

# ROYAL DUTCH SHELL PLC

## FOURTH QUARTER AND FULL YEAR 2015 RESULTS

FEBRUARY 4<sup>TH</sup> 2016

FOURTH QUARTER AND FULL YEAR 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.

You will have seen that we pre-released our fourth quarter 2015 results on the 20th of January, ahead of the shareholder vote on the BG transaction. And we've confirmed our fourth quarter results this morning.

Before we start, let me highlight the disclaimer statement.



Our integrated business mix is helping to support our results, in what is a challenging industry environment today. We are pulling on powerful financial levers to manage the company in the industry downturn. We are reducing costs and capital investment, as we refocus the company, and respond to lower oil prices. The completion of the BG transaction, which is expected to take place on the 15th of February, will mark the start of a new chapter in Shell, to rejuvenate the company, and to aim to improve shareholder returns. Shell is becoming a company that is more focused on its core strengths, a company that is more resilient and competitive at all points in the oil price cycle and that has a more predictable development pipeline.

Let me update you on our HSSE performance. 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 track record is improving and competitive, but we did regrettably have fatalities and other safety incidents in 2015, and we will continue with our safety drive, which is called Goal Zero, to further improve here.

Shell's current cost of supply earnings for the year, excluding identified items, were \$10.7 billion. Our results are of course lower with the lower oil and gas prices. However, our business-mix is offsetting some of that, and Integrated Gas and Downstream are delivering a strong performance, and balance sheet gearing remained low at year-end 2015, despite the downturn.

We're pulling on powerful financial levers in the oil price downturn, to maintain a strong balance sheet, 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, and we achieved a lot in 2015. We have identified major commitments to improve performance further over the next few years, including from the combination with BG, as we get under the hood there, following expected completion on the 15th of February.



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We have reduced our operating and capital costs by a combined \$12.5 billion in 2015. Our operating costs fell by \$4 billion in 2015, as our sustainable cost reduction programmes gather pace. And Shell costs should further reduce in 2016, by some \$3 billion. On the capital investment side, we delivered 2015 capital investment at around \$29 billion. This is an almost 25%, or \$8.5 billion, reduction from 2014 levels, and more than 35% less than the recent peak in 2013. Looking into 2016, we are expecting combined spending to be lower this year, to be around \$33 billion, with options on the table to further reduce our spending should conditions warrant that step.

Impactful decisions on capital investment are driving the right outcomes here. Only the most competitive projects are going ahead, just four major final investment decisions in 2015, of which three in Downstream, 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. You will have heard earlier this year that we have halted work on the Bab Sour Gas project, in Abu Dhabi. This didn't rank in our portfolio. And we are postponing the final investment decision on LNG Canada and Bonga South West in deep water Nigeria.

Turning to asset sales. For 2014 and 2015, we have delivered over \$20 billion of divestments, exceeding our earlier \$15 billion target for the same period. We have further deals in the pipeline, such as Showa Shell, Denmark marketing and the sale of shareholding in Shell Refining Company in Malaysia. We are executing plans for a \$30 billion divestment programme for 2016 to 2018, as we consolidate BG into the portfolio. This will build over the three-year period, and 2016 is likely to see asset sales below \$10 billion. The buyers are there, particularly in Downstream and some local gas markets, and in non-traditional routes such as MLPs, private equity, and other oil & gas companies. Our MLP, Shell Midstream Partners, is set to deliver between 10-15% of the total disposal target over three years.

Turning to project flow, which is an important element of improving our free cash flow position. There were relatively few start-ups from the Shell portfolio in 2015. At the same time, it was good to see BG successfully starting up two LNG trains in Queensland, and continuing to ramp up in non-operated Brazil. This resulted in around 16% volume growth for BG in 2015. This underlines why we like the combination of BG and Shell. These BG growth projects will be a strong, complementary fit to the Shell project flow, where we should see more fundamental growth in the 2016 to 2019 timeframe, as the next wave of large projects comes on stream.

Restructuring in underperforming parts of the company is and will remain an important lever to improve our financial performance. There is more to come in Downstream. But we have achieved a lot. We've delivered almost \$10 billion of clean earnings, \$14 billion of cash flow from operations and 20% returns from Downstream in 2015. Compare that to 2007. That's an 18% increase in earnings, from a 20% smaller portfolio in a broadly similar refining margin environment. I think there is an important read-through to Upstream here, as we launch a more fundamental review of portfolio and capital allocation going forward.

The BG transaction is now close to completion, following widespread support from both Shell and BG shareholders at the shareholder meetings last week. The effective date is anticipated to be the 15th of February, and integration planning is well underway, with meetings of the key management teams of both companies held in The Hague in the last few days.



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This chart shows some of the key numbers and commitments around the BG deal, there's no change here, and these commitments support all the statements made in the prospectus which remain unchanged. We are planning that, following completion, 2016 will be the integration year as we drive these programmes forward. We will update you on progress in these areas in the future, and I am looking forward to that.

This chart shows the capital investment we are planning for 2016 on a combined Shell and BG basis. These allocations might change in the detail as we get more insight into the BG portfolio. In Downstream, we see growth prospects particularly in Chemicals. The conventional oil and gas portfolio spans areas such as the North Sea, Kazakhstan, Nigeria onshore, and South East Asia. And we are reviewing all of this. Integrated gas and deep water, which have been growth priorities for Shell in recent years, will reach significant scale with BG's positions included, accelerating the delivery of the growth we had targeted there. Shales and heavy oil remain with long-term potential, with reduced spending following restructuring programmes in recent years. All of this means that with BG in the portfolio, we anticipate having more predictability in the company, and a lot smarter sequencing of the project opportunity funnels in each theme.

Now, let me hand you over to Simon.

Thanks Ben.

We gave our results in summary form on the 20th of January, and the figures here today confirm that update. You will see a series of waterfall charts at the end of today's slide pack, to give you the moving parts, and I'd be delighted to take any questions on that.

In summary, excluding identified items, Shell's CCS earnings were \$1.8 billion, a 44% decrease in earnings per share from the fourth quarter of 2014. On a Q4 to Q4 basis we saw significantly lower earnings in Upstream and similar earnings in Downstream. Return on average capital employed was 4.8%, excluding identified items, and cash flow from operations was over \$5 billion. Our dividend distributed for the fourth quarter of 2015 is similar to year-ago levels, at \$3 billion, or \$0.47 cents per share.

Turning to reserves. Our SEC proved reserves at the end of 2015 were 11.7 billion barrels of oil equivalent, which is a reduction of 1.4 billion barrels from the end of 2014. Falling oil prices have reduced Shell's reserves in 2015, a 47% decline in oil price compared to 2014. The year average price effect was 1.7 billion barrels, including 0.4 billion barrels for the de-booking of Carmon Creek, in Canada, which is a project that we cancelled in 2015. There were some offsets to these negatives, and it was good to see the impact of cost reduction programmes in Canada oil sands mining, where cash operating costs came down to \$29 per barrel in Q4 2015.

Integrated gas earnings for 2015 were \$5.2 billion, a decrease of 50%, as LNG prices track down with oil prices. Global gas demand has been growing at 2.3% per year over the last



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decade, and LNG demand by 8% per year. Yet LNG is just 10% of overall gas demand. It's becoming clear that although the medium-term outlook for LNG demand growth in China is robust, in the near-term LNG demand growth is slowing there, and potentially in other countries. However, it's important to look at the development of the LNG market overall. In recent years, both LNG demand and supply have substantially diversified with currently 30 importing and 20 exporting countries, this is expected to grow to as many as 50 importing and 25 exporting countries by early next decade. Some highlights during 2015 were: we signed new LNG sales deals, which would sum to approximately 4 mtpa, typically 10 years or longer and linked to oil prices. We closed over 10 scheduled contractual price reviews across Asia Pacific joint ventures that reinforced the traditional oil linkage levels of LNG contracts, and we made progress in accessing new markets such as Myanmar, India, The Philippines, Jordan, Malta and Gibraltar.

Turning to the financial framework. 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. The oil price break-even point does, of course, move with oil prices, which links, with a time-lag, to industry costs. Our break-even has fallen in the last year. And we have options to further reduce that level, such as asset sales and capital spending. There's no change to our guidance on dividends, \$1.88 per share has been declared for 2015 and we confirm our intention to pay at least \$1.88 per share for 2016.

You will see enhanced financial disclosures from the company from first quarter 2016. Effective from the start of this year, Shell has a new upstream organisation that reflects recent changes in the company's portfolio. This is the platform for integration with BG. It will help speed up the streamlining of the portfolio following closure of the deal. We will therefore report Integrated Gas earnings separately from Upstream, and in more detail than in the past. In Downstream, we will give earnings splits for the combination of refining & trading, which we see as closely linked, and from marketing separately. This should help our investors understand the earnings drivers in Downstream in more detail. Let me also flag to you that there are some indicators for first quarter results in the announcement this morning, and in the back-up slides in the pack today.

With that, let me hand you over to Ben.

Thanks Simon.

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

Let me sum up. We are pulling on powerful financial levers to manage the company in the industry downturn. Shell is becoming a



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company that is more focused on its core strengths, a company that is more resilient and competitive at all points in the oil price cycle while having a more predictable development pipeline. This will improve our shareholder returns.

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 first quarter results are scheduled to be announced on the 4th of May 2016, and we are scheduled to have a Capital Markets day on the 7th of June 2016, and I, and other members of the Executive Team, look forward to talking with you all then.

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Reserves: Our use of the term “reserves” in this presentation means SEC proved oil and gas reserves.

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.

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.

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