ROYAL DUTCH SHELL PLC
SEPTEMBER 2016 NEW YORK
BARCLAYS CEO ENERGY POWER CONFERENCE

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BY BEN VAN BEURDEN, CHIEF EXECUTIVE OFFICER OF ROYAL DUTCH SHELL PLC

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

Before we start, let me highlight the disclaimer statement.

It's been just three months since we had a capital markets day, where we gave an update on Shell's transformation strategy - to create a world class investment case for shareholders; so let me recap on that. To my mind, it is pretty straightforward. For the first 90 years of Shell's existence we were an industry leader in total shareholder returns through the cycle. We lost that lead in the late 1990s as the industry consolidated and, frankly, Shell missed out. I am determined to get us back in that number one place. Of course, I can't set the share price. That is up to the shareholders and the markets.

In 2016 - we are in a transition year - with large movements in our results for the BG purchase and consolidation, restructuring charges, and a build-up in debt, amplified of course by lower oil prices. This all comes in a period where we have substantial cost savings and spending reduction programmes underway, combined with a large divestment programme, and a strong development pipeline. This is a complex period for the company. But as these actions all come together in the next several years, we are re-shaping the company to create a world-class investment case for shareholders.

The downturn in the oil price obviously has an impact on Shell and the industry around us. This chart looks at some of the large and important trends in the energy sector, and society, that we think will shape our industry, and Shell, in the next decade and beyond. Across the top of this chart, the drivers are relatively well known, a growing population – from 7 billion to 9 billion by mid-century – coupled with a higher quality of life for more people. These are powerful forces that inexorably drive a higher demand for energy.

Governments, business and society at the same time expect that this energy will come with less CO2. This results in a robust demand outlook for oil and gas and, over the longer term, a transition to a lower carbon energy system. Simultaneously, we see a continued strong demand for petrochemicals, which are the building blocks of many of the things many people take for granted in modern life, and in many ways will also be enablers to reduce the carbon intensity of modern society.

Within all of this, traditional value chains between energy suppliers and customers are seeing considerable change, and in some cases disruption, driven by factors such as energy storage and the digital world, which leads to more choice for customers. This will impact how energy is consumed, but also where investment in energy is made. At the same time, we have entered an era of sustained high volatility in oil prices. Part of this is a result of OPEC policy, the advent of large oil and gas resources in shales, the speed of

information flows and trading, and the inevitable need for large scale resources developments. Each category of oil supply has different response times to price signals, making it hard for market forces to provide price stability.

Shell's traditional role in developing more complex projects is impacted by shales plays and by lower oil prices generally, and we must make sure that our cost structure, portfolio choices and business models are adapted to allow us to also thrive in this setting.

We segment the portfolio into a number of strategic themes. First of all, we need cash engines, with strong and stable returns and strong and stable free cash flow that can cover the dividend and buy backs, throughout the macro-cycle, and leave us with enough money to fund the future. Secondly, we need to have growth priorities which have a clear pathway towards delivering strong returns and free cash flow in the medium term. These should become cash engines in the next decade. Thirdly, we need to mature selective future opportunities that should provide us with material growth in cash flow per share in the next decade or beyond when the energy transitions opens up new areas of value for us. Through all of this is our intention to be in fundamentally advantaged positions, with resilience and running room. Asset sales have an important role to play in all of these strategic themes, as we re-shape the company. Let me give you some examples of each of these strategic themes.

In Oil Products we have had a restructuring plan for more than a decade in this area, which is now nearing its end date. In 2015, when refining margins were similar to 2007 levels, Downstream clean earnings improved by $1.5 billion, that is 23% higher than 2007, despite a refining footprint that is smaller by 20% on crude intake and a marketing footprint that has reduced by 30% in volume over that time frame. This improvement shows the impact self-help initiatives can make. We have achieved a lot, but this is a very competitive business, and we simply can't stand still.

As a second example in Shell's cash engines, Integrated Gas. This of course was a major growth priority for Shell, before the acquisition of BG. Now it needs to be generating a growing cash surplus and strong returns. Integrated Gas has a global footprint, and we have the leading position of all the international oil companies in this area. The BG deal of course accelerated our strategy here. Just as BG did, Shell plays an aggregator role, whereby, on top of our own liquefaction volumes, we buy third party LNG under long-term contracts, often from our other joint venture partners, and market it to a world-wide customer base. This is a business that benefits from scale, and diversity of source and market positions, as this increases the number of options that we can optimise. Clearly there is potential to add more value here, as well as cost synergies from the combined shipping operations and trading platforms. With approximately one-third of the Group's capital employed is in Integrated Gas, it will need to deliver strong double digit returns. With a relatively low capital maintenance requirement, I expect this business will be a major contributor to our free cash flow going forward.

In our growth priorities, we are investing only in those projects that are intrinsically advantaged; in projects with better fundamentals than those of our competitors in these sectors. For deep water, this means fundamentally advantaged geology, such as Brazil, the Gulf of Mexico and others. Shell has an advantaged portfolio and a strong track record in deep water. Our new projects are resilient across the cycle and competitive on the cost curve. On the development side, we're continuously driving down breakeven costs in deep water projects, both on projects under construction as well as pre-FID projects. Total well

costs, which have historically accounted for 50% of total project costs, have come down significantly as we are drilling wells faster and at lower rates. We continue to leverage deflation in the market where we can. But more importantly we see opportunities to reduce costs by changing our ways of working, improving performance and simplifying designs. All this results in an ability to lower costs of projects already under construction. We now see average break-even points in our pre-FID projects of $45. Shell's deep water volumes could grow to over 900 thousand boe per day by the early 2020's. This is not growth for growth's sake. We expect these fields to deliver resilient returns and free cash flow once they are ramped up, and to make a considerable contribution to Shell's bottom line.

Our future opportunities are businesses that have a material upside for Shell shareholders and have a pathway to profitability that should attract material growth spending in the future. In shales, we have around 12 billion barrels of resources and potential, in North America and Argentina. That is an attractive position, and today we are working on the cost structure and commercial development options. We have reduced spending in shales as a whole to manage the financial framework, and maximize the advantages of cost deflation in that sector. Today, we're focused on continuing to increase the profitability of this business by further reducing costs and improving recovery rates. We've achieved a 70% reduction in direct overhead since 2013 and around a 50% reduction in drilling and completion costs for liquids rich shales wells since 2013. In a way, this strategic theme is purposely held back, as is makes sense to accelerate investment in this short cycle business at time of higher price realisations.

Shell’s strategy, and our financial framework, are designed to manage through multi-year macro price-cycles and multi-decade investment and returns programmes. Shell’s financial framework is a key element of our overall strategy. We have to balance near-term affordability and cost trends with the fundamentally long-term nature of our industry. The balance sheet must support the dividend and re-investment through the low point in the oil market cycle, which is where we are today. The strategy defines our intention to generate sufficient free cash flow at the lower end of the price cycle to cover the cash dividend. We should not be dependent on anything more than a normal level of divestments to meet this objective. The portfolio should deliver this outcome by the end of the decade. The priorities for cash have not changed: debt reduction, dividends, followed by decisions on capital investment and share buy-backs. This is a complex period for the company. But as these actions all come together in the next several years, we are re-shaping the company to create a world- class investment case for shareholders.

This slide summarises the potential from the levers that we are pulling to manage the financial framework in the down-cycle. There’s no doubt that 2016 is a transition year, including all the deal effects, and the reduction in cash flow that we saw in the first half from oil prices and negative working capital effects. The potential outcomes here reflect the actions by all of my colleagues in Shell. In practice they reflect a reset of the way we are doing business, particularly in terms of the sustainable cost base. The levers we are pulling are material.

Firstly, asset sales. We are using asset sales as an important element of the strategy to re-shape the company. Up to 10% of Shell’s oil and gas production is earmarked for sale, including several country positions, and Downstream positions. We continue to make progress on this and just last week announced the divestment of the Brutus and Glider

assets in the Gulf of Mexico. This is a value driven, not a time driven, divestment programme, and an integral element of Shell's portfolio improvement plan.

As we are in the US, our MLP Shell Midstream Partners, will be familiar to many of you. In May, we completed the sale of partial interests in three onshore assets and expect further sales into the MLP later this year. As we manage our divestment program, Shell Midstream Partners is a natural vehicle to monetize North American infrastructure assets. We expect to prudently and rateably build scale of the MLP over the long-run. John Hollowell, CEO of Shell Midstream Partners, is here with me today should you have any further questions on progress we have made there.

Asset sales are expected to total $30 billion for 2016 to 2018 combined. To keep it in perspective, this $30 billion is about 10% of our balance sheet. We have some $3.5 billion of transactions underway, of which $1.5 billion are completed, and would expect to see significant progress on $6 to $8 billion this year in sales agreements. As we've said before, we're not planning for asset sales at give-away prices. There's no reason today to think that the $30 billion figure won't be achieved. I'll move on to capital spending.

Our capital investment is being managed in the range of $25 to $30 billion per year to 2020, as we improve capital efficiency and develop more predictable new projects. At the end of the second quarter, the rolling average capital investment was $31 billion, including four quarters of BG investment. We are firmly on track for the prior guidance of $29 billion for this year, which is some 38% lower than pro-forma Shell + BG levels in 2014. Capital investment of course includes non-cash items, such as finance leases for FPSOs. 2016 is an unusual year here, where total leases should be some $3 billion. This is included in our capital investment guidance, and most of this has yet to be booked, and there are some decisions ahead of us on 'idle rigs', where already-committed spend can move from opex to capex.

And so to operating cost, the third of the "levers" we are pulling. We've delivered major reductions here already, with more to come. In our financial statements, the costs shown include identified items, and the slide adjusts for this. Shell's stand-alone costs were reduced by $4 billion or around 10% from 2014 to 2015. And we are seeing the same 10% reduction on a Shell & BG basis in the 12 months to June. We are firmly on track for our previous guidance of a 20% reduction between 2014 and the end of 2016 on a combined basis, to reach a $40 billion underlying run rate at the end of this year. As a reminder, some 40% of our operating costs are direct staff costs, and there are significant reduction programmes underway here. Overall on costs, there is clearly remaining potential for multi-billion dollar per year savings, on an after-tax basis.

Now on to project flow. Developing new oil & gas should, of course, drive new cash flow and free cash flow over time. You will have seen yesterday that we started the Stones project in the Gulf of Mexico. This portfolio is geared to give an improvement in production, and more importantly to cash flow from operations and free cash flow, in 2017 and beyond. By 2018, start-ups since 2014 in the combined portfolio should be producing around 1 million barrels per day. These are generally high margin barrels with price upside. This is a great opportunity set, and has been considerably enhanced by the BG acquisition.

Let me update you on the competitive position. Gearing has increased with the BG transaction, and we want to reduce that level over time. Returns and free cash flow are in

decline for the industry due to the oil price down turn, and for Shell, our 12 months rolling free cash flow of some negative $13 billion includes the BG purchase price, and is running at some $6 billion negative free cash flow on an organic basis. And on total shareholder return, which in the end is how you – and we – measure our performance, we've improved in the last twelve months from a low base line.

Overall, there's a lot to do here, but I believe that by doing a better job on delivering higher, and more predictable returns and free cash flow per share, and underpinning all of that with a conservative financial framework, then we can create a better investment case - a world-class investment case.

In summary, then. In many ways 2016 is a transition year for us. Low oil prices and hence lower results, coinciding with bedding down the BG deal, and coming to a large extent ahead of the delivery of cost savings, asset sales and project growth. I want to be very clear with you that we're on a pathway here for an ambitious transformation of the company. Higher returns and free cash flow, despite lower oil prices. There's a lot of energy and enthusiasm in the company to deliver all of this, and BG is a fantastic opportunity, a natural way for all of us in Shell to align on what has to be done.

With that, let me take your questions.

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ROYAL DUTCH SHELL PLC

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

Resources and potential: Our use of the term "resources and potential" are consistent with SPE 2P + 2C + 2U definitions.

Organic: Our use of the term Organic includes SEC proved oil and gas reserves excluding changes resulting from acquisitions, divestments and year-average pricing impact.

Shales: Our use of the term 'shales' refers to tight, shale and coal bed methane oil and gas acreage.

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With respect to operating costs synergies indicated, such savings and efficiencies in procurement spend include economies of scale, specification standardisation and operating efficiencies across operating, capital and raw material cost areas.

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