

# ROYAL DUTCH SHELL PLC SECOND QUARTER 2015 RESULTS

JULY 30<sup>TH</sup> 2015

SECOND QUARTER 2015 RESULTS WEBCAST TO MEDIA AND ANALYSTS

BY BEN VAN BEURDEN, CHIEF EXECUTIVE OFFICER OF ROYAL DUTCH SHELL PLC  
AND SIMON HENRY, CHIEF FINANCIAL OFFICER OF ROYAL DUTCH SHELL PLC

Ladies and gentlemen, welcome to today's presentation.

We've announced our second quarter results today, we'll talk about that, but I thought we'd spend most of the time on an update of where we are overall. And of course there will be plenty of time for your questions.

Before we start, let me highlight the disclaimer statement.



Shell's integrated business, and our performance drive are helping to mitigate the impact of low oil prices on our bottom line, and we've delivered \$3.8 billion of underlying CCS earnings in the quarter and \$16 billion over the last 12 months. Our results today show that we are successfully reducing our spending and our costs. We have to make sure that the company is resilient in a world where oil prices remain low for some time, whilst keeping an eye on potential recovery, which we believe will come.

The three priorities I put in place in early 2014 remain unchanged – financial performance, capital efficiency, project delivery – all underpinned by a rigorous performance units appraisal system. There's no change in the dividend commitments we have made. \$1.88 per share this year, and at least that amount in 2016. And no change to the buy-back commitment we made for \$25 billion from 2017, following the completion of the BG transaction.

We're taking a prudent approach. We're pulling on powerful financial levers to manage through this downturn, and Simon will give you more details in a moment. Capital spending is expected to be \$7 billion lower this year, a reduction of some 20%, and operating costs are expected to be \$4 billion lower, or around 10%, as we restructure the company and take out cost. This will include reductions of 6,500 from Shell staff and direct contractors this year. All of this is in place to ensure that we have the capacity to continue to pay attractive dividends for shareholders. Costs and spending should fall again in 2016.

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

The health and safety of our people and our neighbours, and our environmental performance remain the top priorities for Shell. I believe we have the right safety culture in the company, our



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track record is improving and competitive, and we will continue with our safety drive, which is called Goal Zero, to further improve here.

The oil price downturn that began in late 2014 is triggering significant changes in our industry. Today's oil price downturn could last for several years, we don't have a crystal ball here. Shell's planning assumptions reflect today's market realities. We are planning on a prolonged downturn, although we continue to believe the fundamentals will re-assert themselves in the medium-term. Shell is responding with urgency and determination. We're pulling on powerful financial levers to manage through this downturn, and this is all about making sure that we can continue to pay attractive dividends for shareholders, and maintain a sensible investment programme for the medium term.

And of course we are using this as an opportunity to further reduce Shell's cost structure, and make fundamental changes in the way we are working in areas such as the supply chain.

Our results are, of course, lower with the lower oil price. However, our integrated business is offsetting at least some of that, and Downstream is delivering a strong and much improved performance, supported by industry margins, and by self-help programmes, including non-core asset sales, cost reduction, improved commerciality and uptime.

In Upstream, where margins are under pressure from oil prices, our unit operating costs were around \$19 per barrel in the quarter, and BG's portfolio has the potential to sustain or even reduce this overall production cost. The performance drive we launched in 2014 is helping at the bottom line...and there is more to come there. And balance sheet gearing remains low, despite the downturn.

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

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

We have launched a new improvement programme in the Projects and Technology division. Remember, P&T is responsible for all major project delivery, technology development and also looks after all Shell's supply chain spend, and has some 15,000 employees. Safety and



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environment of course remain top of the list of priorities. But we want to drive better value from our capital project design and execution, and from the associated supply chain.

We expect \$1.5 billion of capital efficiency gains this year, with more to come. However, this isn't just a story of tearing up last year's contracts and starting again. That produces a short-term outcome, but it's not going to lead to a long-lasting improvement in cost structure. This is much more about design standards, better up-front planning, and contracting structures with the best suppliers. The recent final investment decision on Appomattox is a good example, where we took out 20% from costs and went ahead with a project with an around \$55 oil price break-even on a go-forward basis. And I expect we will say a lot more about Projects and Technology later this year.

Now, let me hand you over to Simon, I've asked him to give you more details on the levers that we are pulling in this downturn, and then I will come back and update you on where we are with BG. Simon.

Thank you Ben.

Good to be here to talk to you today, and there's a lot to catch up on.

Let me update you – briefly – on the results – and you will see some of our usual slides on this towards the end of the presentation if you have further questions. Excluding identified items, Shell's underlying CCS earnings were \$3.8 billion for the quarter, a 37% decrease in earnings per share from the second quarter of 2014. In Upstream, earnings were impacted by the significant decline in oil and gas prices, Brent crude prices were down \$48 per barrel from year-ago levels, averaging \$62 in the quarter.

They were also impacted by lower volumes, due to planned maintenance in oil sands Canada, Pearl GTL and deep-water Gulf of Mexico, and also Netherlands gas curtailment and storage effects and asset sales. Underlying volumes declined by 3%, or, excluding planned maintenance, increased by 1%, with high-margin growth projects more than offsetting decline. In Downstream, our results improved substantially, reflecting higher realised refining margins, good asset uptime, and steps taken by Shell to improve our financial performance, including asset sales and cost programmes.

The performance unit approach we set out in 2014 is starting to deliver at the bottom line. Return on average capital employed was 7%, excluding identified items, and cash flow from operations was \$6.1 billion in the quarter. Our dividend distributed for the second quarter of 2015 is the same as year-ago levels, at \$3 billion, or 47 cents per share.

We have had a number of questions on the LNG environment, and I thought it would be useful to recap this here. Between 10 to 15% of Shell's LNG is sold on short-term markets, also called spot markets, but remember these are not deep or liquid markets as you see in oil and other commodities, really in LNG, spot means 'LNG that is ordered for the next quarter'. 85-90% of



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our LNG is sold on longer-term contracts - 2 to 20 years - linked to oil prices and gas hub prices. We believe the investment community is too focused on these spot prices. Shell's integrated gas results are driven by production performance and lagged oil prices, and you can see the track record here.

LNG buyers typically look for security of supply, and LNG producers generally need offtake contracts to finance new LNG projects. There are changes in the supply mix, for example new Australia and America volumes. But the fundamentals of this market look as robust now as in the past to us. Existing LNG contractual terms, particularly price formulae, can be re-opened and reviewed, generally in cycles of 3 to 6 years. This does not happen for all contracts, and where they do get reviewed, our experience is that the outcomes are incremental adjustments to traditional terms and indexation, not dramatic shifts, preserving the intent and sanctity of the contract. We don't expect that to change.

Ok, those are the results. And I will be glad to take any questions on that later.

As Ben highlighted in his opening comments, we're pulling all financial levers in the oil price downturn, to protect our ability to pay dividends, and to keep a sensible and high-value investment programme underway for the future. This is a substantial package of measures, maintaining a flexible balance sheet, reducing capital and operating costs, and continuing with asset sales and project growth.

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

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

Here are some examples of cost programmes, and you can see we have been going about this in a very focused and diligent way, reductions are targeted in specific areas of activity, across the company. For example, we are taking out cost in higher break-even plays, and working on back-office costs. I think overall, the performance unit approach that we introduced across the company last year is beginning to impact the bottom line, and there is more to come here.

2015 capital investment is now expected to be around \$30 billion. This is a 20%, or \$7 billion reduction from 2014 levels, and 35% less than the recent peak in 2013. This new guidance is \$3 billion less than our last update, back in April, and it reflects a measured, pragmatic response to managing the financial framework in lower oil prices, for example the FID pace that Ben has talked to, and cost opportunities in the supply chain. This reduction puts our spending back to 2012 levels, and we're looking forward to the growth in cash flow that should come as a result of this recent spending, particularly in 2017 and onwards.



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Looking into 2016, and we can give more details on this, when the BG transaction has closed, we are expecting combined spending to be lower next year, to be around \$35 billion, assuming current macro conditions. We have been clear that there are 3 parts of our company that have not been performing to their full potential. They are resources plays, Oil Products and Upstream engines. We have specific targets to improve unit margins, asset production + reliability, costs and are also taking portfolio actions, and this is showing up at the bottom-line - for example - 15% returns in Downstream, positive CFFO this year in Americas resources plays, improved reliability and production from mature Upstream assets.

Let me give you more details on these restructuring themes. Firstly on Downstream. We've been busy here with portfolio restructuring and self-help programmes. The changes we have made in Downstream have unlocked substantial new revenue opportunities, and taken out costs. It is good to see Downstream return on average capital employed, excluding identified items, increasing to 15.6%, and CFFO was \$13 billion over the last 12 months, which is an improvement on 2014 levels.

The main drivers of that, in addition to industry margins, were self-help, and exits from low margin portfolios. It's worth noting that in the first half of 2015, when refining margins have been strong, we delivered a strong operating performance, we had the kit running well, refining unplanned downtime was 2.4%, and availability was 95%. A multi-year cost and improvement programme is underway in Downstream. This includes staff reduction, increasing the use of low-cost shared service centres for back-office activities, and a continued drive to improve global contract management for capital and operating spending. Overall, this is an improved position, but there is more to come here, in a multi-year turnaround strategy for Downstream, which has the potential to be a \$10 billion per year CFFO, 10-12% return on average capital employed business, on a sustained basis, not just for a few quarters.

Turning to resources plays, in Upstream. We delivered a major portfolio and cost reduction programme in North America resources plays in 2013 and 2014, which included \$3.3 billion of asset sales, selling 110,000 boe per day of production. In 2015, we have been reducing exposure to international resources plays, as we scale down, for profitability, for a variety of subsurface and non-technical reasons. This leaves us with some 6 billion boe of discovered resources in 4 North America resources plays, and a series of less mature positions in the rest of the world. Spending in 2015 will be some 55% lower than the 2013 peak, and costs continue to fall here.

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



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

OK, those are some of the levers we are pulling in the downturn to manage the financial framework, underpin the dividend commitment, and to retain an investment programme for medium-term shareholder value creation, delivering on our restructuring and growth plans, and at the same time reducing operating costs and capital spending.

With that, I will hand over to Ben.

Thank you Simon.

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



Firstly, enhanced free cash flow - from BG's growth from 2015 and beyond - would be highly complementary with Shell's 2017+ growth potential. It's this expected enhanced free cash flow position that enhances the robustness of Shell's dividends. Secondly, an IOC LNG and deep water leader in innovation - accelerating and de-risking our strategy. By combining Shell's current positions with BG's world-wide LNG and deep-water Brazil assets, Shell can add significant value, beyond the announced synergies, by applying its technology and know-how at a greater scale, at a lower cost, and concentrating on areas of existing competitive advantage. And thirdly, a springboard to change Shell, by restructuring, driving asset sales and refocused spending would result in a simpler, more focused company, concentrated around three pillars, Upstream and Downstream engines, deep water and LNG. And let me say that I am really determined to follow through with this combination and use it as a platform for real change in Shell.

Let me update you on the timeline. Regulatory approvals have been granted by the US FTC and in Brazil Cade, and regulatory filing processes are progressing well in other jurisdictions. We're working hard on restructuring and divestment plans, and a joint team has been established with BG to plan for a world-class integration of the two companies once the



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transaction has closed, and retain the top talent from both companies. Overall, we are pleased with the progress we are making with the BG combination, and we are looking forward to closing this deal, as planned, in early 2016.

Here are two examples of the way the two companies can come together. By combining Shell with BG's complementary positions in Australia LNG and deep water Brazil, Shell can apply its technology and know-how at an unprecedented scale, and at a lower cost. Accelerating and de-risking our strategy. In Brazil, where combined production could reach 550,000 barrels per day at the end of the decade, we've had a very positive response from the government and the Petrobras management team on the opportunity to be the preferred partner for Petrobras in pre-salt. I'm convinced that Shell's technology and capabilities can unlock more value for the partnership there, particularly in production operations and reservoir management.

In LNG, there are of course cost synergies and potential value uplift opportunities from combining two complementary global LNG production and marketing companies. This is particularly the case as both companies are expecting to ramp up new LNG supplies from Australia in the next few years. BG in Queensland, Shell in Western Australia. And, I'm sure Shell can have a positive impact on BG's on-going production operations in LNG.

Looking further into the future, both companies have attractive pre-FID options in LNG, for example in Australasia, the Gulf Coast, Canada and East Africa. The combination offers the opportunity to review this option set, and time the pace of investment more efficiently with an eye on industry cost structure and LNG market development. Overall, there is an opportunity here to take a fresh look at development solutions, strategic partnering, and the timing of investment decisions, in this enlarged portfolio, and to optimise for returns here. We are determined to use the combination with BG to restructure Shell, and asset sales are an important part of the story, as we would step-up to refocus the company to areas and themes with scale, profitability and growth potential. We are expecting asset sales of \$30 billion from the combined portfolio from 2016 to 2018, averaging \$10 billion per year, but likely more lumpy than that. Asset sales would come from both the Shell and BG portfolios, and we are undertaking a fundamental review here, with an opportunity to really drive a different portfolio and priorities in the enlarged group.

Divestments will include high-grading of 'tail' portfolio, when we look at the value in the combined Upstream, some 80% of the NPV is in approximately 30% of the countries. We also expect to monetise more mature assets and infrastructure-like plays, and over time reduce our longer-term options, putting more focus on the areas where Shell has established positions today. We've continued to work on asset sales plans in the last few months, and identified a range of options that are more than sufficient cover for the \$30 billion target we have set.

An important part of the strategy is refocusing the company, particularly in the longer-term opportunity set. We are reducing exploration activity and exploration spend, and we are taking a hard look at the longer-term development funnel, and you can see some of the actions we have taken here recently, such as reduction in Nigeria, resources plays and Iraq, and a slow-down in Canada. In Alaska, and you may have questions on that. We are planning to drill the Burger prospect in the Chuckchi Sea in 2015 and 2016, testing what could be a multi-billion barrel oil field for Shell, with further exploration potential in the acreage. Overall,



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there's a lot of work to be done in all of these longer-term plays to ensure we capture value. But the intention to reduce and scale down is clear.

The chart on the left here shows Shell's track record on dividends, unbroken for decades and a key part of our returns to shareholders. And you can also see the commitments we have made for 2015 and 2016 dividends, reflecting the confidence the Board has in the performance and outlook of the company, including the impact of the significant actions we are taking. Our gearing is low in our sector, perhaps the lowest now, and we have \$27 billion of cash on the balance sheet today. And our cash flow break-even is set to fall further with the outcome of our portfolio and performance drive.

Let me assure you that we have additional levers to pull, if macro conditions deteriorate further from here, such as further reductions in capital investment. The proposed combination with BG is attractive for both sets of shareholders in a range of oil prices, and is robust at the lower end of our planning ranges. BG would be accretive to cash flow from operations per share at \$67 oil in 2016, and accretive to 2017 earnings per share, in a mid-\$70s world.

This is a combination that enhances our free cash flow, and enhances our dividend potential in any expected oil price environment. Overall, I want to make it crystal clear to you how determined the Board is to get this right and we are firm and repeating our commitment to shareholders here on dividends.

This chart shows the potential future shape of the company, around the end of the decade. And I think there is a really different, more focussed and profitable Shell coming through here. Strategically, this is what this deal is all about. Three pillars, engines - deep water, and integrated gas - that could each deliver annual \$15-20 billion of CFFO by around 2020. And longer-term themes that could deliver a further annual \$10 billion or so, also by around 2020. I see this as an opportunity to accelerate the creation of a simpler and more focused company.

What we are calling 'grow to simplify'. This means we can really capitalize on our core strengths at a larger scale. It means we can have more predictability in the company, and a lot smarter sequencing of the project opportunity funnels in each theme. And overall, this should result in a company that is more resilient to changes in the external environment, such as oil prices and downstream margins, and become more competitive than we are today, where it counts - at the bottom line. Overall, this is a new shape for Shell, and we are laying a platform for a fundamentally better company in the future, in any expected oil price environment.

Before we close, let me update you on the competitive position. We take a dashboard approach here, and we are looking for more competitive performance on a range of metrics over time, not single-point outcomes. The trends are downwards here, tracking oil prices. However, our CFFO development has become more competitive in the sector, and this has been a major strategic objective for Shell in the last few years. It's good to see return on average capital employed and free cash flow trending higher in the competitive range, but we know we need to do more, to drive these, and other metrics, higher.

Our aim is to be competitive across the price cycle, and there's still a lot to do.

Let me sum up. Shell's integrated business and our performance drive are helping to mitigate the impact of low oil prices on our bottom line. As our results today show, we're successfully



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reducing our spending and costs, and delivering a competitive performance in today's oil market downturn. We're pulling on powerful financial levers to manage through this downturn, making sure we have the capacity to pay attractive dividends for shareholders. Shell is well-placed to take additional steps to underpin shareholder dividends, should conditions warrant that. BG rejuvenates Shell's Upstream.

It adds more gas to our mix – the cleanest fossil fuel – further positioning the company for a lower carbon future. It is a step change in LNG and deep water scale and competitive position, accelerating our strategy by several years. We will re-shape the company once this transaction is complete. This should concentrate our portfolio into fewer, higher-value positions, where we can apply our know-how with better economy of scale. In essence we 'grow then simplify, creating a more resilient and competitive company, able to deliver better returns to shareholders.

These are challenging times for the industry. We are responding with urgency and determination, but also with a great sense of excitement for the future.

With that, let's take your questions. Please could we have just one or two each, so that everyone has the opportunity to ask a question.

Thank you for your questions and for joining the call today.

The third quarter results are scheduled to be announced on the 29th of October 2015, and Simon will talk to you all then.

**ROYAL DUTCH SHELL PLC**

**JULY 30<sup>TH</sup> 2015**

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**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.

**Resources plays:** Our use of the term "resources plays" refers to tight, shale and coal bed methane oil and gas acreage.

The companies in which Royal Dutch Shell plc directly and indirectly owns investments are separate entities. In this presentation "Shell", "Shell group" and "Royal Dutch Shell plc" 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 subsidiaries in general or to those who work for them. These expressions are also used where no useful purpose is served by identifying the particular company or companies. "Subsidiaries", "Shell subsidiaries" and "Shell companies" as used in this presentation refer to companies in which Royal Dutch Shell plc either directly or indirectly has control. Companies over which Shell has joint control are generally referred to as "joint ventures" and companies 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 a venture, partnership or company, after exclusion of all third-party interest.

