ROYAL DUTCH SHELL PLC
FOURTH QUARTER 2016 RESULTS

FEBRUARY 2ND 2017

FOURTH QUARTER 2016 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, it's a pleasure to welcome you here today and to be back in London, at the venue where we announced the BG acquisition almost two years ago. The integration of BG was completed in 2016, and today we want to continue with updating you on the direction of our company. We will talk about results, touch on strategy and our progress on delivery post-transition in 2016.

Before we start, let me highlight the disclaimer statement.

We are making good progress in re-shaping Shell towards the goal of a world-class investment case, with a focus on delivering a higher return on capital employed and free cash flow per share and reducing debt. Simply put: higher returns for shareholders. We are on track to deliver on the 2020 expectations set out at the capital markets day last year. 2016 was a transition year and 2017 is the year in which we follow through on the delivery. We have a portfolio strategy, which contains firm steps to manage the down-cycle; including a hard ceiling for our capital spending and more predictability in our spending.

Our integrated business mix is helping to support our results, in a challenging industry environment. In 2016 there were large movements in our figures for the BG purchase and consolidation, a higher asset base, and a build-up in debt, amplified of course by lower oil prices. Our results today show that we are successfully pulling on powerful financial levers to manage the company in the industry downturn.

We are reducing costs and capital investment, as we re-focus the company. At the same time we have a capital investment programme of around $25 billion for 2017. Our 2016 CCS earnings excluding identified items were around $7 billion, cash flow from operations was some $21 billion, and free cash flow - excluding the BG cash element plus the proceeds from MLP and IPO - was $2 billion at an average Brent price for the year of $44 per barrel. Debt reduced end 2016, from Q3 levels, and in Q4, for the second consecutive quarter, free cash flow more than covered cash dividend. There is no change in the dividend intention, we expect the Q1 2017 dividend to be $0.47 per share.

Compared to 2014, including BG, our underlying operating costs have been reduced by $10 billion on an annual basis, and our capital investment spend has been reduced by $20 billion on an annual basis. At the end of 2016 we are running the underlying operating cost of the combination of Shell and BG below $40 billion - lower than what we used to run Shell, and 2017 is expected to be lower again.

This absolute cost take-out performance is leading the industry so-far. Stepping back from results for a moment - let me be clear on what we also want from Shell. I want Shell to be a leader, which means a large market capitalisation and that we are listened to and respected for what we do and we say.

We are reducing Shell's carbon intensity, and it is something we are working on hard today, and we will continue to put emphasis on this. We also need to establish beyond all doubt that Shell provides shared value, that we are a force for good in society. We need to succeed in all these themes to deliver that world-class investment case.

We segment the portfolio into a number of strategic themes. Our cash engines need to deliver 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. Our growth priorities have a clear pathway towards delivering strong returns and free cash flow in the medium term. And our future opportunities should provide us with material growth in cash flow per share in the next decade. Through all of this our intention is to be in fundamentally advantaged positions.

On new energies, you will also have seen the recent announcement that Shell, in a consortium, has been awarded the tender for the Dutch offshore windfarms Borssele III and IV, together they will have a capacity of 680 megawatt. This demonstrates that Shell is preparing for – and investing in – the challenges and opportunities that the energy transition offers.

Asset sales have an important role to play in all of these strategic themes, as we re-shape the company. Our asset sales programme is expected to total $30 billion for 2016 to 2018 combined. We completed $5 billion large divestments in 2016, announced a further $5 billion and are making significant progress on more than $5 billion of other deals. At the end of 2016 we completed the sale of our shareholding in Showa Shell for around $1.4 billion. We recently announced that SABIC will acquire Shell's 50% share in the SADAF petrochemicals joint venture for around $800 million. A few days ago we signed agreements to sell a package of UK North Sea assets to Chrysaor for a total of up to $3.8 billion, and with Kufpec for the sale of our interest in the Bongkot field and adjoining acreage off-shore Thailand for $900 million.

These transactions show the clear momentum behind Shell's global, value-driven, $30 billion divestment programme and are consistent with the company's strategy to high-grade and simplify its portfolio following the acquisition of BG. We seek to generate value, simplify the portfolio and re-shape Shell. Simon will cover more details later in the presentation. This is a value-driven - not a time-driven - divestment programme. We are confident that we will deliver.

We've been reducing Shell's capital investment in a steady and measured way over the last few years. We are planning to spend between $25 and $30 billion each year until 2020. Which is all about reducing debt following the BG deal, and about meeting our intentions for shareholder distributions. The $25 billion level reflects the spend we believe is the right level today, and delivering our in-flight projects and sustaining our strategy. Our focus is on the economic resilience of our new assets and on having a predictable high-quality investment funnel. We took 2 major final investment decisions in 2016, in Chemicals for the Pennsylvania and Nanhai projects and we have significantly progressed the Kaikias project in the Gulf of Mexico, FID is expected in the near-term. The project has a break-even price of below $40 per barrel on a go-forward basis and has an expected gross peak production of 40 thousand barrels per day. In 2016 capital investment was $27 billion, $20 billion below 2014 combined levels. In 2017 we are moving to the low end of our range at around $25 billion, and that includes non-cash items.

In 2016 we had a world-class BG deal delivery followed by a world-class BG integration, which was virtually done end 2016 and completed on time. I am really proud of this achievement. We continue to manage the synergy delivery in 2017. The re-shaping of Shell is starting to show. In 2016 the net reductions in staff was 6,500, which is ahead of the 5,000 employees we said would leave Shell in 2016. We have progressed in 2016 some 25 office closures - including office moves in Houston from One Shell Plaza to Woodcreek and in London. These are big moves to re-shape Shell.

We have seen the start-up of Stones in the Gulf of Mexico, Gorgon in Australia and Kashagan in Kazakhstan. Start-ups in 2016 should add more than 300 thousand boe per day and 3.9 mtpa LNG for Shell shareholders once fully ramped up. Finally, there is no doubt that 2016 was a challenging year, including all the deal 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 our daily business, particularly in terms of the sustainable cost base. The levers we are pulling are material.

This chart shows the returns and free cash flow that we generated in the three categories cash engines, growth priorities, future opportunities. These are not targets, the chart shows you the possible shape of the company, and of course the environment could play out very differently from what we expect today.

Around the end of the decade, we expect to have reduced debt hence the free cash flow you see here should be part of the dividend and buy-back programme of the company. Cash engines with stabilised portfolios, in the growth priorities, deep water delivering free cash flow and Chemicals still in growth mode in the chart, with $3 billion per year or more free cash flow potential ahead, and the shales and new energies portfolios ready for more substantial growth investment from the available resources. I think it's important that we also update you on our plans for the nearer term, and the financial levers we are pulling to manage our company today.

Let me now hand over to Simon for the last time. Simon, over to you.

It's good to be here today. Let me update you on the financial framework and the great progress we are making in creating value from the BG deal and our other assets and projects.

In summary, excluding identified items, Shell's CCS earnings in Q4 were $1.8 billion, a $200 million increase on last year. On a Q4 to Q4 basis we saw higher earnings from Upstream and Chemicals, and lower earnings from Refining & Trading. We also saw a higher depreciation charge and a one-off impact from deferred tax. Cash flow from operations was over $9 billion meaning after capital investment we more than covered our dividend pay-out again. Our dividend distributed in the fourth quarter of 2016 was $3.8 billion or $0.47 cents per share. Brent oil prices were some 13% higher than year-ago levels and realised gas prices were some 5% lower than year-ago levels. On a Q4 to Q4 basis higher oil and gas prices increased the results by around $400 million and our Refining & Trading results were significantly lower, partly reflecting the weaker global refining conditions, partly off-set by higher Chemical margins.

Compared to the same quarter last year we saw an uplift from BG volumes, lower costs despite the increase related to the consolidation of BG, with higher depreciation and non-cash charges of some $500 million related to deferred tax re-assessments which were not included as identified items. The usual waterfall charts are provided in the back-up where you will find details of the earnings for each business segment.

2016 was a transition year completing and integrating the BG acquisition. We noted we expected earnings volatility as we consolidated activities. Our cash generation has followed oil prices but emerges stronger by end '16. We saw an increase in depreciation following the BG acquisition and an increase in interest charges. Depreciation for the fourth quarter was around $6.6 billion and on an underlying basis this was $6.3 billion. In 2016 underlying DD&A was some $23 billion. Divestment impacts will also be a feature in 2017, and let me draw your attention to an outlook we have given for our Corporate segment as well as our usual outlook in the back-up. We do appreciate challenges in modelling our short-term earnings as a result of all the moving pieces. We will do our best to assist, and in the meantime encourage you all to focus on cash.

Turning to reserves. Our SEC proved reserves at the end of 2016 were 13.2 billion barrels of oil equivalent, which is an increase of 1.5 billion barrels from the end of 2015. Shell's reserves additions, 2.9 billion barrels including the BG acquisition, were some 25% of end-2015 reserves. Our 3-year average RRR stands at an estimated 81% with a strong 2016 including BG.

The BG acquisition accelerates Shell's growth strategy in deep water and LNG, enhances our free cash flow, and creates a platform from which we will re-shape Shell. This deal was always about value creation for shareholders. Delivering the real value from the BG deal required the swift and effective integration, getting the value from BG projects and learning the best working practices applied throughout the company. You can see on the chart the significant growth from the BG portfolio since we announced the deal; in Australia and Brazil, 70% and 100% respectively. We expect the synergies from the deal to be $4.5 billion on a pre-tax basis in 2018. This is an increase of $2 billion - or 80% - compared to the initial estimate of $2.5 billion in April 2015. We expect to deliver $4 billion of synergies in 2017 overall.

The increase in our LNG sales is exceeding the increase in our LNG liquefaction volumes. This reflects Shell's business model for IG to connect supply and demand under various market conditions, playing an aggregator role. On top of our own liquefaction volumes, we buy third-party LNG under long-term contracts, often from our joint venture partners, and market it to a world-wide customer base. We also purchase and sell spot LNG volumes to further optimise shipping logistics. As for the global LNG market - during 2016 - delivered LNG volumes increased by approximately 17 million tonnes, driven primarily by an increase in exports from Australia and to a lesser extent from the US. During the year, growth in new markets such as Egypt and Pakistan plus growth in India and China easily absorbed the growth in supply volumes, with less reliance on Europe as the LNG balancing market. Therefore, the predicted decline in market conditions or pricing did not occur during 2016. In fact, the market finished the year very strong with high Asian winter demand and all cargoes that could be produced were produced. In IG, through the acquisition of BG, we have achieved our strategic growth objective. Hence the switch in focus to delivering cash and returns. Let me highlight that we will continue a BG best practice and issue an LNG outlook in February/March in London, Singapore and New Orleans.

There has been a major cost, capital efficiency and performance drive underway in Downstream, and the 55 performance units focus everyone in Downstream on the bottom line. We continue to exit from non-core positions. These are assets where we don't see the running room, returns, or the attractiveness of new investment dollars for Shell. The improvements have helped Downstream to deliver more than $7 billion of clean earnings, some $10 billion of cash flow from operations excluding working capital movements, and approximately 15% returns over the last 12 months. Our Marketing activities are providing a resilient and steadily increasing stream of earnings, while Refining and Trading are working well together as an integrated value chain to enhance returns and cash flow. Overall, Downstream should be able to deliver 10 to 12% return on capital employed and more than $10 billion of cash flow per year. We measure these as averages over several years, to capture the impacts of the various business cycles in Downstream.

Shell's global deep water business is a growth priority. In 2016 we started Stones in the Gulf of Mexico and Malikai in Malaysia. We have significantly progressed the Kaikias project, FID is expected in the near-term. This is a 40 thousand barrel per day subsea tieback to an existing production platform with an attractive break-even price below $40 per barrel on a go-forward basis. Another important area for growth is of course Brazil. In the Santos basin 3 new FPSOs started production in 2016, with the last one close to the end of the year, so still ramping-up into 2017 and we expect a further 2 FPSOs to come on stream in 2017 as per plan. Break-even prices in Brazil are well below $40 per barrel. Our world-wide deep-water production in Q4 was some 725 thousand boe per day, up by more than 50% from Q4 2015. So we are well on our way to over 900 thousand boe per day by 2020, growth that is coming from projects already sanctioned. This will result in a business that is a significant free cash flow contributor in the 2020s.

Moving to shales. In shales we continue to improve capabilities and competitiveness through focus on core positions. Following the divestment of the western Canada shales position late last year we have more than 11 billion barrels of discovered and prospective resources with advantaged positions in the Permian, Fox Creek in Western Canada and in Argentina. The profitability of this business is improving by further reducing costs, improving recovery rates and high-grading our acreage. In the Permian for example, we have reduced average well cost from $15 million to $6 million and are moving to longer laterals. We will continue to spend within the range we set earlier of $2-3 billion, but the shift from appraisal and the improvement in capital efficiency allows us to selectively accelerate development and this could result in an additional 140,000 barrels per day by 2020 from our LRS plays in the Permian and Fox Creek, with an average break-even price of around $40 per barrel which is expected to bring forward the date for shales cash flow neutrality.

Okay, that's LNG, Downstream, deep water and shales.

Turning to our cash position. There's no change to the priorities for cash flow. Reducing debt. Paying dividends, followed by a balance of capital investment and share buy-backs. And at least $25 billion of buy-backs in the period 2017 to 2020, subject to debt reduction and some recovery in oil prices. And we aim to use our extra cash for debt reduction to strengthen our credit metrics to the desired levels, for which gearing around 20% is a reasonable proxy. Shell's financial framework is a key element of our overall strategy. We are working four performance levers to address the financial framework: divestments, opex, capex and new projects.

We are using asset sales as an important element of the strategy to re-shape the company.

We completed $5 billion large divestments in 2016, we have announced a further $5 billion and we are making significant progress on more than $5 billion of other deals that we expect to announce in the near future. You will see that divestments have different accounting and cash flow impacts depending on the shape of the deal. Asset sales are an important part of starting to reduce our debt. Of course the timing of these divestments depends to some extent on oil prices and hence the market. 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 have said previously if it takes a bit longer in order to preserve shareholder value, then so be it. But you can see clearly we are on-track to deliver at least half the target by mid-way point.

I'll move on to capital spending. Our capital investment will be managed in the range of $25 to $30 billion per year to 2020. Capital investment for 2016 was $27 billion more than 40% lower than pro-forma Shell + BG levels in 2014 - $20 billion lower on an absolute basis. The track record here demonstrates that we can respond quickly to the macro situation by reducing our investments. There is good balance between base-level capex and high-quality growth options.

And so to operating cost, the third of the "levers" we are pulling. We've delivered major reductions here already, with more to come. Underlying operating costs in 2016 for Shell and BG combined were $39 billion, which is $10 billion – almost 20% – lower than Shell and BG costs in 2014. Divestments and new project ramp-ups will also have an effect, as will FX. Our focus now is two-fold: sustain the improvements already made and take further cost out as we continue portfolio changes. We expect 2017 costs to be below $40 billion. In the end, this all builds into improved cash flow from operations. 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. This portfolio is geared to give an improvement in production, and more importantly in 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 more than 1 million barrels per day, some $10 billion of CFFO annually at average $60 oil prices. 2016 project delivery was consistent with our expectations.

This final slide from me summarises the potential from the levers that we are pulling. We are pulling on levers to manage the financial framework in the down-cycle. But fundamentally, much of this is an important opportunity to improve Shell's competitive performance, irrespective of oil prices. The four levers will add significantly to cash flow.

With that, let me pass you over to Ben again.

Thanks, Simon.

Before we close, remember we are aiming with all of this to create a world-class investment case for Shell. In the end, you will measure this as total shareholder returns. And so will we.

I think 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, we can create a better investment case - a world-class investment case.

We've set out a pathway here for you for the next several years. It's ambitious. It's a transformation of the company in 2016 and we now switch to delivery. Our strategy is starting to pay off, and in 2017 we will be investing around $25 billion in high quality, resilient projects. I'm confident 2017 will be another year of progress for Shell to become a world-class investment.

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

Thank you for your questions today. Let me remind you that in February the LNG team will present in London, Singapore and in March in New Orleans, an outlook on trends in LNG demand and supply. The first quarter results are scheduled to be announced on the 4th of May 2017, and Jessica Uhl, Simon's successor, will talk to 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 (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.

Underlying operating cost is defined as operating cost less identified items. A reconciliation can be found in the quarterly results announcement.

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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.

We may have used certain terms, such as resources, in this release that United States Securities and Exchange Commission (SEC) strictly prohibits us from including in our filings with the SEC. U.S. Investors are urged to consider closely the disclosure in our Form 20-F, File No 1-32575, available on the SEC website www.sec.gov.