continue to believe the fundamentals will re-assert themselves in the medium-term.

Shell is responding with urgency and determination. We are using this as an opportunity to further reduce Shell's cost structure and to make fundamental changes in the way we are working in areas such as the supply chain.

Our results are of course lower with the lower oil price. However, our integrated business is offsetting at least some of that and Downstream is delivering a strong and much improved performance supported by industry margins and by self-help programmes, including non-core asset sales, cost reduction, improved commerciality and uptime. The performance drive we launched in 2014 is helping at the bottom line and there is more to come here.

We have had a number of questions on the LNG environment, and I thought it would be useful to recap this here. Between 10 to 15% of Shell's LNG is sold on short-term markets, also called spot markets but remember these are not deep or liquid markets as you see in oil and other commodities; really in LNG, spot means 'LNG that is ordered for the next quarter'. 85-90% of our LNG is sold on longer-term contracts - 2 to 20 years - linked to oil prices and gas hub prices. We believe the investment community is too focused on these spot prices. Shell's integrated gas results are driven by production performance and lagged oil prices, and you can see the track record here. LNG buyers typically look for security of supply, and LNG producers generally need offtake contracts to finance new LNG projects. There are changes in the supply mix…for example new Australia and America volumes. But the fundamentals of this market look as robust now as in the past to us.

Let me recap on our priorities for use of cash: firstly debt service, then dividends and then a balance between buy-backs and capital investment. We intend to prioritise debt repayment initially following completion of the combination with BG using surplus cash flow from operations, and proceeds from asset sales to drive debt down in our target range. And as our cash flow and free cash flow increases, we are expecting to re-start share buy-backs, with a programme of at least $25 billion intended to start in 2017. There's no change in these priorities and we have a very firm intention to deliver on the promises we have set out.

We're pulling all financial levers in the oil price downturn to protect our ability to pay dividends and to keep a sensible and high-value investment programme underway for the future. This is a substantial package of measures: maintaining a flexible balance sheet; reducing capital and operating costs; and continuing with asset sales and project growth. Let me give you more details.

The first of these levers is the balance sheet. Gearing stands at 12.7%, essentially unchanged from end-2014 levels, despite lower oil prices. This reflects good operational performance, which in turn leads to cash generation and the re-introduction of the scrip dividends, which brings more short-term flexibility to the company and ultimately protects dividends.

Operating costs fell in the first half of the year, and are expected to fall by over $4 billion, or around 10% in 2015 - our sustainable cost reduction programmes gather pace - and exchange rate movements were also supportive. Costs are running now at the levels we saw in 2011, after an inflationary period when competitors ran up faster than we did, and costs should further reduce in 2016, as we continue to work on the supply chain, our own overheads such as IT, and targeted programmes in certain areas.

2015 capital investment is expected to be around $30 billion. This is a 20%, or $7 billion reduction from 2014 levels, and 35% less than the recent peak in 2013. This guidance reflects a measured, pragmatic response to managing the financial framework in lower oil prices and cost opportunities in the supply chain. This reduction puts our spending back to 2012 levels, and we're looking forward to the growth in cash flow that should come as a result of this recent spending, particularly in 2017 and onwards. Looking into 2016, and we can give more details on this when the BG transaction has closed, we are expecting combined spending to be lower next year; to be around $35 billion assuming current macro conditions.

Tough decisions on capital investment are driving the right outcomes. Only the most competitive projects are going ahead; just two major final investment decisions so far in 2015 and many potential projects have been purposely delayed, re-phased, or cancelled. This is to manage affordability and get better value from the supply chain in the downturn. This is all leading to a very healthy tension in the company, and our supply chain, around capital allocation. We are looking for low NPV break-even projects here, certainly less than $70 per barrel, and we see opportunities typically nearer $50 per barrel. Managing the pace of FIDs is a powerful tool to drive lower costs, plan our capital spending and to make sure that only the most attractive and affordable investments go ahead.

Let me update you on Alaska drilling, and you may have seen a press release on this yesterday. Alaska – the Chukchi Sea – has been an exciting and if I can say, a high profile, exploration programme for Shell since 2007. We saw a lot of potential in this acreage, underpinned by a large prospect called Burger. We took a pause on drilling there in 2013, in order to work through logistics, legal challenges and permits, and we returned to drilling in the summer of 2015. The Burger well, which we completed recently, was drilled to 6,800 feet. The operation has gone smoothly, in a very remote location. We will now demobilize in the Chukchi, before the winter sets in. However, although the well proved to have oil & gas in it, this is in small, sub-commercial quantities. It's a disappointing outcome, but in the end, this is exploration, and disappointing well results are simply a fact of life in that business. We need to move on here, and draw a line under this programme.
We will now cease offshore exploration in Alaska for the foreseeable future, since the loss of the Burger prospect does undermine the commerciality of this acreage, particularly given the costs and permitting challenges there. This will result in financial charges as we wind down the programme, and we will update on that at the end of the month with the Q3 results. Overall, this decision is very much part of the refocusing of the company that we want to deliver in the context of the BG acquisition. It will simplify our decision making going forward, reduce our near term costs, and focus the company more into core activities such as LNG, deep water and conventional engines businesses.

We have launched a new improvement programme in the Projects and Technology division. Safety and environment of course remain top of the list of priorities. But we want to drive better value from our capital project design and execution, and from the associated supply chain. We expect $1.5 billion of capital efficiency gains this year, with more to come. The recent final investment decision on Appomattox is a good example, where we took out 20% from costs and went ahead with a project with an around $55 oil price break-even on a go-forward basis.

We have been clear that there are 3 parts of our company that have not been performing to their full potential. They are resources plays, Oil Products and Upstream engine. We have specific targets to improve unit margins, asset production + reliability, costs and are also taking portfolio actions and this is showing up at the bottom-line. Let me give you more details on one of these restructuring themes, in Downstream.

We've been busy here with portfolio restructuring and self-help programmes. The changes we have made in Downstream have unlocked substantial new revenue opportunities, and taken out costs. It is good to see Downstream return on average capital employed, excluding identified items, increasing to 15.6% and CFFO was $13 billion over the last 12 months, which is an improvement on 2014 levels. The main drivers of that, in addition to industry margins, were self-help, and exits from low margin portfolios. Overall, this is an improved position, but there is more to come here, in a multi-year turnaround strategy for Downstream, which has the potential to be a $10 billion per year CFFO, 10-12% return on average capital employed business on a sustained basis, not just for a few quarters. Turning now to asset sales.

Asset sales in the tail end, or to crystalize value, are normal business for Shell and the natural outcome of the performance unit appraisal in the company. We also sell assets to form strategic partnerships, particularly in the LNG business. For 2015, we are expecting some $5 billion of asset sales including MLP, of which $2.8 billion were completed in the first half of the year. This brings the total for 2014 and 2015 to some $20 billion, compared to the $15 billion target we originally set in 2014 for the two year period. Of course the upstream asset market is softer this year with lower oil prices. However, the buyers are there in Downstream and some local gas markets and in non-traditional routes such as our MLP, Shell Midstream Partners, private equity, and oil & gas companies from outside the coverage universe of many of you in this room.

Developing new oil & gas production drives new cash flow and free cash flow over time. We've made some adjustments to our FID pace, but Shell is completing the existing programme with an attractive growth pipeline of new projects, predominantly in Upstream. This portfolio is geared to give an uptick in production, and more importantly to cash flow from operations and free cash flow, in 2017 and beyond. The ten largest projects in this growth wedge together have the potential to add around $10 billion per year to our cash flow from operations, once they reach plateau production. This project flow is a strong and complementary fit with BG, where we would expect to see a shift from capital investment to free cash flow in the near-term, coming from Brazil, Australia and other plays.

Let me give you an update on the combination with BG, which is a very exciting opportunity for both BG and Shell shareholders. In April 2015, Shell announced its recommended combination with BG. The combination with BG is expected to enhance our free cash flow, it creates an IOC LNG and deep water leader and it is a springboard to change Shell into a more focused and profitable company.

Firstly, enhanced free cash flow - from BG's growth from 2015 and beyond - would be highly complementary with Shell's 2017+ growth potential. It's this expected enhanced free cash flow position that enhances the robustness of Shell's dividends.

Secondly, an IOC LNG and deep water leader in innovation – accelerating and de-risking our strategy. By combining Shell's current positions with BG's world-wide LNG and deep-water Brazil assets, Shell can add significant value beyond the announced synergies, by applying its technology and know-how at a greater scale, at a lower cost and concentrating on areas of existing competitive advantage.

And thirdly, a springboard to change Shell, by restructuring, driving asset sales and refocused spending, which would result in a simpler, more focused company, concentrated around three pillars: Upstream and Downstream engines, deep water and LNG. And let me say that I am determined to follow through with this combination and use it as a platform for real change in Shell.

Let me update you on the timeline. Regulatory approvals have been granted by the US FTC, by Brazil CADE and the European Commission and regulatory filing processes are progressing well in other jurisdictions. We're working hard on restructuring and divestment plans and a joint team has been established with BG to plan for a world-class integration of the two companies once the transaction has closed, and retain the top talent from both companies. Overall we are pleased with the progress we are making with the BG combination and we are looking forward to closing this deal, as planned, in early 2016.

This chart shows the potential future shape of the company, around the end of the decade. And I think there is a really different, more focussed and profitable Shell coming through here. Strategically, this is what this deal is all about. Three pillars: engines, deep water and integrated gas, that could each deliver annual $15-20 billion of CFFO by around 2020, and longer-term themes that could deliver a further annual $10 billion or so, also by around 2020. I see this as an opportunity to accelerate the creation of a simpler and more focused company. What we are calling 'grow to simplify'. This means we can really capitalize on our core strengths at a larger scale. It means we can have more predictability in the company and a lot smarter sequencing of the project opportunity funnels in each theme. And overall, this should result in a company that is more resilient to changes in the external environment, such as oil prices and downstream margins and become more competitive than we are today, where it counts: at the bottom line. Overall, this is a new shape for Shell, and we are laying a platform for a fundamentally better company in the future, in any expected oil price environment.

The chart on the left here shows Shell's track record on dividends; unbroken for decades and a key part of our returns to shareholders. And you can also see the commitments we have made for 2015 and 2016 dividends, reflecting the confidence the Board has in the performance and outlook of the company, including the impact of the significant actions we are taking. And let me assure you that we have additional levers to pull, if macro conditions deteriorate further from here, such as further reductions in capital investment.

The proposed combination with BG is attractive for both sets of shareholders in a range of oil prices, and is robust at the lower end of our planning ranges. BG would be accretive to cash flow from operations per share at $67 oil in 2016, and accretive to 2017 earnings per share, in a mid-$70s world. This is a combination that enhances our free cash flow and enhances our dividend potential in any expected oil price environment. Overall, I want to make it crystal clear to you how determined the Board is to get this right and we are firm and repeating our commitment to shareholders here on dividends.

Before we close, let me update you on the competitive position. We take a dashboard approach here, and we are looking for more competitive performance on a range of metrics over time, not single-point outcomes. The trends are downwards here, tracking oil prices. However, our CFFO, free cash flow and ROCE have become more competitive in the sector, and this has been a major strategic objective for Shell in the last few years. Our aim is to be competitive across the price cycle - and there's still a lot to do.

Let me sum up. Shell's integrated business and our performance drive are helping to mitigate the impact of low oil prices on our bottom line. We're pulling on powerful financial levers to manage through this downturn, making sure we have the capacity to pay attractive dividends for shareholders. Shell is well-placed to take additional steps to underpin shareholder dividends, should conditions warrant that. BG rejuvenates Shell's Upstream. It adds more gas to our mix – the cleanest fossil fuel – further positioning the company for a lower carbon future. It is a step change in LNG and deep water scale and competitive position, accelerating our strategy by several years. We will re-shape the company once this transaction is complete. This should concentrate our portfolio into fewer, higher-value positions, where we can apply our know-how with better economy of scale. In essence we 'grow then simplify', creating a more resilient and competitive company, able to deliver better returns to shareholders. These are challenging times for the industry. We are responding with urgency and determination, but also with a great sense of excitement for the future.

With that, let me take your questions.

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ROYAL DUTCH SHELL PLC

SEPTEMBER 30th 2015

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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 2P and 2C definitions.

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