

ROYAL DUTCH SHELL PLC 2019 JUNE MANAGEMENT DAY

JUNE 4TH AND 5TH 2019

2019 JUNE MANAGEMENT DAY WEBCAST TO ANALYSTS

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Ladies and gentlemen. Thank you very much for joining us today. I am looking forward to engaging with you on the progress in delivery of our 2020 outlook and our plans for positioning Shell for the future of energy, into the 2020s and beyond.

Before we start, let me highlight the disclaimer statement.

So, we are going to update you on your company in some detail. First, Jessica will join me in presenting to you the strategic and financial framework outlook for Shell to 2025. This will be followed by presentations by business directors. We will then run a high-level Q&A for you with both me and Jessica. Thereafter, we will all have a short break for lunch before the business break-out panels, there will be plenty of opportunity for detailed business-specific questions.

You will undoubtedly be glad to hear that we have made significant progress with our strategy. The progress we have made means that we are competitively positioned for the future, a future where we expect the Net Carbon Footprint of our energy products to be lower. We will continue our focus on fully sustaining our Upstream business well into the coming decades. For as long as there is sustained demand for oil and gas, there will be sustained commitment from Shell, and that means sustained investment. And, alongside a strong Upstream, that future for Shell also includes growth in our businesses that have a strong market-facing aspect. Businesses like Integrated Gas, Oil Products and Chemicals but also emerging opportunities like Power. Being very well positioned for the future allows me to be confident of our potential to grow shareholder distributions. Supported by continued capital discipline and growing returns and with a balance sheet that is resilient through the cycle. This is leading to an increased organic free cash flow outlook for 2025. It is our strong delivery today that allows us to have such confidence in the future. We have already taken action that we expect will pay back for many years to come. Action to safeguard and build trust. Action to pursue our relentless drive for safety in our operations. Action to ensure that ethical standards are maintained, and our people always do the right thing. And action to ensure Shell can thrive through the transition of the global energy system. This is action that will keep Shell aligned with our customers. All this adds up to a forward-looking company that is well placed to thrive through the energy transition in the coming decades. Now, let me start with the financial and operational delivery and outlook, which I strongly believe are key elements of our world-class investment case.



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Over the past few years many of you have told us how you have come to appreciate our clarity of purpose. We are proud of that. Our strategy is clearly working. In recent years we have transformed the financial metrics of our business. We have substantially de-risked the delivery of our 2020 commitments. That has meant, for a start, more cash. We are on track to deliver a revised, post-IFRS 16, outlook of around \$28 to \$33 billion of organic free cash flow in 2020. This strong cash flow generation has allowed us to progress well with our \$25 billion share buyback programme. The success of our strategy has also meant higher returns, with ROACE on track to now be around 10% by the end of 2020. Implementing our strategy has brought down debt, meaning gearing is well within reach of 25% by the end of 2020. And, finally, you may remember that we introduced the metric of cash capex earlier in the year. We believe this is a better cash-based metric to evaluate our capital spend and prevents distortions from accounting impacts. Until 2020, we expect to stay within a cash capex range of \$24-\$29 billion per annum with a hard ceiling at \$29 billion. Let me now give you some insight into what we expect our strategy to deliver as we look towards 2025. First, we plan to be generating some \$35 billion of organic free cash flow by 2025. This strong cash outlook will create the potential to distribute to our shareholders a cumulative cash amount of \$125 billion or more over the 5-year period from 2021 to 2025. Distributions are expected to come as a combination of dividends and share buybacks. Second, we expect our continued capital efficiency programmes and disciplined approach to investments to yield results. We expect a return on average capital employed of more than 12% by the end of 2025. Third, we will continue to maintain a strong balance sheet and expect our gearing to be within a range of 15% to 25% through the cycle. Finally, the cash capex outlook required to deliver these results. We expect cash capex to average around \$30 billion per annum over the 2021 to 2025 period. While the average cash capex spend over the period is expected to be \$30 billion, we allow for some variation in the annual spend. But, even with that flexibility, we are setting an annual ceiling of \$32 billion for each year over the period. Of the \$30 billion average, some \$20 billion per annum would be required to sustain our portfolio and deliver cash flow from operations at 2020 levels. The outlook is mostly based on organic growth. The \$30 billion average cash capex only includes a modest inorganic spend of up to \$1 billion. To ensure continuity, the 2025 outlook is based on an oil price of \$60 per barrel 2016 real terms, the same premise as used for the Management Day in 2017.

So, I have outlined how our strategic direction has translated into financial results and how we expect that progress to continue. I would now like to highlight the effect of this performance on our competitive position. For us to be a world-class investment case requires industry-leading outcomes. We have been delivering industry-leading cash flows over the past 11 quarters and we have also improved our return on average capital employed over the years and we are now on par with our peers. Our brand is second to none in our industry. We are building on the strength of the brand and the trust in our products to further grow our customer-facing businesses.

Much of what I have talked about so far concerns Shell's progress towards being a world-class investment case. And now I would like to spend some time on another of our strategic ambitions. To sustain a strong societal licence to operate. Without a strong societal licence to operate, without trust, we cannot and will not be a world-class investment case nor thrive through the energy transition. Securing a strong societal licence to operate requires three things: The first is to cause no harm to



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people and no harm to the environment. These are the basics of being in business. It requires strong operational HSSE performance. It requires ethical and respectful behaviours by all of our staff and contractors. The second requirement for a strong societal licence to operate is to make and sell good products, that our customers want and need. Customers want products that have the lowest possible environmental impact, and we intend to sell such products that are also commercially viable. The third element is to contribute to society. It is by contributing that we can be a valued and trusted part of that society. At its most basic, for Shell this means supplying energy, providing employment, bringing local investment and prosperity with our projects, collecting and paying many billions in tax. We want to make a substantial contribution to improving people's lives by providing access to energy to those who do not have a reliable, safe connection today. To secure a strong societal licence to operate we must ensure the right performance and behaviours. All of this is the right thing to do. And I expect you to expect nothing less from Shell.

Our strategy today is set against several global trends. We believe that a growing population and rising living standards are likely to continue to significantly increase energy demand for years to come. While the world needs to find a way to meet this growing demand, CO₂ emissions need to fall to counter climate change. Last year we released our Sky scenario; a technically possible, but challenging pathway for society to achieve the goals of the Paris Agreement. The scenario outlines how electricity is expected to become a much bigger part of the primary energy mix, because of changes in consumer energy demand. These trends help us to shape our portfolio to be fit for the future. While liquid and gaseous fuels, including biofuels, will continue to be an important part of the energy mix, over time electricity needs to play a bigger part in the world if it is to meet the goals of the Paris Agreement.

Organising our businesses into the seven strategic themes has served us well to focus our investment priorities and execute our strategy of driving delivery. In recent years, we have grouped these themes into Cash Engines, Growth Priorities and Emerging Opportunities. Our businesses have evolved and so has the external environment, rendering these groupings somewhat obsolete. So, we are refreshing the way we group the strategic themes to better communicate our portfolio strategy. We now group these themes into Core Upstream themes which generate strong cash flow, Leading Transition themes which will be critical for us to capitalise on the energy transition to a lower-carbon future, and an Emerging Power theme which will capture value from the growth in electricity consumption. The Core Upstream themes comprise Deep Water, Shales and Conventional Oil and Gas. As the label implies, these themes are core to Shell. We will sustain their strong cash generation through the coming decades. The market-facing Integrated Gas, Chemicals and Oil Products businesses are where we already have a leading position in the industry. We intend to extend this leadership as we see these businesses as cornerstones for Shell as we thrive through the Energy Transition. The Power theme will focus on creating business models to support the evolving customer demands for more electricity through the Energy Transition. This is an emerging theme for Shell. We will plan our steps carefully, but with conviction, as we prove the investment case before scaling up. The refreshed grouping continues to provide clarity about our strategy and expectations in relation to returns as well as risks and opportunities.



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Let me give a touch more flavour to the specific themes. We have a very strong position in Deep Water where we generate high margins through focused cost management. We are a top quartile operator in Shales with strong basin positions and we aspire to be cash positive in this business in 2019 and we were already cash positive in the Permian last year. We have a deep funnel of projects in our Conventional Oil and Gas business. Our Integrated Gas business is a market leader. It generates competitive returns and more resilient cash flows compared with our peers through deep optimisation capabilities. The gas business is expected to play a critical role in meeting our Net Carbon Footprint ambition by enabling natural gas to displace higher-carbon fuels. Petrochemicals demand is set to grow above GDP growth levels. And chemical products are expected to play a role in lowering the carbon intensity of the global economy. They are less resource-intensive compared with alternatives and they are lighter, which enables energy efficiencies. The integrated nature of the Oil Products business and our trading optimisation capabilities make this business resilient to market downturns. It is strongly positioned to offer new customer choices in response to energy system changes, thereby playing an important role in meeting the challenges of the Energy Transition. John will provide more details in his session on the Downstream themes. Our Power theme is, in turn, well positioned to respond to evolving customer preferences, identifying sources of value in an increasingly dynamic sector. As I said before, we must absolutely ensure we get our approach right for this theme and we will not get ahead of ourselves. Our conviction to find value in this theme, will be backed up by a clear track record and proof points. Maarten will discuss both the Integrated Gas theme and the Power theme in more detail in his presentations.

To demonstrate the robustness of the project funnel I would like to highlight some high-level expected business milestones in the period from 2019 to the end of 2025. We expect to take more than 40 final investment decisions on major projects across our businesses and we plan to start up more than 35 major projects. For a more detailed list of projects, I refer you to our back-up slides. I would also like to reiterate the outlook provided at our Downstream Open House last year, when we expressed our intent to open more than 10,000 new retail sites and to add more than 10 million new daily customers in the period to the end of 2025.

Now, I would like to break down the figures for the outlook for 2025 that I shared earlier. As I mentioned, we need to spend around \$20 billion each year of cash capex to sustain our operating cash flow at the 2020 level. And remember: the focus is on the delivery of cash and not on maintaining production levels. We have also detailed the total cash capex ranges, so including growth capex, for each theme. All this adds up to an average of \$30 billion per annum during 2021 to the end of 2025 with a ceiling of \$32 billion in any year. This investment in growth is expected to deliver an organic free cash flow of about \$35 billion in 2025. As you will notice, most of the Upstream strategic themes cash capex is spent on sustaining cash flow delivery with modest growth options. The main investment in growth is expected to gravitate towards the market-facing transition themes and eventually also to Power. Some of these growth options are expected to start to deliver cash beyond 2025. Delivering high-value projects is expected to raise our return on average capital employed to more than 12% by the end of 2025.

We demonstrate here an attractive evolution of our shareholder distribution story. In the 2011 to 2015 period, we paid out more than \$51 billion to shareholders in cash dividends and share



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buybacks. That was at a \$97 per barrel Brent price. In the period 2016 to end-2020, we expect to distribute more than \$90 billion including the \$25 billion share buyback programme currently under way. Looking to the 2021 to end-2025 period, we expect to have a cash potential of \$125 billion or more to be available to distribute to shareholders over the period. That is half of the market cap of Shell. We are fully committed to our current dividend per share and we expect any dividend growth to be resilient. We plan to increase our dividend cover and any dividend per share growth is planned to be complemented by further share buybacks to reduce the share count. We expect to grow the dividend per share when we have a clear line of sight to completing the ongoing \$25 billion share buyback programme. The founding assumption for the cash potential is a gearing level of around 20%, in the middle of the outlook range of 15%-25%. The cash potential is based on organic growth assumptions and if we identify any opportunities to add substantial value through major inorganic moves these would require decisions to be made on a case-by-case basis.

Finally, I would like to share some of the levers that we will pull to deliver our 2025 outlook. Delivering an increase in cash flow from operations versus 2018 actuals is one. Delivering growth through major project investment decisions is another. Competitive operating cost and capital efficiency are also important levers we use to create value. We plan to drive unit operating cost per barrel down to less than \$9 per barrel of oil equivalent in our Upstream business. For our Global Commercial and Retail businesses, the focus is on driving up the Marketing Opex yield to above 65% by the end of 2025. Capital efficiency leads to increases in organic free cash flow while driving up returns. It is a very important lever. We intend to achieve average forward-looking break-even prices of around \$30 per barrel in our Upstream business while driving down the average unit technical cost of Integrated Gas projects to around \$5 per MMBtu. Delivering the cash in a resilient manner requires ensuring that our business models are future-proof. This means making progress towards achieving our Net Carbon Footprint ambition and short-term targets. In summary, we continue to implement the strategy that has served Shell and Shell's shareholders so well over recent years. The successful implementation of that strategy allows us to be confident in the delivery of our 2020 outlook. Our faith in that strategy also allows us to set out an ambitious but achievable 2025 outlook.

With that, let me hand over to Jessica.



Good morning ladies and gentlemen. Today I am looking forward to sharing how our strong financial delivery is set to continue beyond 2020. I would first like to start by reflecting on what we have achieved since 2016 and the BG acquisition.

When we announced the BG acquisition, we made a number of promises, and we have been delivering on each one of them. And equally important, we created momentum that we have used to transform Shell. In 3 years, we have integrated BG, a \$65 billion company, and divested \$30 billion in assets. We started up new projects that generated additional cash of \$10 billion. We restructured our organisation and ways of working, which has led to cost reductions of some \$10 billion. And, at the same time, we also transformed our approach to the financial framework, bringing greater clarity and discipline to drive robust and sustainable



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outcomes. In these same 3 years, we reduced net debt by \$28 billion, cancelled the scrip dividend programme and launched the share buyback programme. So, we have kept our promises and have transformed Shell. And I am confident that we can continue delivering on our promises for 2020 and beyond.

By 2020, we seek to sustainably achieve gearing of 25% on a post-IFRS 16 basis, which is our proxy for a strong double A credit rating. We remain disciplined with our capital decisions, and plan to spend between \$24 and \$29 billion on cash capex per year for 2019 and 2020, also on a post-IFRS 16 basis. This outlook is equivalent to our previous capital investment range. And we are on track to complete our share buyback programme and deliver organic free cash flow of \$28 to \$33 billion by 2020, which is equivalent to our previous target on an IAS 17 basis.

But as I said at the beginning, we have been delivering more than promises. We have reshaped Shell, through big and small steps. With company-wide programmes, such as upgrading the portfolio, as well as with asset-level programmes, such as increasing availability, we have shifted the culture of our company, as seen in our approach to cost management, and we have refreshed our people strategy, to sustainably deliver industry-leading performance.

Starting with reshaping the portfolio, in the past 3 years we have simplified our portfolio tremendously, allowing us to focus on where we have a competitive advantage. We have exited Oil Sands in Canada, Downstream in Argentina and Japan, Upstream in Ireland and Gabon, and Integrated Gas in Thailand and New Zealand, and we simplified our operations in many other countries. Our reshaped and improved asset base generates more cash than before. We have invested in high-margin projects and divested low-margin assets. Value over volume. In Upstream, we have shifted our capital employed from low-margin barrels in mature markets in the Middle East, Europe and North Africa, and have invested in high-margin barrels in Brazil and the Gulf of Mexico.

And we can see the results of these portfolio decisions in our numbers. Our unit cash flow for Upstream and Integrated Gas has increased significantly in 3 years. We now outperform most of our peers by some distance. And besides the higher value we get from our barrels, we have achieved more balance with our portfolio. If you look at the cash generation from our businesses, you can see how our cash flow from operations has become more diversified. This makes us more resilient and competitive through the commodity cycle.

And as we have improved our portfolio with our divestment decisions, we have also applied the same focus and discipline to our investment decisions. Investors often ask me about how we ensure robust capital stewardship in Shell. This is an area where we adopted best practices from BG. To improve capital allocation, we have taken several steps to increase the quality of our decision-making. In our Capital Investment Committee, we consider all organic and inorganic opportunities above a threshold. I am a member of this committee, together with Ben, the business directors and subject matter experts. This committee is supported by an independent team of experts, who provide unbiased assurance. We bring diverse expertise to the table to provide robust review and challenge to each opportunity. Opportunities are assessed against a breadth of strategic, financial and non-



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financial criteria, which drives consistency and discipline in our capital allocation. This has proved to be an excellent investment of our time and has raised the bar for capital investment proposals.

The shift in Shell is also reflected in our people strategy. In the last 3 years, as we sought to reduce our cost base and achieve the BG synergies, we also sought to reduce internal complexity. This has had a number of effects, we reduced the number of people required to do the same work and we gave people larger roles and greater accountability. At the same time, we built more capability with our Business Operation Centres in Manila, Kuala Lumpur, Chennai, Bangalore and Krakow. In these centres, we concentrate our HR, Finance and IT activities among others, and also business processes, reducing cost and improving outcomes. Overall, we have reduced our employment costs by 22% since 2015, but costs and processes alone are not the only changes in our people strategy. We now have a more diverse organization, in gender, nationality as well as thought and experience, which we believe will support our success into the future. Further, we saw improvements in our scores on staff engagement levels and staff support for the direction of our company, during the same period. So, with all the changes in the last 3 years, we have a more engaged organisation, which is essential for our long-term success.

As we transformed Shell, we transformed our approach to cost management. We have rolled out a number of global programmes to simplify, standardise, eliminate and automate activities, which represented more than simple cost-cutting, our approach is based on a critical assessment of how value is created, and risks are managed, with costs as a resource to be deployed. With these initiatives we have significantly reduced costs across Shell. Combined, our support functions, such as HR, IT and Finance, together with our Projects & Technology organisation, lowered their costs by almost \$5.5 billion in 3 years. Harry will talk further about how we have transformed the Projects & Technology organisation. And we have the ambition to do more.

With this transformation in our culture and portfolio, we have created a strong foundation to deliver a world-class investment case to our shareholders well into the next decade and beyond. In fact, our priorities remain the same. We will keep our focus on growing free cash flow and returns and maintaining a robust balance sheet to remain resilient through the commodity cycle. So, we can generate the cash capacity to increase distributions to our shareholders.

In order to sustain and grow value, we will continue re-balancing our portfolio into the next decade. In 2025, our Core Upstream themes should continue generating substantial cash flow, with increased contributions from Shales providing a more balanced Upstream portfolio. At the same time, we see around half of our capital going to the Leading Transition themes, mostly to Integrated Gas, which is expected to increase cash flow beyond 2025. Gradually, we are shaping the portfolio to ensure we are competitive for the Energy Transition.

While on the portfolio side we need to continually re-balance and high-grade, there are other areas that remain unchanged. This is the case with our commitment to capital discipline and our focus on free cash flow and returns. For 2025, we are upgrading our outlook to deliver some \$35 billion of organic free cash flow.



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There are also no major changes to how we look at our priorities for cash post-2020. We will continue to reduce net debt, pay dividends, invest in the business to sustain cash flow and keep our gearing between 15% and 25%, while any cash surplus will be invested to grow our business and/or further distributed to shareholders. Inorganic opportunities, acquisitions and divestments, will be evaluated separately when they arise.

In our sector it is essential to have a resilient balance sheet to manage volatility. We target a range of 15% to 25% gearing through the cycle, which means that when industry conditions are favourable, we plan to reduce gearing to build resilience, so we can use this flexibility during the trough of the business cycle to retain a resilient balance sheet or make counter-cyclical investments if the right opportunities surface. This way we remain competitive through the cycle and ensure strong sustainable shareholder distributions.

A resilient balance sheet combined with the strategy, portfolio and operational capability we have established will enable significant levels of cash generation through the next decade. This translates into the potential for more than \$125 billion of cumulative shareholder distributions from 2021 until the end of 2025, which are expected to come in the form of further share buybacks as well as growth in dividend per share. Our progressive dividend policy is very important to us, as is our disciplined financial framework. This means that we must ensure any growth in dividend per share is resilient through the business cycle. So, we expect to increase dividends per share once the completion of the current \$25 billion share buyback programme is in sight. Dividend per share growth will be complemented with share buybacks to reduce the share count and over time the amount of the total dividends are expected to reduce.

So, let me recap before I give the floor to Harry. Our reshaped portfolio can generate more value than before. This solid base gives us confidence in delivering on our promises for 2020, which are now substantially de-risked. And we see an even more promising outlook for 2025. With substantial potential to grow shareholder distributions into the next decade. This is how we are delivering a world-class investment case, today and in the future. With that, let me hand over to Harry.



Thanks Jessica. Ladies and gentlemen, today I will talk about two things. First, our Net Carbon Footprint ambition and then some detail around our exceptional progress in Projects & Technology. First, climate change is a challenge that involves each and every one of us from consumers to communities, industries to governments. You would have heard too, about the significant steps that we are taking. In December 2017, we announced an ambition to reduce the Net Carbon Footprint of the energy products we sell by about half by 2050, and by about 20% by 2035.

In practice, our Net Carbon Footprint ambition starts with ensuring our own operations use energy as efficiently as possible. But as the previous slide showed, most of the emissions associated with our energy products come from our customers' use of those products. So, achieving our Net Carbon Footprint ambition means that we have to change the make-up of our product portfolio. On this



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chart, you see the tools we have to achieve our ambition. We are already using all of these. The first bar represents our 2016 baseline, the last full year before we announced our ambition. To the right of it, we see several opportunities to shape our energy mix. Some are likely to make larger contributions than others. Probably the greatest contribution Shell can make right now is to continue to increase the role of natural gas to fuel transport, heat and light homes, and power industries because natural gas is less carbon-intensive than both coal and oil. We are also investing in low-carbon businesses and technologies. These include biofuels, hydrogen, wind and solar power, carbon capture and storage technology and nature-based solutions such as reforestation. These investments will mean we can offer new solutions to our customers, for example, our nature-based solutions programme offers Shell customers in the Netherlands nature-based carbon credits to compensate for the carbon associated with the use of fuels purchased from us. This is done at no extra cost for customers who choose Shell V-Power, while those who fill up with regular fuels can participate for an additional 1 cent per litre. We plan to make similar opportunities available to customers in other countries, starting with the UK later this year. But we can only change the mix of our energy products in line with the willingness of our customers to buy them. We think we can meet our Net Carbon Footprint ambition for 2050. But we all have a part to play. Because Shell can only get there if society as a whole gets there.

I will now move on to Shell's Projects & Technology organization and how it sets our businesses apart from the competition helping Shell achieve its strategic priorities. Our P&T organisation partners with all businesses to deliver our major capital projects, provide asset support, manage our supply chain and develop and deploy technology. We are responsible for the safe and efficient delivery of nearly two thirds of Shell's total capital spend. Our P&T organisation is global organization but importantly, locally delivered. This is a key factor that sets us apart from other companies. It ensures we deliver consistent, competitive results through our capital efficiency improvement programme across Upstream, Integrated Gas and Downstream. As a proof point, we have successfully reduced the Unit Development Costs of all major Upstream and Integrated Gas projects by more than 50% since the end of 2014. And although this is a great achievement, we can and will do more on costs. By systematically applying our capital efficiency improvement programme we have ensured that over three quarters of our major projects sanctioned in 2018 were either Best-in-Class or Top Quartile. Such cost savings mean that Shell is even more resilient to low oil prices. Our average forward-looking break-even price at final investment decision has gone from around \$40 per barrel in 2014 to around \$30 per barrel in 2018. And we are not done yet, as will be reflected by Andy, Wael, Maarten and John when they discuss the various businesses. First, let us look at the other key strengths that P&T brings.

It gives me great pleasure to start with Shell's supply chain. Our supply chain sets us apart. It is organised globally, and locally delivered. So, we can reach deals of a scale that are commercially sustainable for our suppliers, but also competitive for us. Over the past few years, we have accelerated our journey through greater digitalisation and a high-graded work force. This has resulted in an even more competitive supply chain. In 2018, 50% of our global spend was benchmarked as most competitive. We still see significant upside and aim to have 80% most competitive by the end of 2020. Digital technology, better, simpler processes and improved contract



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management are all helping. For example, we integrated 14 contracts and procurement systems into one end-to-end purchasing tool. It went live in late 2017 and we now have a standardised contracts system driving deeper discipline and enabling more focus on strategy and value-added activities. There is still more to do in our supply chain performance. Our focus on this area means we expect more efficient capital spending and operating cost discipline. It allows us to do even more with significantly less.

Let me move to innovation and digitalisation in Shell. We have a proud history of commercialising technology to create value for Shell. For example, by innovating in both catalyst and process technology over the last several decades, Shell has established a 50% global market share in ethylene-oxide catalysts, derivatives of which are used for the manufacture of many materials including plastics. The catalyst business makes products both for use in our own assets and also for third parties, where it represents a \$1 billion revenue business for Shell. One of the ways we create value is by having Shell's world-class scientists collaborate with academic partners to make the most of the latest technology. In 2018, our collaborative efforts meant that we embarked on some 260 research and development projects world-wide. Let me give you one example of successful partnership. We are working with Akselos, a company that performs highly complex engineering calculations, almost in real time. Last year, Shell and Akselos invested in a project to deploy their Predictive Digital Twin technology for Shell's Upstream asset integrity management systems. Today, this technology is used on several of our fixed and floating offshore assets. This provides information that allows us to optimise our assets, for example by performing real-time structural integrity checks. And P&T's unique abilities produce unique solutions that also enable us to create value. For example, we have developed an Artificial Intelligence drilling system, Shell Geodesic which determines the best well placement autonomously, minimising human intervention. The algorithm was fine-tuned using data from over 1,300 wells and allows us to drill more precisely, more efficiently and more quickly. This means, in turn, we have higher production, at lower costs. You will see more of this example in our Shales business, which you will hear about later. This sort of innovation could also mean even further improvement. And where we are already Best-in-Class, we can look to extend our lead over the competition. For a deeper insight into our business, I am also happy to invite you to our P&T Open House which will be on 26 November. We will have the opportunity to go in-depth into our capabilities and look more at technology, innovation and programmes that are helping Shell to deliver its Best-in-Class assets and products.

Thank you very much, I would now like to hand over to Maarten to talk you through Integrated Gas.



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Thank you, Harry. Shell is a world-wide leader in gas, LNG and GTL and our Integrated Gas business provides material and resilient free cash flow to Shell. Today, I will outline our strategy to expand and diversify this strong position in a market that we expect to grow well into the 2030s and probably beyond.

For Shell, gas is a fuel for today and a fuel for the future. We intend to grow this business and deliver substantial cash and returns, with natural gas helping Shell thrive in the transition to a cleaner energy system. To make sure this business achieves its full potential, our strategy for Integrated Gas rests on three pillars. First, we are a market leader in LNG. We are building on a position of strength, which is based on an unmatched LNG supply portfolio, a top-notch trading, marketing and optimisation organisation and a 22% share of worldwide LNG sales. Since we expect the LNG market to grow by 4% a year, we plan to grow along with it, keeping a leading position. We plan to lead in creating new pockets of demand by accessing currently unserved geographies, creating new global markets such as fuelling ships and trucks, and mining the adjacency to our growing Power business. The second pillar of our strategy is to run the engine that has put us in the lead and deliver superior cash flows enabled by operational excellence. We have been on a good improvement path already and are determined to increase our LNG liquefaction capacity utilisation further to above 90%, as well as reach top quartile unit cost in our operations. Sustaining the high levels of cash flow requires us to invest some \$4-5 billion per year in our existing assets and to replace declining assets. This includes the capital we spend on backfill projects that keep our plants full and offer very attractive economics. Finally, we will grow this engine. Until 2025, we will invest \$2-3 billion per year to create free cash flow growth from new advantaged positions in the second half of the coming decade. You can expect us to pursue the most competitive projects emerging from our healthy funnel of LNG projects, and we plan to complement these with inorganic opportunities and options to grow our GTL footprint. This strategy allows us to target organic free cash flow of \$9-10 billion and a ROACE around 11% in 2025, with further free cash flow growth coming in the second half of the decade.

With that, let me take a step back and put our strategy for Integrated Gas in a larger context. The Energy Transition and Shell's Net Carbon Footprint ambition call for a greater role for gas. When used instead of higher-carbon fuels such as coal and diesel, it will help to meet increasing energy demand while lowering greenhouse gas emissions and air pollution. To give you an example: coal to gas switching has led to a 78% improvement in Beijing's winter air quality over the past five years. To increase our resilience, we also need to improve the carbon footprint of our own operations further. Our LNG Canada project, which we sanctioned last year, is designed to achieve the lowest carbon intensity of any LNG project currently in operation around the world. Finally, for our own operated ventures we have set a target to maintain methane emissions below 0.2% by 2025. We are proud to lead a growing global coalition, focused on continually reducing emissions of methane throughout the supply chain from well to customer.

As the world transitions to a more sustainable energy system, the gas market, and LNG in particular, will continue to grow. Our projections to 2035 estimate that more than 70% of energy demand



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growth will be met by gas and renewables combined, with gas supplying more than 40% of the additional demand. China, India and other major energy importers are putting policies in place which drive preference for gas over coal. LNG continues to be the fastest-growing source of natural gas supply. It is worth noting that a large share of the growth in gas demand is coming from the non-power sectors such as industry and residential heating. But natural gas also supports the integration of variable renewable electricity generation as it can quickly compensate for dips in solar or wind power supply and rapidly respond to sudden increases in demand. While, in the short-term, the increase in demand for LNG is expected to be met by some 35 million tonnes of additional liquefaction capacity coming on stream this year, we still expect a supply shortage to develop in the early to mid-2020s.

Now, let me illustrate how we are developing new demand for LNG. Customer centricity is fundamental to our business and the LNG customer landscape is growing and diversifying. The number of LNG-importing countries has grown to 42, and we currently supply 76 customers in 27 of these countries. We are actively developing new markets and penetrating deeper in gas value chains. Taking on full ownership of the Hazira LNG import terminal in India is a good example. At Hazira, we are supplying LNG for India from our global portfolio, we perform the regasification at Hazira and then sell the gas to local customers through our Shell Energy India marketing and trading business. We also increasingly see opportunities to leverage adjacencies to our Power business where the customer base and product offerings start to overlap. An example is provided by the Bahamas where we are the project developer for a 200 to 250 megawatt integrated LNG-to-power project that also offers upside through LNG-to-marine facilities. The third way we are helping develop a growing market for LNG is as a fuel for transport. In Europe, for example, the number of LNG-fuelled trucks is expected to grow from 5,500 in 2018 to 280,000 by 2030. The same number as on the road in China today. In the same timeframe we anticipate the global demand for LNG in marine to increase by almost 20 million tonnes per year. We are well positioned to supply this demand, especially with our filling stations along European and Chinese roads and our worldwide LNG bunkering network for ships.

Let us now look at how our diverse customers are matched by our diverse supply and how we generate value from optimising the match between the two. I think the best way to illustrate this value is by showing you the routes our LNG cargoes travelled in 2018. And that is what you see now on the screens behind me. In 2018, we sold some 71 million tonnes of LNG from a supply portfolio that is diverse like no other. This makes us a worldwide leader in LNG and we are ahead of other IOCs by a large margin. The diversity of our supply portfolio is unmatched. We sourced 58 million tonnes of term volumes from more than 20 sources, with the biggest single source accounting for less than 8% of the total volumes sold. In addition, we sourced and delivered some 13 million tonnes of spot volumes, equivalent to some 200 cargoes. Apart from this mixed supply portfolio, our sales portfolio is equally diverse, with varying contract duration, flexibility and indexation. All this diversity means we have many options to match supply and demand. And with options comes the opportunity to create value. Our experience in trading and the commercial control we have over a fleet of more than 60 LNG vessels on any given day allow us to generate value from this optionality and our



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earnings and free cash flow last year demonstrated this value. We are seeking to grow this value in the future. By looking for more competitive sources of supply, and by growing our own production and the volume we buy from others.

Now, let me talk about our assets and the improvements we have made in our operations. Operational performance and cost control are key value levers in our business and we have stepped up our game. In 2018, we achieved an LNG liquefaction capacity utilisation of 87%, up from 81% in the year before. Our relentless focus on operational excellence is paying off and we are convinced we can improve further. With continued attention on reliability and by realising major backfill opportunities we are confident we can increase utilisation to around 90% or more. On operating cost we see a similar picture, our drive for competitiveness is paying off and we see average unit operating cost of our integrated and midstream assets in or close to the top quartile. Digitalising our assets and operations is a major enabler for our ambitions. Our shipping team, for example, uses advanced algorithms to analyse ships' operational profiles to instruct the captain on the optimum draft, trim and speed. This reduces ships' resistance, requiring lower main engine power which saves 3-8% of fuel. Not only is this good for the environment, it is also good for business since fuel accounts for a large share of the operational costs of trading. As you can see, we are increasingly achieving the benefits of digitalisation and are now aiming for fast replication at scale.

With that, I will now set out how a leading position in a growing LNG market translates into competitive financial performance. Over the past three years we have consistently been growing both our LNG liquefaction and LNG sales volumes. This speaks to our ability to secure long-term offtake agreements from third parties, to improve utilisation in our own operations. As a result, and further supported by an average Brent price of \$71, we have delivered a significant earnings improvement, and organic free cash flow of \$10.8 billion in 2018, at a ROACE of almost 11%. With Prelude now producing LNG for more than a week and the first shipment of LNG being imminent, we are further de-risking the delivery of our \$8-10 billion organic free cash flow target in 2020. Looking further ahead, we see continued growth in our cash flow from operations towards 2025. Post-2020 we will also step up our cash capital expenditure to \$6-7 billion per year to ensure we can benefit from the opportunities the growing gas and LNG markets offer. Against that Capex increase, we still expect to generate \$9-10 billion organic free cash flow in 2025, and to increase this in the second half of the decade as we bring new projects on stream.

So, how will we grow our business and create new advantage positions? I explained before that we look for the most competitive sources of supply. This can mean buying more LNG from third parties, but it can also mean expanding our own asset base. As you have observed last year, when we announced our final investment decision on LNG Canada, we take investment decisions based on the cost-competitiveness and the resilience of our projects. One way to measure this is the cost it takes to produce and deliver one MMBtu of LNG to customers in Asia. And, as you can see on the slide, our LNG project funnel compares well with the rest of the industry. All our potential projects have a delivered unit cost to Asia below \$8 per MMBtu – and many as you can see below \$7 per MMBtu – and beat the typical cost of US Gulf Coast projects that are being developed at the moment. In addition to these new greenfield or brownfield projects, we have lined up attractive backfill options



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for our existing assets. Across our backfill projects in development we average a unit technical cost below \$5 per MMBtu.

We see a lot of opportunities in LNG, but when it comes to growing our business, gas-to-liquids, or GTL, also has an important role to play. Let me explain why I am so excited about this technology. We have 45 years of experience with GTL and own more than 3000 patents on the technology. In Malaysia, we operate the first GTL plant ever built and with Pearl GTL in Qatar, we operate the largest GTL plant in the world. We produce high-value, differentiated premium products such as GTL gasoil, kerosene, normal paraffin and base oils. Shell Helix Ultra with PurePlus Technology, for example, is the first synthetic motor oil designed from natural gas. Through strong integration with our Downstream Marketing and Trading businesses, we are able to develop new markets and successfully sell these products for unique applications. We have a clear competitive advantage and see significant free cash flow generation from our GTL assets. A key value lever is the proportion of specialty products with higher margins that we are able to produce and place in the market. We have been increasing this share steadily, reaching 16% of our production in 2018 and allowing us to capture an average premium of \$14 per boe over Brent. Our team in Qatar continues to optimise the product slate and we have an ambition to get the average premium up to \$21. As we look ahead, we see a significant increase in global demand for GTL base oils that is not matched by current supply capacities. This creates an exciting opportunity for us and we are looking at ways to increase our GTL footprint. You can see why I am excited about the opportunities we have in GTL and LNG and I am very confident that we can extend our leading position.

With that, let me hand over to Andy.



Good morning ladies and gentlemen. It is a real pleasure to be here today. This will be the last time I will speak to you as Upstream director in this forum. As you probably know, I will be handing over to Wael Sawan on the 1st of July. I have worked with Wael for over 20 years. Under his leadership we saw the transformation of our deep-water business, and I look forward to watching him lead Upstream in the coming years. So, let me start by touching on how we have improved Upstream over the last few years, and ask Wael to share what more you can expect

from this business in the future.

Our upstream business consists of three strategic themes that we have made stronger, more competitive, and more resilient. We have a leading global deep-water business, where we have transformed the capital efficiency of our projects, have grown production from existing hubs, brought new hubs on line and have an exciting funnel of competitive, high-margin projects to develop. In Shales, we have improved our competitiveness, focused our portfolio and now have a very high-quality asset base, such as in the sweet spot of the Permian Delaware. And in Conventional Oil and Gas, we have high graded our portfolio, improved our operational performance and reduced development costs unlocking further attractive opportunities to develop this deep resource base.



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You can see the results of our transformation in our financials. When we spoke in 2016, Upstream was free cash flow negative. Today we are generating some \$1 billion of organic free cash flow each month. Only a third of that improvement is a result of higher oil price. We have worked hard to improve the performance of our assets, for example, since 2015 we have reduced unit operating costs by more than 20% and aspire to reach \$9 per barrel UOC by 2025. With that improved performance we are well within reach of our 2020 target to deliver \$12 to \$15 billion of organic free cash flow. The strength of our development funnel and asset performance shows that despite significant divestments, the upstream business is delivering strong cash flow and that delivery will continue. Today we are updating our outlook for our organic free cash flow delivery to the range of \$14 to \$17 billion by 2025 at a \$60 Brent real terms 2016 price. And we expect strong double-digit returns in the range of 12-14% for Upstream.

We have visibility of how we will maintain momentum from our Upstream business well into the next decades. When looking at Upstream and Integrated Gas, we have a commercial resource base with significant development options and a resource life exceeding 20 years. And when you compare this to peers, we are well in range and benefit from having the largest share of high margin liquified natural gas and deep-water resources, and high margin barrels is what we are focusing on. Value over volume. The strength of these high margin barrels is clearly seen with Shell delivering industry leading cash flow from operations per barrel. We have shown yearly unit development cost improvements, which allows for more of our resource base to be developed at less capital spend giving us confidence in the long-term strength of our business with the capital allocated. Most of the cost reduction is structural, with only 20% of the improvement driven by supply chain unit costs. And we have an ambition to further reduce unit development costs by some 20-30%. With an intense operational focus on well reservoir facility management, in-fill drilling, LNG backfill, and production availability, we see a decline rate of just some 3% across our portfolio. This means we only need around 100 thousand barrels a day of production from new fields annually to sustain the business. Our development opportunities easily covers this and more, helping us grow cash flow through the next decades.

So, with our discovered resources, we can sustain production through most of the next decades. In addition, we have a very exciting exploration portfolio that can supplement this, where we have been investing some \$2 billion per year recently. We have a value focused exploration strategy, where we have been successful at discovering high value, near field and heartland discoveries. We track our value creation as a multiple of the exploration spend. We just need to look at the US Gulf of Mexico where we have a string of discoveries like Appomattox, Vito and Kaikias, which we are bringing online. With more discoveries in the funnel to develop in the coming years. Beyond this, in the last years we have seen a substantial build of exciting prolific acreage in Brazil, Mexico, the US Gulf of Mexico and Mauritania. And in our Conventional portfolio, in places like Malaysia, Egypt, Brunei, and Oman, we replenish our heartlands year on year. And also, in emerging basins like onshore Albania, we have seen recent well test results in an asset with a large resource base. Overall, we expect to reduce unit finding costs down to \$2-3 per barrel without compromising the value per barrel of the discoveries we make. So, while maintaining our investment levels we are seeing the



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yield on that spend improve and have an ambition to add over 750 million barrels of resources each year. Now, let me hand over to Wael who will take you through the outlook for the Upstream in more detail.



Thank you, Andy. It is a real pleasure to be here. I feel fortunate that Andy has built such a strong foundation. He has shown a relentless commitment to safety, a sharp focus on portfolio optimisation and capital efficiency, and a dedication to operational excellence, and I plan to build on this success during the years to come. Let us start with Deep Water, we are the leading IOC in each of the major deep-water theatres in which we operate, the US Gulf of Mexico, Brazil, Nigeria, Malaysia, and most recently Mexico. This gives us a strong position to

drive growth by leveraging existing infrastructure, our locally established capabilities and our relationships in those countries. And I am especially pleased with what we have done in the past few years to improve the performance of this business. You can see the large swing in organic free cash flow from 2016 to 2018, which we expect to keep moving further in this direction, reaching \$7-8 billion in organic free cash flow by 2025, almost entirely on the back of our already discovered resource base. We expect to invest some \$4-5 billion in cash capex each year which will sustain production of at least 900 thousand barrels of oil equivalent per day. And we will continue to push this business, as we are not at the end of our improvement journey. By fully leveraging our leading global projects and wells delivery, replicating our growing digital capabilities across our assets, and continuing to deepen our partnership with our core supply chain, I am convinced we can deliver differentiated performance and the next exciting tranche of growth.

Our transformation began with our people and our focus. We moved from making the technically impossible possible, to now making the possible profitable. We are using our deep technical capabilities to drive capital efficiency with a strong focus on value and delivery. We have challenged the organisation to deliver industry leading unit development costs and cycle times from discovery to first oil, and they have responded. For example, with Whale, through standardisation and replication, we are driving towards top quartile development costs and cycle time, targeting less than 6 years from discovery to first oil with plans to replicate nearly 80% of the Vito host design. By changing the way we work internally and externally with the supply chain, to drive capital efficiency and value, we have reduced the breakeven prices by almost 50% since 2014, and on average our projects break even around \$30 a barrel or less on a forward-looking basis. Our operating costs have also been decreasing. For example, we made structural changes to our headcount and logistics fleet and have an ambition to achieve UOCs of \$5-6 per barrel over the coming years.

It is worth us looking at two of our major deep-water locations. Let us start with the US Gulf of Mexico. Our strategy to fill our hubs, by focusing on operational excellence and investing in waterflood and tiebacks around our hubs is working, for example we have seen nearly an 80% increase in production from the Mars corridor. These are highly attractive investment options that mitigate declines and deliver profitable barrels. And our development funnel is strong. Two weeks ago, Appomattox started production, it was delivered some 40% under budget, and will ramp up to



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175 thousand barrels a day. And with discoveries at Dover, Fort Sumter and Rydberg we can work to keep Appomattox full for some time to come. Last year, we sanctioned Vito and our second phase of development at Perdido, both are progressing as planned and we are also maturing Powernap, a tieback to Olympus. And we continue to expand this heartland through exploration. In April, we announced Blacktip, an exciting discovery in the Perdido corridor and today we announce exploration success at King Embayment, a near-field success near Mars. And lastly, we participate in bid rounds where we add new licenses. With the licenses from the last bid round we will have nearly 300 licenses and will be the largest lease holder in the GOM.

And I would now like to shift to Brazil. Brazil has become a heartland for Shell, with production approaching 400 thousand barrels of oil equivalent a day. We have 15 floating production storage and offloading vessels online, and the 16th, P-68, is expected online later this year. Well performance from the pre-salt is exceeding expectations and we are seeing lower declines than expected. And beyond these, we have a conveyor belt of FPSOs that will come on-stream, including our Mero development programme. In total we are progressing a further 7 FPSOs in which we have interest. Appraisal activity is underway at Gato de Mato and we are planning exploration wells at Alto de Cabo Frio Oeste and Saturno, these are exciting blocks that can help extend our funnel.

Now to Shales. We have been on a significant performance journey, optimising our portfolio and directing our capital to developing high margin assets. We now have a proven track record of delivery. By 2020, we expect over half of our production to come from liquid rich assets in Permian, Fox Creek, and Argentina. Within these areas, we have some of the best positions in the core of these basins. As a result, our Shales business is on track to become organic free cash-flow positive this year, and we are positioned to deliver strong returns and long-term cash flow. We expect to reach production of 600 thousand barrels of oil equivalent a day and generate \$2-3 billion of organic free cash flow per year by 2025. Our business is supported by a competitive cost structure, resilient break-evens in every basin, and strong operational performance across all positions. Our strong Permian performance underpins the delivery of our strategic intent for Shales. We are a leading operator in the basin, and in the second half of last year became organic free cash flow positive.

We have achieved top quartile drilling performance in the Delaware basin and have reduced total well cost by 40% since 2015. And in the same time period, through completion optimisation we have increased our oil recovery by more than 60%. We see technology, particularly our iShale programme, as an integral part of our business that drives delivery today and into the future. A quick example which Harry introduced earlier is Shell Geodesic, by the end of 2019, nearly all wells in Shales will be geo-steered using this AI technology. This allows us to stay in zone nearly 100% of the time, which allows for greater overall recovery and adding at least 5% per well to our EUR's. Further, late last year, we became the first and only company to receive approval from the US Federal Aviation Administration to fly drones beyond the visual line of sight. This will reduce costs and enable safer operations. Our improvement in drilling costs, use of modular replicated facilities design, optimised EUR's, and deployment of technology means shorter paybacks and better financial returns and margins per barrel of production. With our high-graded portfolio, we have the running room



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and the capabilities to deliver our aspirations. We will continue to deliver organic growth and potentially as well through inorganic options. We are not in a rush to grow through acquisition given the quality and depth of the portfolio. If we choose to grow inorganically we will be selective, and would only consider value accretive opportunities that fit within our financial framework.

Let us now have a closer look at our Conventional Oil and Gas business. We have more than one hundred years of experience in this business. This deep familiarity with our heartlands comes with unique assets, insightful data, established capabilities and deep relationships, which are key differentiators for us. Since 2015, we have been high-grading and simplifying this portfolio through a series of divestments, focusing efforts on key assets with running room. As a result, we now have a simple, more resilient portfolio on track to deliver between 12 and 15% returns on average capital employed by 2025. And, while we will continue to divest non-core positions to further improve our portfolio and returns, we are very confident about the longevity and growth opportunities of this business. In recent years we have secured agreements with governments to unlock more value from existing discovered positions, for example in Brunei, Malaysia, Nigeria and Egypt. These agreements have been key to the turnaround of this theme and allow us to grow in a majority of the Conventional Oil and Gas countries. By 2025, growth countries will represent more than 80% of the cash flow from operations. We have a deep resource base of around 11 billion barrels of oil equivalent of commercial resources, providing attractive infill drilling and debottlenecking opportunities. And with a sharp focus we can unlock more production from existing wells, allowing us to limit decline to around 4% per year. With a strong pipeline of competitive new developments, we expect to sustain production around 1.5 million barrels per day, with cash capital expenditures of \$4-5 billion a year. This will deliver organic free cash flow of \$5-6 billion by 2025.

Now, let me explain some of the underlying improvements and why I am excited about the future of this business. A sharp focus on competitive scoping and efficient execution has halved our average unit development cost from \$14 per boe in 2015 to \$7 per boe in 2018, and we aim to further decrease this to \$5-6 per barrel. Our planned new developments are very competitive with an average forward-looking break-even price of under \$30 per barrel. This is complemented by a rich portfolio of infill drilling and debottlenecking opportunities, with very attractive economics and average IRR's above 50%. In summary, this heartland portfolio offers strong cash flow generation and resilient returns for years to come.

So, let me end by sharing my reflections and priorities as I get ready to take responsibility for Upstream. First, we will continue the journey that Upstream has been on, to safely deliver top quartile performance. Second, I see an enviable development funnel that we are maturing, with key projects ramping up, on-stream soon, or under construction, adding over 650 thousand barrels of oil equivalent a day at peak production levels. With key projects in FEED and pre-FEED that add another 750 thousand barrels a day, and further delivery of smaller projects that can add an additional 400 thousand barrels a day. My objective will be to ensure we apply a ruthless focus on value and returns for our project portfolio, and to develop this funnel in a safe and competitive manner. Third, on exploration, we will continue high grading our funnel of options and in parallel drill some of the most exciting exploration wells in the industry. In Brazil we have some critical wells



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that we are preparing to drill over the next two years, in the US Gulf of Mexico we have both opportunities near infrastructure and corridors, and major hub scale opportunities. And in Mexico, where our acreage is nearly 4 times the size of our US Gulf of Mexico position, we are moving quickly from license award to drilling our first well later this year and have identified prospects that could support 1 to 2 drilling rigs for an extended period of time. To conclude, I am excited to inherit this business from Andy, and would like to thank him for his leadership and vision over the past years. I strongly believe we have the right skills and capabilities to unlock the full potential of the Upstream business and am confident about the longevity and sustainability of strong cash and returns that we can extract from this portfolio for decades to come. Now let me hand over to John.



Thank you Wael. It is a pleasure to be here. I spoke to many of you at our Downstream Open House event last year, where I shared a handful of important points. First, that Downstream plays a key role in Shell's progress towards being a world-class investment case. Second, it is integral to help Shell transition to a lower carbon future. And finally, that as the world changes, so Downstream must change too. Today, I want to reinforce these messages.

So, how are we going to adapt our Oil Products business and deliver growth? In short, we plan to continue expanding the Marketing business to further increase its predictable and high returns. This is expected to involve expanding in the key growth markets: China, India, Indonesia, Mexico and Russia. And will mean a more balanced geographical exposure. With this growth, we aim to increase our marketing earnings by \$2.5 billion per year by the end of 2025, relative to 2017. I will talk more about this later. But first, I want to sketch out for you how Downstream plans to adapt our products and services to respond to the changes taking place in society today.

As we have highlighted previously, a growing population with rising living standards will consume more energy. At the same time, the world must find ways to reduce greenhouse gas emissions and improve air quality. As the energy system changes in response to these fundamental challenges, advances in technology and mobility will give customers more choice. For example, in transport and convenience retailing, we are working on many different solutions, because we believe consumers will need these. This is demonstrated by our offerings of fast-charging for electric vehicles, liquefied natural gas – or LNG, for shipping and heavy freight, and hydrogen as a fuel for vehicles too, but also by leveraging mobility to increase our non-fuels retailing. As we bring more solutions to our customers, we are also using the opportunity that comes with the rise of digital innovation to change the way customers interact with us. You will see more of this later. This is a great opportunity for both Shell and Downstream.

So, we are planning to offer multiple solutions and maximise the opportunity of digitalization. Others will do the same, but Downstream has three strengths that set us apart, that will ensure we win. The first is our brand. This has a higher value than our competitors' brands. The second strength is our scale.



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Our Retail business is the largest of its kind in the world, with more than 44 thousand sites in close to 80 countries. And our Global Commercial business includes a lubricants business, recognised as the global market leader for 12 consecutive years. And finally, our capabilities. From Retail to Lubricants, to our Trading and Supply business, we aim to ensure the best value for Shell.

As the world changes, and the needs of our customers change, so will our Retail and Lubricants businesses. We will shape the future of both businesses to meet the needs of our customers. Indeed, the importance of this focus on the customer is clear to see, with more than half the margin coming from Shell's distinct products and services, for example Shell V-Power. It is through our customer focus that we aim to achieve our growth ambition. In 2025, we aim to serve more than 40 million customers every single day. And as we offer yet more premium services and products, we expect them to contribute significantly to our margin. As you will see, these changes are already under way.

Last year, we made a commitment to achieve more than 20% ROACE by the end of 2025 across our marketing businesses. I can tell you this still stands. And while our current business has competitive returns compared with retailers such as Sainsbury's or Walmart, we plan to become even more competitive in 2025 as a result of our focus on the customer and our strong returns.

And as you can see, we are making clear progress. For example, since 2017, we have already added more than 450 new retail sites across the key growth markets I mentioned earlier, and we increased our lubricants volume by more than 8%. It is in this way that we are building the foundations for our growth strategy.

We are using our significant customer insight and our versatility to make sure that we offer customers what they want and what they need. To put it simply, we are moving with the customer. And we will continue to seize opportunities as they arise, like the digitalisation of our loyalty schemes, or our rapid roll-out of electric vehicle chargers across 23 markets. As you can see, multiple solutions to create the best possible products for our valued customers.

Earlier I talked about Downstream's brand, scale and capabilities, the factors setting Shell apart from its competitors. And it is these three elements that come together in Trading and Supply, we believe making Shell's Downstream business the most highly integrated in the world. Trading and Supply integrates and optimises everything that Shell does. This is the key to making Downstream an efficient and profitable business. It finds the crude, oil products and biofuels, gas, LNG, electricity and carbon credits that the business needs and matches them to customer demand. And those customers could be car owners in Chennai, an airline in Bangkok, the builders of a bridge in China or a Shell Energy customer in the UK. We expect to see further opportunity as we implement the new marine fuel specification, aligned with the IMO2020 targets. Optimising what we do, whether it is through trading, or across our portfolio, means we stay competitive. Our focus on high-grading our portfolio has improved our competitiveness further, but there is still more for us to do.

Indeed, as the slide shows, we plan to continue to reshape our refining portfolio over the next decade with both divestments and investments. First, we intend to ensure our global presence matches that of our customers, trading operations and chemicals plants, to ensure we use our commercial advantage



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at every stage of the Downstream business. Second, we intend to ensure the remaining portfolio delivers resilient returns. As you can see here, when benchmarked, our refining portfolio was in the third quartile for its non-energy cash costs. This not good enough to generate the returns we aspire to and we have worked to identify material potential savings via our cost improvement programme, that will put us on a path to second quartile. This we feel offers the most efficiency and sustainable running of our operations. So, let me show you what this means in financial terms for Oil Products.

The competitive strengths I highlighted earlier are allowing our Oil Products business to deliver on the commitments I outlined at last year's Downstream Open House event. Oil Products has delivered sustainable and resilient cash flow from operations excluding working capital movements over the last 3 years, representing a ROACE at the end of 2018 of 11%. With our competitive returns contributing to our world-class investment case, our current growth in marketing is on track to deliver our aims in 2025, which shifts our capital employed more towards this part of the business. And together with our integrated Trading and Refining portfolio, we are on course to meet our ROACE target of more than 15% and our organic free cash flow target of \$8-9 billion by the end of 2025.

Let me now briefly recap on Oil Products. Oil Products is a key component of Shell's world-class investment case. We intend to seize the opportunities presented by the global trends in energy, mobility and digitalisation to continue to meet the needs of our customers. And we plan to do this thanks to our unique strengths in brand, scale, and capabilities. But it is also important to remember that sitting alongside our Marketing, and Refining and Trading businesses, is our Chemicals business, which we also expect to help Downstream deliver transformational growth, in a lower carbon future.

I have talked about the unique strengths of Oil Products, how it is integral to Shell's strategic ambitions and how we are adapting and growing in a time of change. Now, I would like to focus on Chemicals. Petrochemicals are vital to our evolving modern society. In our offices, cars and homes, while we are at work and while we relax, we continue to increase our use of products that begin life as petrochemicals. Economic growth drives demand in petrochemicals, and you can see this on the slide. The desire of consumers and societies for lower-carbon solutions will also increase that demand. Many finished products made from petrochemicals use fewer resources and have a lower environmental impact than the glass, paper or metal products they replace. Efficient insulation, synthetic textiles and low-temperature detergents, for instance, all save energy and reduce CO₂ emissions. We expect the Chemicals business to help Shell to thrive through the energy transition. The fundamentals and the benefits of this business are strong.

As societies increase their recycling rates and use fewer single-use plastics, I am often asked if this will have an impact on the petrochemicals industry. And my answer is this, while these trends are expected to reduce petrochemical demand in specific areas, packaging is just one outlet for plastics, and single-use packaging is one subset of that. In fact, demand for the core product, the plastic resin, is set for strong growth even in a future of extremely high recycling rates for single-use packaging. Shell very much shares concerns about the impact of discarded plastics on the environment. Plastic waste is the issue. Plastics belong in our homes, hospitals and schools, not in our oceans, rivers and landscapes. This is a problem that requires collaboration across the whole of society. And that is why



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Shell is proud to be a founding member of the Alliance to End Plastic Waste. This is a new, cross-sector organisation with a clear mission to help to end plastic waste in our environment.

So, what is it that sets our Chemicals business apart and makes it competitive? First, we have an advantage when it comes to feedstock. Ours comes from local sources, under long-term contracts. For example, our Pennsylvania plant will use ethane feedstock sourced from shale gas producers in the Marcellus and Utica basins. Second, is our proximity to key markets. In our Nanhai joint venture with CNOOC in China's Guangdong Province, we doubled the site's cracking and styrene capacity last year to access the large and growing Chinese demand. And finally, our use of technology sets us apart. We have recently started up the fourth alpha olefins, or AO unit, at our Geismar facility in Louisiana. This makes it the largest AO-producing site in the world, and this new unit was built using Shell proprietary technology. All of these three projects are highly competitive and are the pillars of our cash growth commitments to the end of 2025, representing 75% of our projected cash growth, in fact. And I am pleased to confirm that we plan to continue to grow, with a healthy series of options we can choose from for future growth projects.

So, the growth of our Chemicals business is based on solid foundations. Our strong underlying business has an organic free cash flow that is funding our capital growth programme, enabling us to build the Chemicals business of the future. And, as we see our projects move into operations, we expect to see cash flow growth, enabling us to deliver on our commitments of \$5-6 billion cash flow from operations and \$2-3 billion organic free cash flow by 2025, representing a ROACE of around 15%.

But that is not the end of our investment in this business. We plan to continue to invest \$3-4 billion per year through the next decade. This is expected to ensure continued growth, focused on the areas where we see further opportunity to use our strengths and our proximity to markets.

I have highlighted where we believe economic growth will continue well into the 2030s, and that petrochemicals growth exceeds economic growth. But there is an opportunity to be part of a larger growth market in chemicals. Building on our existing differentiators and evolving these by an increased focus on our natural strengths of technology and the Shell brand, we believe we can expand our business into selected performance chemicals, which are customised products that influence the performance of the end product and require deeper customer intimacy. This is an exceptional opportunity to make the Chemicals business even stronger. But as I have said, this is an opportunity, one that we will appraise as we continue to grow our business into the 2020s. So, I hope you agree that there are exciting times ahead in the whole of Downstream.

With that, I would now like to hand you back over to Maarten. Thank you.



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Thanks John. It has been three years since we launched our New Energies business. We have been growing this business, making modest investments and testing out new business models to deliver competitive returns to support our world-class investment case. We focus on two key areas, New Fuels and Power. New fuels includes biofuels, which can help reduce CO₂ emissions and air pollution from transport. Today, Shell is already one of the world's largest blenders and distributors of lower carbon biofuels through our Raízen joint venture. In addition, we are also developing advanced biofuels, which produce fuels from feedstocks such as wastes or inedible crops, and we do this in collaboration with third parties. We see returns for biofuels in the order of 15% or higher. Hydrogen also has a role in our portfolio, as a clean fuel for light and heavy transport in fuel-cell electric cars, trucks and ships, as a feedstock for industry, and over time as a way to store electricity seasonally or move it across the globe. Here we partner with original equipment manufacturers (OEMs), governments, and others. We are building hydrogen filling stations in places like Germany, the UK, and in California. The pace at which we proceed in New Fuels depends on developments in technology, the regulatory framework, and demand. We are positioning to scale up when the time is right. New Energies will continue to lead the development and deployment of advanced biofuels projects, but the related investment will be reported under Oil Products from 2020. And Power will be an emerging theme. This could be a significant business for Shell. It has the scale and longevity that aligns well with Shell, and could one day sit alongside our oil, gas, and chemicals business. We are not interested in this business because of the returns that the utility industry traditionally delivers. Instead, we believe we can build a modern integrated power business that delivers returns of 8-12% when on stream. We see potential for profitable involvement across almost the entire integrated power system, from supplying power and related services directly to customers, to buying, selling, trading and optimising it, to lower carbon generation. Our core markets of interest are in Northwest Europe, the USA, and Australia, where customers want lower-carbon alternatives, where governments are taking action to promote decarbonisation of power, and where people are willing to pay a fair price for cleaner power. Beyond these markets we may be involved in select markets where the opportunity makes sense or where we may have distinct adjacent in-country positions. Let us talk about that in more detail, starting with an overview of the macro environment.

The world's demand for energy is rising, and society expects this to be met in a clean way. As part of a move to realise the ambitions of Paris, we will see deep electrification of the global energy system. That will require strong growth in renewables like solar and wind to complement traditional fuels for sectors where molecules are still needed. In fact, natural gas will complement renewables. Together, both have a critical role to help meet increased demand while lowering greenhouse gas emissions, the combination offers a reliable, flexible and cost-effective pathway to a lower-emissions energy system. And this is what we see many of our customers demanding. Developments in technology spark new products, services, and business models that offer rent to companies with a strong brand and an ability to deliver integrated energy solutions. And, while the pace of change and exact



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solution may vary for the different markets, we expect to see growing value pools in this important segment of the energy system, presenting a commercial opportunity for a company such as ours.

We see opportunity as the traditional power business is changing, with a fundamental shift in power markets, competition, and regulations. From what used to be the relatively straightforward delivery of an electron from a centralised stable supply source to a customer, with predictable demand and modest financial reward for the investors.

To a more intricate system with more risk, volatility, complexity and more customer intimacy. Hence the potential for higher returns. And, this is because the system is growing fast, becoming more interconnected and more complex. Customers of the future will have more choice driven by technology and we can expect to see increasing intermittent demand from charging and heating and cooling. And of course, there will be intermittent supply such as from solar and wind power, and the rise of distributed energy resources and storage solutions and more. This transformation is disrupting incumbents and challenging their business models, creating opportunity for new entrants. And with this, we see new value pools being created in this integrated system. We see the potential for higher returns at the customer end, helped by new capital-light business models such as EV charging and smart energy services. Trading will sit at the heart of our integrated approach and be an important source of value. And we will be involved in generating electricity, with assets, where this adds portfolio value and where the returns meet our criteria, with a preference to be asset-light and buy the balance from other producers.

Over the past few years, we have started assembling the building blocks. Let me highlight some of these. On the customer side, we have existing business and customer relations with all four customer segments, and recently acquired retailers like MP2 in the USA and First Utility in the UK, which we rebranded to Shell Energy. And you may have noticed we have teamed up with PGGM to explore the joint acquisition of Eneco, a Dutch sustainable energy provider that would give us access to more customers and a modern generation portfolio. We also have invested in sonnen, a leader in smart battery storage systems. We joined IONITY, which provides charging along major European highways and acquired New Motion and Greenlots giving us scalable positions in EV charging in Europe and in the USA. Now we are looking to bring these together, for example by offering our Shell Energy customers energy solutions to charge their electric vehicle along major highways or at various charging points, in addition to providing them with 100% renewable electricity. On generation, we have a position with onshore wind and are expanding offshore through Borselle in the Netherlands and with acreage we secured in the USA. And in solar, we have acquired an interest in Silicon Ranch in the USA and Cleantech Solar in Asia which has increased our solar generation capabilities.

We bring several competitive advantages that we can draw on to drive returns in this business. First, power markets are local, and we have a legacy of over 100 years of experience and are operating in 70 plus countries, where we understand these markets and are a trusted partner to governments, regulators, and local communities. Second, we have the strongest brand amongst all energy companies and have an edge when it comes to marketing and customer intimacy. Shell serves



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hundreds of millions of unique customers per year, many of whom will be turning to power to decarbonise their energy usage. With this, we can provide integrated offerings to our customers, for example in the US we supply General Motors with fuels and lubricants and now we are one of their major power suppliers. We have a well-established trading business and market expertise. In North America we are the third largest power trader and from this we have expanded into Europe, Brazil, Japan, and Australia. Furthermore, we have deep technical expertise, can deliver major projects and manage risks. We have a large asset base that consumes substantial amounts of power. For example, at our Moerdijk refinery we have installed solar panels to support some of our power needs, our assets give us an opportunity to de-risk at scale. These are just some of the advantages we see that will help drive stronger, competitive returns from this business.

So, as you can see, we have been growing this business over the past few years, but from different starting points. In retail, we added some 750,000 customers and could add more. Our trading business, as I mentioned earlier, is already quite sizeable. We have further expanded it and see more room for growth. And, lastly, we have been scaling up our renewable generation capacity. Now, while we have big aspirations, we are investing with care and will remain disciplined in how we commit resources and funding to this business. Since setting up New Energies in 2016, we have invested around \$1.6 billion to date in Power and New Fuels. And as we continue to ramp up this business, we could see an increase of our power cash capex, averaging \$2-3 billion per year from 2021 to 2025. This ramp-up in cash capex is subject to a few criteria. First, that the business demonstrates a path to being self-funding by 2030. Second, our investments must meet certain financial milestones that we establish. And last, as we have said many times now, we must deliver returns in the 8-12% range for our onstream integrated power business. And, starting in 2021, we will provide additional financial disclosures for Power. As we develop these lower-carbon products, we are seeing the pull from our customers, and, increasingly, a commitment from regulators. This is the perfect combination to develop a growing, profitable low-carbon business, and we are determined to be a leader in that process. And, with that, let me hand back to Ben.



Thank you Maarten. We have covered a lot of ground today, let me close. To summarise the headlines for you. Long-term confidence in our portfolio, increased organic free cash flow outlook, more potential for distributions to shareholders. All this together with the ambition to stay on the right side of history. With that let's move to a short Q&A. Jessica will join me for this. Let's keep this at the high level, and there will be plenty of time for your more detailed questions and discussion in the break-out Q&A panels.

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This presentation contains data and analysis from Shell's new Sky scenario. Unlike Shell's previously published Mountains and Oceans exploratory scenarios, the Sky scenario is based on the assumption that society reaches the Paris Agreement's goal of holding the rise in global average temperatures this century to well below two degrees Celsius (2°C) above pre-industrial levels. Unlike Shell's Mountains and Oceans scenarios, which unfolded in an open-ended way based upon plausible assumptions and quantifications, the Sky scenario was specifically designed to reach the Paris Agreement's goal in a technically possible manner. These scenarios are a part of an ongoing process used in Shell for over 40 years to challenge executives' perspectives on the future business environment. They are designed to stretch management to consider even events that may only be remotely possible. Scenarios, therefore, are not intended to be predictions of likely future events or outcomes and investors should not rely on them when making an investment decision with regard to Royal Dutch Shell plc securities.

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