

ROYAL DUTCH SHELL PLC THIRD QUARTER 2015 RESULTS

OCTOBER 29TH 2015

THIRD QUARTER 2015 RESULTS WEBCAST TO MEDIA AND ANALYSTS

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Ladies and gentlemen, welcome to today's presentation.

We've announced our third quarter results this morning, and you will have seen some substantial headline losses on your screens this morning. There are significant one-time charges in these figures which are as a consequence of actions the Shell management team are taking on portfolio, as well as the impact of lower oil prices.



Let me update you on that and then Simon will take you through the numbers, and of course there will be plenty of time for your questions.

Before we start, let me highlight the disclaimer statement.

Shell's current cost of supply earnings for the quarter were a loss of \$6 billion. These results included \$7.9 billion of identified items. Around half of these charges - \$3.7 billion - are primarily related to a revised oil and gas price outlook, and the remainder - \$4.2 billion - is as a result of management actions on the longer term portfolio. Excluding these impacts, on an underlying CCS basis, earnings were \$1.8 billion, with \$11 billion of cash flow, and a \$0.47 per share dividend declared. The results were underpinned by strong Downstream earnings, and a strong performance on uptime, volumes and costs across the company.

The recommended combination with BG is on track, and we are expecting completion of this transaction, subject to Shell and BG shareholder approvals and satisfaction of pre-conditions, in early 2016, as planned.

Let me update you on the portfolio actions we have taken, and of course some of this is flowing into the charges we have taken in the quarter, alongside a reduction in oil and gas price assumptions.

Firstly, let me recap on Alaska exploration, where we had drilling results in the quarter. We have completed the 2015 drilling season, drilling the Burger J well to target depth. This well was completed safely and on schedule, in probably the most regulated and high profile exploration province in the world. But this was a dry hole, and we are currently in the process of safely demobilizing from Alaska. Whilst Burger turned out to be uneconomic, there are other potential prospects in Shell's Chukchi leasehold, as well as other areas offshore of Alaska.

However, due to the high cost and challenging and unpredictable regulatory environment, we have decided to cease further exploration activity offshore of Alaska for the foreseeable future. The leases we have in Alaska expire between 2017 and 2020, and the US government recently denied Shell's request for lease suspension which would have extended their expiration



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dates. Shell is of the view that the US government should simplify and modernise the permit processes there, if there is any ambition to develop oil and gas in the offshore of Alaska.

How does this decision fit into our strategy overall? We are moving forward with preparations for the recommended combination with BG, and we are aiming to complete this deal in early 2016, as planned. This transaction is an important opportunity to create a simpler and more profitable Shell, what we call 'grow to simplify'.

Major elements of that refocus strategy are underway today, as we review and reduce Shell's long term option set. Alaska, I have just mentioned. In heavy oil, we have decided to halt the development of the Carmon Creek project, in Canada in-situ oil. After careful review of the potential design options, updated costs, and the company's capital priorities, Shell has taken the decision that the project simply does not generate suitable returns. Elsewhere in these longer term themes, portfolio restructuring is essentially complete in our shales businesses, we have retained attractive options in the Americas and reduced elsewhere. In Nigeria, we have reduced exposure with a \$4.8 billion asset sales programme in SPDC in the last 5 years, and we are reviewing options in Iraq.

Overall, we are making changes to Shell's mix by reducing our longer-term Upstream options world-wide, and managing affordability in the current world of lower oil prices. This is driving tough choices at Shell, and I hope this sets the context for the charges in the results you have seen today.

Now, turning to the quarter, and I'll hand you over to Simon.

Thanks Ben, and I will start with the macro.

Shell's liquids and natural gas realisations declined substantially from the third quarter 2014. Brent oil prices were some 50% lower than year-ago levels, with similar declines in WTI and other markers. Realised gas prices were 18% lower than year-ago levels, with a strong decline in gas prices seen in North-America. On the Downstream side, refining margins around the world continued to be



supported by lower crude prices, robust demand and industry refining downtime. Industry base chemicals margins declined in North America, as ethylene prices fell with crude. Intermediates margins increased on the back of reduced feedstock and energy costs and improved market conditions.

Now, turning to the results.

Excluding identified items, Shell's CCS earnings were \$1.8 billion, a 70% decrease in earnings per share from the third quarter of 2014. In that \$1.8 billion figure, there were \$1 billion of non-cash charges which were not taken as identified items. On a Q3 to Q3 basis we saw significantly lower earnings in Upstream and higher earnings in Downstream. Return on average capital employed was 5.5%, excluding identified items, and cash flow from operations



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was some \$11 billion. Our dividend distributed for the third quarter of 2015 is the same as year-ago levels, at \$3 billion, or \$0.47 cents per share.

Turning to the business segments in more detail.

Upstream earnings excluding identified items for the third quarter 2015 were a loss of \$425 million. Oil prices have halved from year-ago levels, and that, combined with gas price movements, reduced our Upstream results by \$4.4 billion. Upstream results this quarter also included a negative of \$761 million of non-cash tax effects related to movements in the Brazilian Real and Australian dollar, and also included a higher level of well write offs.

Integrated Gas results, within these Upstream figures, were \$824 million in the quarter, compared to \$2.8 billion a year ago. Again, the majority of that decline was oil and gas price related, around \$1.4 billion. In addition, Q3 2014's Integrated Gas results included a catch-up dividend payment from an LNG joint venture of some \$200 million, which has not recurred in third quarter 2015. For third quarter 2015, the integrated gas results included a \$470 million non-cash tax impact for movements in the Australian dollar. And of course these results exclude dividends from MLNG Dua joint venture, which were \$195 million in third quarter 2014, in a joint venture that we have now exited.

There are quite a few moving parts in these Upstream results. However, I think it's important to point out that our Upstream operating performance continues to improve. The focus on reliability and uptime, and project growth is delivering, with an increase in production, a decline in operating costs and successful appraisal wells at Kaikias and Pownap in the Gulf of Mexico.

Headline oil and gas production for the third quarter was 2.9 million boe per day, which is 3% higher than Q3 previous year. Underlying volumes increased by 9% as compared to Q3 2014, driven by operating performance improvement, and with lower levels of unplanned maintenance versus same quarter last year. Underlying volumes were also supported by on-going ramp-up in deep-water fields in Nigeria, Malaysia and the Gulf of Mexico, which more than off-set the impact of field declines. LNG sales volumes in the quarter were some 5.3 million tonnes - down 6.5% Q3 to Q3 - mainly reflecting lower volumes as a result of the expiration of the Malaysia LNG Dua joint venture.

Turning to Downstream.

Downstream earnings for the quarter, excluding identified items, were \$2.6 billion, driven by higher results in Oil Products and Chemicals. In Oil Products, we benefited from increased refining margins and lower costs, with some offset from lower contributions from marketing, mainly as a result of exchange rate movements and divestments. Chemicals earnings were 15% higher than year-ago levels, driven by improved market conditions and lower energy costs for intermediates, partly off-set by weaker base chemicals, due to falling ethylene prices and Moerdijk outage in Europe. Overall, this was a strong quarter for Downstream, where ROACE on a clean CCS basis was 19.3% at quarter end, with Downstream CFFO around \$16.5 billion over the last four quarters.

Cash flow on a 12-month rolling basis was some \$34 billion, at an average Brent price of \$60 per barrel. Free cash flow was \$5.5 billion in the quarter and \$11 billion in the last 12 months.



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Gearing at the end of the quarter was 12.7%, essentially unchanged, despite the downturn in oil prices. Returns to shareholders – dividends declared plus buybacks – were \$13 billion over the last 12 months.

Some of you have asked us about dividend affordability against the backdrop of lower oil prices today. Let me show you how we think about this one. We plan the financial framework on a long term basis, a multi-year basis, and not on a given year or quarter. And we aim to balance cash-in and cash-out across the cycle. You can see on the chart here that Shell has delivered on this strategy both on a long-term basis and a short-term basis. Shell's oil price cash break-even point over the last 12 months has been around \$60 per barrel. And we have options to further reduce that level, such as asset sales and capital spending. As an example, for the combination, \$5 billion of divestment proceeds in a given year approximately equates to a \$10 shift in oil price break-even on a cash flow basis.

The combination with BG enhances Shell's free cash flow and improves our dividend potential in any expected oil price environment. And in the future, one of the key elements of the BG deal is moderated capital spending, a higher rate of asset sales, and more of shareholders' cash returned as buy backs.

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, in what is a difficult environment for the industry today. While our underlying performance in the quarter was strong, the headline numbers we're reporting today include charges, reflecting both a lower oil & gas price outlook and the firm steps we've taken to review and reduce Shell's longer term option set. The BG deal remains on track for completion in early 2016 and will be a springboard to focus the company into fewer and more profitable themes, especially deep water and integrated gas.

With that, let's take your questions. Let me remind you that we are having a management day in London next week and in New York. So let's keep this Q&A today on the quarter. Please could we have just one or two each, so that everyone has the opportunity to ask a question. Operator, please poll for questions.

Thank you for your questions and for joining the call today. We will be having our Management Day in London next week on Tuesday the 3rd and the 4th of November in New York, and I, and other members of the Executive Team, look forward to talk with you all then.

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

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