POWERING PROGRESS
BEN VAN BEURDEN, CHIEF EXECUTIVE OFFICER

Powering Progress. That is how I think about our role. That is what I believe we do, and we should continue to do. And that is what I think is the case for Shell. Powering Progress sets out our strategy to accelerate the transition of our business. To a net-zero emissions business, purposefully and profitably. Powering Progress delivers value for our shareholders, for our customers and for wider society. It builds a strong and a resilient company by putting customers at the centre of our strategy. Powering Progress means partnering with others to reduce carbon emissions, especially in sectors that are hard to decarbonise. And this includes supporting government policies to reduce carbon emissions, sector by sector.

At our Q3 results we introduced you to our new approach. And today, we build on that. Explaining we are ready to seize the significant opportunities at our fingertips in the energy transition. But first let us look at a short film that illustrates a challenging, but a possible vision of the future. It underlines great opportunity but also, the urgent need to accelerate to meet Paris.

[Video: Accelerating to net-zero emissions]

So, the transition to a low-carbon world is an opportunity. Grasping that opportunity, would radically transform the company’s portfolio in the next 30 years. Today, we have a highly competitive portfolio of assets, products and market positions. Today, we deliver superior value from our integrated business model as we produce, buy, trade, transport and sell our products around the world. But we cannot stand still. Pursuing the value in the future of energy means changing our businesses across each of our three pillars of Growth, Transition and Upstream. We will take new opportunities to grow and to become even more competitive and even more resilient. And, as we take those opportunities, we aim to be a
compelling investment case for our shareholders. And also, a company that brings value to society, a company that is at one with society as it moves towards that net-zero future.

Powering Progress serves four main goals, all of which are critical to our future. And together, these goals integrate sustainability with our business strategy. These goals are founded upon our core values of honesty, integrity and respect for people. And they are secured through our determined focus on safety and our commitment to doing business in a transparent way. And it is through the successful pursuit of these four goals that we will build the investment case in Shell. I will take you through each in turn now, starting with our goal to generate shareholder value.

Powering Progress drives the creation of wealth for our shareholders in the short, the medium and the long term. That means seeking to grow dividends every year, and further increasing total shareholder distributions as we grow our cash flows. And by accessing the enormous opportunities that the future of energy holds, we will create the conditions for share price appreciation. The changing energy landscape means that Shell must take a dynamic approach to our portfolio of assets and products. Our Upstream business will continue to generate the cash and returns needed to fund shareholder distributions, and also to accelerate our transition into the future of energy. And, of course, we will keep a disciplined approach to capital investment and a strong balance sheet, so our company remains strong, resilient and ready in this time of change.

Next, becoming a net-zero emissions business by 2050, in step with society. Our net-zero target supports the most ambitious goal of the UN Paris Agreement, 1.5 degrees Celsius. This means we have to transform our business, working with our customers and others, in sectors that are difficult to decarbonise. That includes aviation, shipping, road freight and industry. Powering Progress also means powering lives and livelihoods. Of course, you know us as a company that provides vital energy for homes, businesses and transport. But the supply of affordable energy is also crucial for addressing global challenges, like poverty and inequality. That is why we have set an ambition, by 2030, to provide reliable electricity to 100 million consumers in emerging markets who do not have it today. And across everything we do, we focus on improving inclusion and representation in four areas: disability, race and ethnicity, LGBT+ and gender.

Let us look at our goal to respect nature. We are stepping up our environmental ambitions to protect and enhance biodiversity. We are also focusing on using water and other resources more efficiently and reusing as much of it as we can. We are reducing waste from our operations and increasing the recycling of plastics.
Now, you will find more information about our Powering Progress strategy on shell.com and, in April, we will talk in greater depth about the two goals of respecting nature and powering lives at our annual ESG update. But today, our focus will be on our two interlinked goals of generating value for shareholders while achieving net-zero emissions.

So, as I said right at the beginning, we expect to radically transform Shell over the next 30 years. And we will do this by seeking out and grasping the tremendous opportunities of the global shift to a lower-carbon future. Now, 30 years is a long time away and is not a timescale for hard predictions. But I can share my long-term vision for Shell. By 2050 I would envision all our cash flows coming from serving customers with net-zero energy solutions and sustainable materials. Our energy product mix would be dominated by low- and no-carbon energy such as renewable power, biofuels and hydrogen. A product mix that we would develop in partnership with sectors that use the energy, from biofuels in aviation, hydrogen for heavy-duty transport, renewable power for homes and businesses. Now, some of the products we sell might still contain carbon. But the majority of our energy products would come from renewable resources. And all the fossil-based carbon that we would sell would either be captured and stored, balanced out through nature, or embedded in materials. So, I can imagine us capturing and storing maybe 50 million tonnes a year of carbon dioxide. I can imagine us working with nature to lock away maybe 300 million tonnes in forests, in wetlands and soils. And, we could have established a commercial business storing away carbon dioxide emissions as a service for our customers. In this future, Shell would have become an even more formidable partner for our customers, building out the supply chains to meet their low-carbon energy needs. This is our great task of the next 30 years. Our LNG, Chemicals and Products assets would be the platforms for our future biofuel plants, the hydrogen and synfuel facilities. And, together with our Power assets, they would form a highly efficient energy and product network that enables our transition. And just as today, our traders would optimise this for maximum value. In this future, Upstream would play a key role for a long time to come, funding the bulk of our shareholder distributions well into the 2030s, as well as the acceleration of our shift into the future of energy. That, all of that, is just how I see things. Now, I cannot predict exactly how Shell would look as a net-zero emissions business. But I believe the value of our business would only increase as we make inroads into the future of energy. Yes, our legacy assets and resource positions may fade in the picture of our financial success, but they would be replaced by the value generated from our strong market positions, built on our advanced products and relationships with customers.

So, how might we travel this journey? How might we evolve towards this future? I may only have been able to give you a vision for the next 30 years, but we have already clear ideas
and expectations for the next decade. And that starts with a deliberate approach and a strong discipline of managing capital and carbon. Let’s start with capital.

**MANAGING CAPITAL**

**JESSICA UHL, CHIEF FINANCIAL OFFICER**

Delivering our strategy will require clear and deliberate capital allocation choices. How we reward our shareholders, manage risk and invest in our businesses will define the pace and quality of our delivery. We approach capital allocation at three levels: enterprise, portfolio and project. The enterprise level is about how we make choices between increasing distributions to our shareholders, investing in our business and/or strengthening our balance sheet. The portfolio level is about how we allocate capital between our three business pillars - Growth, Transition and Upstream. The project level is about how we evaluate and prioritise investment opportunities.

At the enterprise level, we look to achieve the right balance between shareholder distributions today and investing for value enhancing growth. Having a strong balance sheet provides financial strength for resilience and allows us to pursue opportunities. That is why we have a clear approach on shareholder distributions as well as debt and capex levels. As we said at Q3, while our net debt is above $65 billion, we plan to invest $19 and 22 billion a year, which will be allocated across our portfolio. This will sustain our core businesses while funding moderate growth. We will do this while continuing to grow the dividend per share annually, subject to Board approval. This will provide a strong, steady return for our shareholders while offering the potential for both increased distributions and share price appreciation. In this context, we announced last week our intention to increase the dividend per share for Q1 by 4%. We will also strengthen the balance sheet, reducing net debt to 65 billion dollars. Once we have reached this milestone, we will look to further increase total shareholder distributions. Through our progressive dividend and share buybacks, we target total distributions to shareholders of 20 to 30% of our cash flow from operations. At this time, we will also seek measured increases in investments to grow value and further strengthen our balance sheet.

At the portfolio level, our strategy determines which businesses we will sustain or grow, transitioning our portfolio towards the future of energy. We will allocate our capital spending between our business pillars to achieve three key objectives: maintaining our assets, sustaining cash flows from our strong, existing businesses and building new cash flows by finding and creating value in the future of energy. Importantly, these businesses have different capital profiles. Upstream and Transition require a large proportion of their capital to
maintain their assets and sustain cash flows. While most capital spending in our Growth pillar is aimed at increasing cash flow and value. A key principle for our strategy is our focus on the customer. This will shape the portfolios of each of our businesses - reinforcing our value over volume approach for Upstream, repurposing our refining assets for biofuels and hydrogen production as well as developing renewable energy infrastructure and our customer portfolios. Shell has traditionally focused on securing and developing assets - a business model that linked us to commodity prices and project-based returns. The Shell we are building will create value from advanced products that provide low or no-carbon energy, risk management and related services. As already mentioned, we will keep capital spending between $19 and 22 billion in the near term. In addition, we expect operating costs to be no higher than $35 billion and to deliver a divestment programme totaling around $4 billion a year in this period. Only when we reach net debt of $65 billion will we increase capital spending. This increase will be moderate and balanced with additional shareholder distributions. To accelerate our strategy, to make the future of energy, the Growth pillar will have priority, attracting around half of this additional capital spending. Over time, the balance of capital spending will shift away from Upstream towards the businesses in our Growth pillar.

At the project level our approach seeks to maximise value while managing risks. We evaluate our projects across a spectrum of criteria that align with our Powering Progress goals, carbon, nature, people and shareholder value. We also look to achieve a stable cash flow profile while considering capital efficiency, payback periods and overall return levels. We have a common approach to assessing investments in projects. Nevertheless, we use different criteria to reflect the project risk and return characteristics of each business. Importantly, we assess the risk profile of each project to ensure we are achieving returns above the cost of capital. And we have an expected level of project returns for each of our businesses. For instance, take integrated power. Lower-risk generation assets with secure revenue streams can bear lower returns. Whereas assets with technology or market risks may need higher returns. Overall, we expect this integrated power business to deliver an internal rate of return above 10%. Additionally, with renewable generation assets, once the asset is built, our equity investment can be reduced, while we still control the electrons. In the Growth pillar, Marketing is a lower capital intensity business where opex is also a key driver of growth. In Retail, a relatively low-risk activity with fast payback, returns can reach more than 25%. In the Transition pillar returns are slightly lower and the payback periods are longer with our Integrated Gas business providing steady cash flow streams. Importantly, these Transition businesses give us the infrastructure to enhance value through integration and optimisation. Upstream assets are typically the most capital intensive throughout their life cycle. They also require up-front development and commodity price risk-taking. Therefore, these projects must
deliver higher returns. In addition, we are looking to build projects with shorter payback periods that are resilient to lower prices.

For the last 3 years, we have generated more cash than any of our peers in a range of economic conditions. Ultimately, as Shell progresses towards being a net-zero energy business and our capital investment shifts towards the Growth pillar, so will our cash flows. With this, our cash flows will become less exposed to oil and gas prices. They will have a stronger link to broader economic growth. We expect cash flow to grow in the medium term as the global economy recovers. This will allow us to strengthen the balance sheet, invest in the business and grow cash distributions to shareholders. This increase in cash flow comes from growing our marketing platform, assets under construction coming online and reducing our opex. We also expect increasing contributions from our renewables and energy solutions businesses. Certain segments have little exposure to commodity prices and are expected to deliver growing cash flow. These include Marketing, Renewables and Energy Solutions and Chemicals and Products. And, as one of the largest commodity traders in the world, we expect additional opportunities to enhance cash delivery through integration and optimisation.

As I said at the beginning, our approach to capital allocation will define the pace and quality of our delivery. We will make our choices in line with our strategy, pursuing leading shareholder returns and balance sheet strength, built upon a portfolio of high quality, highly cash-generative assets. With that, let me hand over to Ben to take you through our thinking on managing carbon.

**MANAGING CARBON**

**BEN VAN BEURDEN, CHIEF EXECUTIVE OFFICER**

Shell’s target is to be a net-zero emissions energy business by 2050, in step with society. This means net-zero emissions from our operations – our Scope 1 and 2 emissions – and also net zero from the end use of all the energy products we sell – our Scope 3 emissions. Three things are crucial to note in that. One, our target includes Scope 3. That is critical because emissions from the end use of our energy products, Scope 3 emissions, account for over 90% of our total emissions. Two, our target includes the emissions not only from the energy we produce ourselves but also from the oil and gas that others produce and resell as products to our customers. Altogether, we sell around three times more oil and gas products than the oil and gas we extract ourselves. So, to account for Shell's full effect, we have to include everything we sell in our targets, not just what we extract. And, finally, it is critical to note that achieving this target would mean absolute net-zero emissions.
We believe our target is already aligned with the science behind Paris. And we are working with organisations like the Science-Based Targets Initiative, working to develop a standard approach to emissions accounting that is fit for the oil and gas industry. And once that science-based target accounting method is established, we intend to use it. Now, our first responsibility, of course, is to deal with the emissions from our own operations – our Scope 1 and 2 emissions. They make up less than 10% of our total emissions. And we will drive them down, all the way down to net zero by 2050. Initially by making all our assets top quartile on emissions intensity. We will end routine flaring by 2030 and we will keep our methane emissions below 0.2%. As I said at our Q3 results, our total oil production peaked in 2019. And we expect our oil production to gradually decline by 1-2% a year, including divestments, until 2030. While the percentage of total gas production in our portfolio is expected to gradually rise to around 55% or more. And moreover, we do not anticipate any new frontier exploration entries after 2025.

But even so, to make real progress, Shell must change what we sell. We must sell a lower-carbon energy mix. Only this will reduce our carbon intensity over time. And we will track our progress through the carbon intensity of our business measured by the metric we call our Net Carbon Footprint. This metric tracks the total amount of carbon dioxide associated with each megajoule of energy consumed. And, just to be clear, achieving net zero on carbon intensity, is exactly the same as achieving net zero on absolute emissions.

Getting to net zero by 2050 means cutting our carbon intensity by 100% and by achieving 45% by 2035. These targets also include all carbon mitigation action, including action taken by our customers. And we include this because, over this timeframe, we believe society will be working towards net zero. And in such a society, our customers will act to address their own Scope 1 and 2 emissions, and these are the same as Shell’s Scope 3 emissions. And we will help our customers with this challenge where we can. But by 2050 we will no longer serve customers who emit unmitigated carbon.

Change is already underway. We believe our absolute emissions reached a high point in 2018 at 1.7 gigatonnes. And now we will have to work to bring them down. We must act now. So, we have also set have short-term targets to reduce our carbon intensity by 68% by 2023, that is compared to 2016. And this is tied to our staff incentive structure. We also announce a medium-term target of 20% reduction by 2030. Our short- and medium-term targets include action to mitigate emissions taken by Shell, but in this timeframe, we do not take account of any action taken by our customers.
And speaking of mitigation actions. Climate scientists are clear that nature, which can absorb and store carbon, has an important role to play. And we agree. And we also agree with them on something else. That mitigation through nature is necessary on top of the transition of the energy system. So, we support the responsible use of high-quality nature-based offsets. And, to be clear, the order of priority is this. First, avoid emissions. Second, reduce emissions. And only then, turn to mitigation. In line with that philosophy, we aim to offset around 120 million tonnes of our annual scope 3 emissions by 2030. We also believe the world needs to use technology to mitigate emissions. So, we want to have built an additional 25 million tonnes a year of carbon capture and storage by 2035 – the same as 25 Quest facilities in Canada.

But it is not enough for Shell to take action on our own. We can only meet our net-zero target as part of a world that is also heading to net zero. Now, I accept that means reducing the supply of carbon-based energy but that will only happen by reforming the demand for carbon-based energy. So, we, as a supplier, must work together with customers on a sector-by-sector basis. Together we have to develop the right recipes to wean that sector off carbon-based energy and to provide low-carbon solutions instead. And that includes the technologies, the fuel solutions and the government policies and regulations to get there. Let me give you just one example. Shell’s membership of the Mission Possible Partnerships includes Clean Skies for Tomorrow. This is a coalition of leading airlines, airports, aircraft and engine manufacturers, and also fuel providers. And this coalition has a view on the recipe the aviation sector needs. Sustainable aviation fuels. And they recently published a report on the steps needed to get there, the ingredients and the method. And so, as part of reshaping the company, we will restructure our marketing business on a sectorial basis. This will allow us to make progress in this area as quickly and efficiently as possible. But our customers can speak for themselves, let’s hear from them.

[Video: Rolls-Royce and Shell – piloting a route to net-zero emissions]
[Video: MSC and Shell – navigating a course to netzero emissions]

So, we will change. We have clear targets for change. And we are working hard to speed up that change. To give you an idea of the scale of the change by 2030, we could be delivering the equivalent of 50 million households with renewable electricity, operating 2.5 million charge points for electric vehicles and increasing the amount of low-carbon transport fuels like hydrogen and biofuels from 3% to about 10%. Now to be clear, this is not a business plan, this is just an indication of the scale of change to come in the next nine years. Ultimately, the changes will depend on where we can find business value as our customers move towards net zero. To ensure the individual business decisions contribute to our overall emissions targets, we are substantially changing how we work. So, I mentioned a moment
ago that we are restructuring so that we have marketing teams facing individual sectors. But we are going further than that. We are developing carbon budgets for those teams to motivate them to find value growth by substituting high-carbon income for low-carbon income. Moreover, we today announce that we are doubling the weighting of the Energy Transition condition in our long-term incentive share awards, affecting more than 16,500 employees. And for the most senior leaders, this means an increase in weighting from 10% to 20%. Something that will be more visible to people looking at Shell from the outside is our relationship with trade associations. Two years ago, we became the first company in our industry to conduct a review on the associations to see if they were aligned with our climate policies. In April we will issue a third report on this and take action where necessary, as we have done in the past. We were also the first company in our sector to support the Task Force for Climate Related Financial Disclosures. And our support remains firm and we will continue to refine our reporting to be in harmony with the Task Force’s principles. And finally, starting this year, we will publish an energy transition plan for shareholders to examine and to vote on. We will update that plan every three years. And, annually, we will ask our shareholders to vote on our progress made. That is our approach on carbon. Now we will move on to explore how that approach combines with our approach to capital, in our businesses.

**DELIVERING OUR STRATEGY THROUGH THREE PILLARS**

**BEN VAN BEURDEN, CHIEF EXECUTIVE OFFICER**

Shell has three pillars to its business. Pillars that give us strength. Through our Growth pillar we work with customers on our joint transition to net-zero. We will build our future based on customer needs. Through our Transition pillar we are flexible and will deliver a sustainable flow of cash. Through our Upstream pillar we deliver value to shareholders, provide vital energy supplies to society and fund the transformation of our portfolio. I will take you through all three. There is a lot to say but I will keep it short here. And for those who want to go deeper, there is more on our website. A whole lot more.

Looking first at our Growth pillar, our home for Marketing, and Renewables and Energy Solutions. Our marketing business is our single largest customer-facing business. It has high, resilient returns and is primed for future growth. With earnings growth of more than 7% year-on-year since 2013 we already have an enviable position and we will extend our lead. In 2020, Marketing delivered more than $4.5 billion in net earnings and, by 2025, we expect to generate more than $6 billion. Today more than half our gross margin in Retail and Lubricants comes from differentiated offerings like premium fuels and premium lubricants, fleet solutions and convenience retail. So, we start from a good place, and we push on for more. Today, one in nine machines and engines in the world uses Shell lubricants, and by 2025 we
will make it one in eight. Today, we serve 30 million retail customers every day across 46,000 sites and by 2025 it will be 40 million at 55,000 sites. And on charging points for electric vehicles, we are expanding Recharge on our retail sites, we are growing NewMotion and Greenlots and we recently bought ubitricity. Together we will go from more than 60,000 points today to more than half a million by 2025. With our retail sites we will not only expand in electric charging but also in hydrogen, LNG and renewable natural gas. There will be more convenience retail, and services like parcel collection. And we will expand this business in markets like India, Indonesia, Mexico, Russia and, of course, China. We will partner with our customers around the world sector by sector. We will help chart their decarbonisation journey and offer low-carbon fuels and solutions. And again, we start from a good place. In 2019, Shell sold more than 10 billion litres of low-carbon fuels for use in sectors like aviation, shipping and road transport. In 2020 we signed two agreements for the supply of renewable natural gas to Los Angeles supported by investments in two renewable natural gas facilities in the US. And if our Raizen JV was a country, it would be the fifth largest producer of sugarcane ethanol globally, and to move further up in that league, Raizen just announced the acquisition of Biosev, adding an additional 50% of production capacity in low-carbon fuels. So, we look at our marketing business as a key to unlock new markets and provide new solutions to drive decarbonisation throughout the economy. And for our end consumers we will also use our digital loyalty platforms to link our mobility and energy offerings to create cross-selling opportunities. With a strong customer-focus, we will help our customers at home and on-the-move with the most iconic brand in the industry. Which brings me to Renewables and Energy Solutions. This is a new name for our low-carbon businesses, and includes our activities in Integrated Power, Hydrogen, Nature-based solutions and CCS. Let's start with Power. To decarbonise, many of our customers, whether they are households or businesses, must switch to low-carbon electricity. And so, they are looking for reliable and simple-to-use services. We believe Shell can become a leading provider of clean power, a provider of Power-as-a-Service. We can make net zero a simple and practical choice for the customer. We can do so by managing the complexity for them and taking the opportunities of an economy turning to electricity. This is where Shell has competitive advantage. Unlike others, we are already present in all areas of the future energy system – from electric vehicle charging to hydrogen, from offsets to carbon capture, from clean power to low-carbon fuels. And, as I said before, we operate over 60,000 vehicle charging points in 14 countries and will grow the number of points to half a million by 2025. We are building a material business for Shell through digital platforms that will serve more than 15 million customers worldwide by 2030. By then, we aim to sell 560 terawatt hours a year – twice as much electricity as today. Through these digitally enabled platforms we are providing services to simplify and to accelerate our customers’ decarbonisation journey, offering a truly flexible solution with real customer value. An example of that is sonnen, where we help 60,000
households with batteries to meet about 75% of their energy needs. We do this by digitally managing the clean energy they generate themselves. For larger customers our digital platform matches supply and demand. For instance, our fully owned subsidiary ERM in Australia supplies more than a fifth of the country’s electricity to commercial and industrial customers while achieving the nation’s highest customer satisfaction rating nine years in a row. We also manage complexity through our global scale in trading, risk management and asset optimisation, and through our expertise in power product design. In North America alone, we are the third largest wholesale power trader. Our scale and global reach make us the perfect partner for large corporations that want to decarbonise their worldwide operations, reliably and competitively. In the near term, we will invest on average $2-3 billion each year in this part of the business, with that level rising through the decade. We target an unlevered IRR of more than 10%, a rate made possible by our integrated business model with the customer at its heart. We will make our investments go further by partnering with others as we grow a material position in renewable generating capacity. Our emphasis is on owning and managing green electrons from these assets for our customers. We believe that this is what it takes to succeed. A customer-first approach, digital capabilities and global reach, alongside strategic investments in clean power assets such as solar and wind farms. Let’s bring this to life with our Rotterdam energy hub concept. At its core is our HKN offshore wind farm joint venture. We will supply part of the power output to an anchor customer Amazon in support of their decarbonisation objectives. With the remaining power, we can supply other customers through our trading business, or we can choose to use the electricity ourselves, or use it to make green hydrogen at a 200 megawatt electrolyser we want to build in Rotterdam. It is this integrated clean energy system that enables us the higher returns we are targeting. And speaking of hydrogen, the growth potential is huge. And, also here we are ahead with years of experience. We are a leading hydrogen retailer with over 50 sites in Germany and California. We have also announced a number of green hydrogen projects with a combined production capacity of over 4 gigawatts to come on stream this decade. There are strategic keys to our success. Our existing customer relationships and global retail network mean that we are well-placed to supply hydrogen to our customers in industry and in heavy-duty transport. We can use our own demand to launch new supply projects. So for example, the anchor customer for our 10 megawatt electrolyser in Germany, starting up later this year, will be our Rhineland refinery. But, over time, we aim to serve a growing transport market with this hydrogen. In this way, we can start local and go regional. With LNG, we built an integrated global business. And we believe we can do the same with hydrogen, but faster and, ultimately, aim to replicate even the scale, flexibility and success of our LNG market position. We aim to capture a double-digit market share of global clean hydrogen sales. So, Integrated Power and Integrated Hydrogen will be major contributors to both our compelling investment case and to our net zero target. And finally, our nature-based solutions
business. Many customers, from individuals to companies, today have no alternative to using carbon-based energy but they still want to be net zero. We can mitigate their emissions as an integral part of the energy solution we sell them. And we are the leading player in this area. We mitigate their emissions by creating and protecting forests, wetlands and other environments which store carbon away from the atmosphere. And we connect our customers to these investments in nature through carbon markets. We expect to invest around $100 million a year in high-quality, independently verified projects on the ground to build a significant and a profitable business.

So, that was our Growth pillar. Now let’s take a look at our Transition pillar, starting with Integrated Gas. Over the coming decades the world will have to say goodbye to coal. Renewables will replace much of that, and natural gas will have its role too, both in power generation and in industry. And so, LNG demand is expected to grow, by up to 4% a year until 2040. With 70 million tonnes sold last year, we are the world leader in LNG. And we are also the leading producer of Gas-to-Liquids, or GTL, products. Altogether this business made $11 billion cash in tough market conditions last year. And from this position of strength we will grow. We will grow volumes, and markets. We will grow our volumes by sourcing long-term LNG supply from third parties. We have also included selective investments in our capital plan to expand our own portfolio of LNG plants and to grow natural gas supply to keep our plants full. Our future projects have an average internal rate of return of between 14-18%. And all our opportunities are cost competitive. We have already reduced the unit technical cost of our project portfolio by around 40% since 2015. And they are also carbon competitive. In Canada, we are building the lowest CO$_2$-intensity LNG plant in the world. By the end of next year, we expect to have reduced operating expenses by around 20% compared to 2019. A new market is shipping, where LNG is the cleanest fuel readily available today. Our aim is to supply at least 20% of global demand. And, more generally, we continue to innovate. By offering carbon-neutral LNG and by using our LNG trading and marketing capabilities to win new customers with advanced solutions. And in GTL, while we have no plans for new greenfield plants, we still see opportunity to further develop premium markets and to expand margins. Integrated Gas is a business in which we excel and we will continue to excel for decades to come.

Staying with the Transition pillar, let’s move on to Chemicals and Products. In Q3 we announced we are transforming 14 refining sites to six high-value Energy and Chemicals Parks. We will be done by 2030, if not sooner. And some of this transition is already well underway with the divestment and closure of non-core refining positions. These six Energy and Chemicals parks will be highly integrated with our trading and optimisation business, along with our standalone chemicals sites of course. Together, they will work in real time to
ensure we always produce the most valuable products for the market, using the flexibility of our assets to maximum effect. Our shift to Energy and Chemicals Parks means we will reduce our production of traditional fuels by 55% by 2030. At the same time, we will produce more low-carbon fuels and performance chemicals. Of course, all these parks will have their own ways to transform and deliver value. So Bukom will be different to Pernis and Pernis will be different to Scotford. We see chemical demand continuing to grow, outpacing GDP. Because chemicals are found in all aspects of modern life. They are in detergents, cosmetics, paints, textiles, household goods, and they are the building blocks of the future energy system. So, we will continue to grow our chemicals business with a focus on intermediates and performance chemicals. These are the areas where we have competitive advantages in technology, scale and market access. We are currently building or studying projects in Pennsylvania and Louisiana in the USA, and at Nanhai in China. We will also produce virgin chemicals from recycled waste, known as circular chemicals. By 2025 we are aiming to process 1 million tonnes a year of plastic waste in this way. This move to sustainable and performance chemicals brings us closer to the end customer. It will help us evolve our portfolio from commodity chemicals to products priced on the value they bring to end consumers. In this way we start to delink our business results from the commodity cycle, reducing our exposure by around 70% by 2030. Between our opportunities to increase margins and the options that we have to invest for growth, we will increase our chemicals cash generation by $1-2 billion a year by 2030.

Moving on to our Upstream pillar. Even as the world decarbonises, it will still need oil and gas for decades to come. Our Upstream business will provide that essential energy. And the cash we generate will fund our distributions to shareholders and help pay for the transformation of Shell. But our Upstream pillar will become more focused, more resilient and more competitive. And it will continue to provide material cash flows into the 2030s. We will focus on the nine core positions that generate more than 80% of the Upstream cash flow. And they will attract around 80% of the Upstream capital spending. These are positions where we have superior capabilities, the potential for growth and access to strong integration with Integrated Gas and Trading. The rest of our positions are run as a lean portfolio. They are tasked with either maximising cash generation or developing to the point where they may become core positions. And, in some cases, such as onshore Egypt and the Philippines, we will simply divest. We will continue to high-grade our exploration activities, reducing annual spending from around $2.2 billion in 2015 to around $1.5 billion between 2021 and 2025. We have attractive opportunities which we plan to take in the first half of this decade. But, after 2025, we do not anticipate entries into new frontier exploration positions. I am proud of the way our Upstream team delivers the energy the world needs today. And at the same time, we aspire to continuously improve our operations. One
example of this is how we have significantly improved our Upstream availability. We have already improved that availability from 85% in 2015, to around 90% in 2020. Moreover, we aim to further reduce our cost structure by up to 30% by 2025 compared with 2019. An example of what we can do is our recent transformation of the Shales business. Here we removed 30% of costs compared to 2019 and around 40% of manpower. Across Upstream, we have reduced our unit development costs by over 50% since 2015. Our current portfolio of projects has an average internal rate of return of around 20-25% at the final investment decision, an average break-even price of around $30 per barrel and an average expected payback period of 7 years. We will also review positions that continue to be challenged from an environmental perspective. A particular point of attention is onshore oil in Nigeria. In the last decade we have reduced the total number of licenses by half. But unfortunately, our remaining onshore oil position continues to be subject to sabotage and theft despite our efforts to reduce and respond to this illegal activity. So, in this context, we are reviewing material portfolio options for onshore oil. But despite this, Nigeria as a whole remains a heartland. You can see this from our decision to expand Nigeria LNG and our drive to further develop our deep-water assets. Overall, Upstream is making a significant shift. A shift towards a portfolio that will be more focused, more resilient and more competitive.

Indeed. I could say the same thing about the whole of Shell. The whole of Shell is changing to be more focused, more resilient and more competitive. And not just for the energy system of today, but for the energy system of the future. The world is changing. So, we will change too. And that is what Powering Progress is about. Change to deliver on four goals. Delivering shareholder value, powering lives, respecting nature, achieving net-zero emissions. Our role. Our goal. Our mission.

You have heard my vision for the future of Shell. You have heard about our approach on carbon. And you have heard from Jessica how this approach on carbon interlocks with our approach on capital. All of that will drive change in Shell through each of our three pillars: Growth, Transition and Upstream.

These are the three pillars of Shell. Designed to deliver value. Value today. Value tomorrow. Value for decades to come. To shareholders and to wider society, as part of a society heading towards net zero emissions. That is our future. That is Powering Progress. That is Shell.

Royal Dutch Shell plc
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www.shell.com/investors
DEFINITIONS AND CAUTIONARY NOTE

This presentation contains the following forward-looking Non-GAAP measures: Adjusted Earnings, Cash capital expenditure, Underlying operating expenses, and Divestment proceeds. We are unable to provide a reconciliation of the above forward-looking Non-GAAP measures to the most comparable GAAP financial measures because certain information needed to reconcile the above Non-GAAP measure to the most comparable GAAP financial measure is dependent on future events some which are outside the control of the company, such as oil and gas prices, interest rates and exchange rates. Moreover, estimating such GAAP measures consistent with the company accounting policies and the required precision necessary to provide a meaningful reconciliation is extremely difficult and could not be accomplished without unreasonable effort. Non-GAAP measures in respect of future periods which cannot be reconciled to the most comparable GAAP financial measure are calculated in a manner which is consistent with the accounting policies applied in Royal Dutch Shell plc’s financial statements. The future potential for Cash capital expenditure and cash flow from operations is an average of multiple years. The presented medium-term outlook is an average of multiple years post economic recovery. The forward-looking breakeven price for a pre-FID project is calculated at FID based on all forward-looking costs associated with that project. Accordingly, this typically excludes exploration & appraisal costs, lease bonuses, exploration seismic, exploration team overhead costs, etc. The forward-looking breakeven price for a pre-FID project is calculated based on our estimate of resources volumes (2C). As these pre-FID projects are expected to be multidecade producing projects, projection will not be reflected either in earnings or cash flow in the next five years. The average project IRRs are capital weighted average project forward-looking unlevered expected rate of return where NPV equals zero, calculated at FID for pre-FID projects. For Upstream and Integrated Gas price assumption of $60 per barrel Brent real terms 2020. Shell’s reporting segments under IFRS 8 remain Integrated Gas, Upstream, Oil Products, Chemicals and Corporate.

Shell’s scenarios are not intended to be projections or forecasts of the future. Shell’s scenarios, including the scenarios contained in this report, are not Shell’s strategy or business plan. When developing Shell’s strategy, our scenarios are one of many variables that we consider. Ultimately, whether society meets its goals to decarbonise is not within Shell’s control. While we intend to travel this journey in step with society, only governments can create the framework for success. The Sky 1.5 scenario starts with data from Shell’s Sky scenario, but there are important updates. First, the outlook uses the most recent modelling for the impact and recovery from COVID19 consistent with a Sky 1.5 scenario narrative. Second, it blends this projection into existing Sky (2018) energy system data by around 2030. Third, the extensive scale-up of nature-based solutions is brought into the core scenario, which benefits from extensive new modelling of that scaleup. (In 2018, nature-based solutions required to achieve 1.5°C above preindustrial levels by the end of this century were analysed as a sensitivity to Sky. This analysis was also reviewed and included in the IPCC Special Report on Global Warming of 1.5°C (SR15)).) Fourth, our new oil and natural gas supply modelling, with an outlook consistent with the Sky 1.5 narrative and demand, is presented for the first time. Fifth, the Sky 1.5 scenario draws on the latest historical data and estimates to 2020 from various sources, particularly the extensive International Energy Agency energy statistics. As with Sky, this scenario assumes that society achieves the 1.5°C stretch goal of the Paris Agreement. It is rooted in stretching but realistic development dynamics today but explores a goal-oriented way to achieve that ambition. We worked back in designing how this could occur, considering the realities of the situation today and taking into account realistic timescales for change. Of course, there is a range of possible paths in detail that society could take to achieve this goal. Although achieving the goal of the Paris Agreement and the future depicted in Sky 1.5 while maintaining a growing global economy will be extremely challenging, today it is still a technically possible path. However, we believe the window for success is quickly closing.

Also, in this presentation we may refer to Shell’s “Net Carbon Footprint”, which includes Shell’s carbon emissions from the production of our energy products, our suppliers’ carbon emissions in supplying energy for that production and our customers’ carbon emissions associated with their use of the energy products we sell. Shell only controls its own emissions. The use of the term Shell’s “Net Carbon Footprint” is for convenience only and not intended to suggest these emissions are those of Shell or its subsidiaries. It is important to note that as of February 11, 2021, Shell’s operating plans and budgets do not reflect Shell’s Net Zero Emissions target. Shell’s aim is that, in the future, its operating plans and budgets will change to reflect this movement towards its new Net Zero Emissions target. However, these plans and budgets need to be in step with the movement towards a Net Zero Emissions economy within society and among Shell’s customers.
The companies in which Royal Dutch Shell plc directly and indirectly owns investments are separate legal entities. In this presentation “Shell”, “Shell Group” and “Royal Dutch Shell” are sometimes used for convenience where references are made to Royal Dutch Shell plc and its subsidiaries in general. Likewise, the words “we”, “us” and “our” are also used to refer to Royal Dutch Shell plc and its subsidiaries in general or to those who work for them. These terms are also used where no useful purpose is served by identifying the particular entity or entities. “Subsidiaries”, “Shell subsidiaries” and “Shell companies” as used in this presentation refer to entities over which Royal Dutch Shell plc either directly or indirectly has control. Entities and unincorporated arrangements over which Shell has joint control are generally referred to as “joint ventures” and “joint operations”, respectively. Entities over which Shell has significant influence but neither control nor joint control are referred to as “associates”. The term “Shell interest” is used for convenience to indicate the direct and/or indirect ownership interest held by Shell in an entity or unincorporated joint arrangement, after exclusion of all third-party interest.

This presentation contains forward-looking statements (within the meaning of the U.S. Private Securities Litigation Reform Act of 1995) concerning the financial condition, results of operations and businesses of Royal Dutch Shell. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements are statements of future expectations that are based on management’s current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in these statements. Forward-looking statements include, among other things, statements concerning the potential exposure of Royal Dutch Shell to market risks and statements expressing management’s expectations, beliefs, estimates, forecasts, projections and assumptions. These forward-looking statements are identified by their use of terms and phrases such as “aim”, “ambition”, “anticipate”, “believe”, “could”, “estimate”, “expect”, “goals”, “intend”, “may”, “objectives”, “outlook”, “plan”, “probably”, “project”, “risks”, “schedule”, “seek”, “should”, “target”, “will” and similar terms and phrases. There are a number of factors that could affect the future operations of Royal Dutch Shell and could cause those results to differ materially from those expressed in the forward-looking statements included in this presentation, including (without limitation): (a) price fluctuations in crude oil and natural gas; (b) changes in demand for Shell’s products; (c) currency fluctuations; (d) drilling and production results; (e) reserves estimates; (f) loss of market share and industry competition; (g) environmental and physical risks; (h) risks associated with the identification of suitable potential acquisition properties and targets, and successful negotiation and completion of such transactions; (i) the risk of doing business in developing countries and countries subject to international sanctions; (j) legislative, fiscal and regulatory developments including regulatory measures addressing climate change; (k) economic and financial market conditions in various countries and regions; (l) political risks, including the risks of expropriation and renegotiation of the terms of contracts with governmental entities, delays or advancements in the approval of projects and delays in the reimbursement for shared costs; (m) risks associated with the impact of pandemics, such as the COVID-19 (coronavirus) outbreak; and (n) changes in trading conditions. No assurance is provided that future dividend payments will match or exceed previous dividend payments. All forward-looking statements contained in this presentation are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Readers should not place undue reliance on forward-looking statements. Additional risk factors that may affect future results are contained in Royal Dutch Shell’s Form 20F for the year ended December 31, 2019 (available at www.shell.com/investors and www.sec.gov). These risk factors also expressly qualify all forward-looking statements contained in this presentation and should be considered by the reader. Each forward-looking statement speaks only as of the date of this presentation, February 11, 2021. Neither Royal Dutch Shell plc nor any of its subsidiaries undertake any obligation to publicly update or revise any forward-looking statement as a result of new information, future events or other information. In light of these risks, results could differ materially from those stated, implied or inferred from the forward-looking statements contained in this presentation. We may have used certain terms, such as resources, in this presentation that the United States Securities and Exchange Commission (SEC) strictly prohibits us from including in our filings with the SEC. Investors are urged to consider closely the disclosure in our Form 20F, File No 1-32575, available on the SEC website www.sec.gov.