ROYAL DUTCH SHELL PLC
THIRD QUARTER 2018 RESULTS

NOVEMBER 1st 2018
SECOND QUARTER 2018 RESULTS WEBCAST TO MEDIA AND ANALYSTS
BY JESSICA UHL, CHIEF FINANCIAL OFFICER OF ROYAL DUTCH SHELL PLC

Ladies and gentlemen, welcome to the Shell third quarter 2018 results call. Before we start, let me highlight the disclaimer statement. In 2016, we made a set of commitments to strengthen our balance sheet and increase shareholder returns. With today's results, we demonstrate that we are continuing to deliver on these commitments. I would like to update you on our progress and I will start with the results from this quarter.

Shell's cash flow from operations excluding working capital movements in the quarter was $14.7 billion, making Q3 one of our strongest ever. Free cash flow was $8 billion. Our strong financial performance allowed us to cover the full cash dividend, interest payments, share buybacks and to further pay-down debt. We remain committed to pulling the levers necessary to complete the $25 billion share buyback programme by the end of 2020. We bought back over 60 million shares, for a total of $2 billion. This completes the first tranche of our programme. And I am pleased to announce that we will initiate the next tranche from today: with our commitment to purchase up to $2.5 billion of additional shares. As we deliver on the buyback programme we also continue to reduce net debt.

We reduced our gearing from 23.6% to 23.1% during the quarter and we have line of sight to 20% gearing. And we continue to optimise our portfolio. Our $30 billion divestment programme, new project delivery, and a disciplined approach to capital allocation, has reset the cash flow profile and resilience of our portfolio. Our strategic ambition to reduce the Net Carbon Footprint of our energy products is important in supporting our licence to operate and for us to thrive through the energy transition. In September, Shell announced a target to maintain methane emissions intensity below 0.2% by 2025, for oil and gas assets where Shell is the operator. This further demonstrates our continued focus on tackling greenhouse gas emissions.

So, before I reflect further on our third quarter results, let me first take you through the portfolio highlights from the quarter. We gave the green light to invest in LNG Canada at the beginning of October. This is the first LNG Project on the west coast of North America and Shell has a 40% working interest. LNG demand is expected to double by 2035. LNG Canada shows the confidence we have in the future of natural gas and LNG. This project is perfectly located to meet the growing demand with low-cost natural gas from British Columbia. This is especially true for customers in Asia. It is also due to come on stream at a time when we expect a global LNG supply shortage. Construction has already begun, and we expect to produce first LNG before the middle of the next decade.

As with all of our major investment decisions, we took a disciplined approach to improving the competitiveness of the project before we made the final investment decision. It has a strong and resilient cash flow profile. Shell also has significant integration advantages from the upstream through trading. Both of these aspects of the project contribute to it achieving an internal rate of return of around 13% at a price of $8.50 per MMBtu at real terms 2018, delivered in Japan. And if we decide to proceed with Train 3 and 4 together with the other joint venture partners, this expansion would provide further upside to project economics.

LNG Canada is an important contribution to our strategy to be a world-class investment case.

The project also needs to be aligned with our strategic ambition of thriving through the energy transition to a lower-carbon world. LNG Canada is designed to achieve the lowest carbon intensity of any large LNG plant in operation today. This is consistent with the ambition we announced last year, to reduce the Net Carbon Footprint of the energy products we sell. The LNG supplied by this project can help to improve air quality in Asia by replacing more polluting coal. LNG Canada also fits with our third strategic ambition: maintaining a strong societal licence to operate. We carefully planned LNG Canada working closely with local communities, First Nations and governments, to ensure we are a good neighbour from the start. LNG Canada is a great opportunity for Shell, offering a competitive cost of supply, resilient cash flows and returns and is a strong fit to our overall strategy. We firmly believe LNG Canada is the right project, in the right place, at the right time.

Let me now turn to the portfolio progress made across the other areas of our business, during the third quarter. In Nigeria, we made a significant near-field gas discovery in the Epu Field. In Brazil, we added a material, operated exploration position with the Saturno pre-salt block in the Santos Basin. This increases our offshore acreage in Brazil to approximately 2.7 million acres and adds to our leading portfolio in one of the world's most prolific deepwater areas. In our exploration portfolio, we signed contracts with the government of Mauritania for the exploration and potential future development of two offshore blocks. In addition to developing these blocks, Shell and the government of Mauritania are also exploring new ways to meet the country's domestic energy needs and build capability in its energy sector.

In Brazil, we announced the start-up of our P-69 floating production storage and offloading facility, or FPSO, at Lula Extreme South. In Downstream, the Pernis refinery saw the start-up of its new solvent deasphalter. This is designed to enhance the performance and competitiveness of the refinery. It is another project that supports Shell's ambition to thrive in the energy transition. The cleaner transport fuels this refinery is now able to produce allows us to provide low sulphur products including marine gasoil, compliant with the stricter emission standards from the International Maritime Organization from 1 January 2020. In October, we delivered our first ship-to-ship bunkering of cleaner-burning LNG fuel from a specialised LNG bunker vessel. You would have seen a picture of this on the opening slide. LNG for transport in general, and LNG for shipping in particular, is an exciting market that we expect to expand. The global market for LNG as a fuel for transport is around 14 million of tonnes per annum. We expect this to grow more than four-fold by 2030.

In October, we completed the sale of Shell's Downstream business in Argentina to Raízen. Shell also announced the sale of our Upstream interests in Denmark to Noreco for $1.9 billion. These sales are consistent with Shell's strategy of simplifying and reshaping our portfolio through a $30 billion divestment programme.

Let us now go deeper into the Q3 financial highlights. Cash generation, returns and disciplined cash allocation are all key contributors to a world-class investment case. Let us look at each of these. Shell's good operational delivery produced one of our strongest-ever quarters. As I have already mentioned, cash flow from operations, excluding working capital movements was $14.7 billion in the quarter. This was at an average Brent price of around $75 per barrel. Our organic free cash flow for the quarter was $7.5 billion. This means free cash flow more than covered the full cash dividend, interest and share buybacks for this quarter.

At the end of Q3 2018, current cost of supplies earnings, excluding identified items, amounted to more than $5.6 billion. This resulted in a return on average capital employed of 7.1%, which is 2.5 percent points higher than in Q3 2017. We are confident this will continue to improve towards our outlook of 10% in 2020. As already highlighted, we have reduced our gearing to 23.1%, with a net debt reduction for the quarter of $1.7 billion. And we have completed the first tranche of share buybacks, with a second tranche of up to $2.5 billion announced today. Our capital investment this quarter was $5.8 billion. We estimate our full-year spend to be around $25 billion. We will continue to take a very disciplined approach to capital allocation to ensure we have competitive, affordable and credible returns from our investments.

Let us have a closer look at our earnings this quarter. Our Q3 2018 CCS earnings, excluding identified items, amounted to $5.6 billion, which is $1.5 billion, or 37%, higher than in Q3 2017. Earnings excluding identified items in Upstream were more than three times, or $1.3 billion, higher than in Q3 2017. This reflects higher oil and gas prices as well as lower depreciation. Earnings excluding identified items also includes a provision for unitisation settlements related to pre-salt assets in Brazil, partially offset by other impacts. Further, the movements in tax include changes in deferred tax positions largely arising from changes in the upstream fiscal regime in Brazil. The net impact of these items was around $0.4 billion. Excluding portfolio impacts, production was up 4% over the same period. In our Integrated Gas business, earnings excluding identified items increased by $1.0 billion, or 79%, compared to Q3 2017. Integrated Gas benefited from higher realised oil, gas and LNG prices, as well as higher trading margins from LNG cargo diversions. In Downstream, CCS earnings excluding identified items were $0.7 billion, or 25%, lower than in Q3 2017, largely due to lower margins in 2018.

Now, let us have a look in some more detail at cash flow. Our Q3 2018 cash flow from operations excluding working capital movements amounted to $14.7 billion, which is $3.1 billion, or 26%, higher than in Q2 2018. In the quarter, $1.2 billion increase in cash flow reflects higher realised oil and gas prices in Upstream, and higher production, largely as a result of good performance in the Gulf of Mexico. Cash tax payments in Q1 and Q3 are generally lower than the current tax charge to earnings, due to the payment scheduling, with Q2 and Q4 historically being higher. In Q3 2018 this resulted in a $0.8 billion benefit to cash when compared to Q2 2018. Margining: with upward movements in the oil price forward curve, we have been subject to margin calls on our hedging programme in Integrated Gas over the last 12 months, with a net impact of $0.5 billion in Q2 2018. However, in Q3 2018 there were no material impacts from margining as we saw our Brent and Henry Hub exposures largely offset each other in the quarter, and therefore a positive impact relative to Q2. The remaining variance of $0.6 billion was largely due to realised gains on foreign exchange swaps.

Next, I want to provide more detail on our working capital movements. Increases in oil price have an impact on working capital through our inventories of crude and products that support our operations and trading activities. The impact on working capital in this period is largely inventory volume driven, as a result of underlying movements supporting normal business operations. The largest components of our inventory sit within our Downstream and trading businesses. Since Q2 2018, normal business operations caused the number of barrels that Downstream kept in its inventory to increase some 15 million barrels from 290 million to around 305 million barrels. This is the same level as in Q3 2017. Across this same period, with average prices increasing around 30%, we have seen a corresponding increase to our inventory value. An example of inventory levels driven by business operations is with our Bukom refinery which re-stocked ahead of its return to service from its turnaround, making inventory levels higher. Also, in Integrated Gas, gas inventories increased ahead of peak season demand in winter months. Further information can be found in one of the slides in the appendix.

I would like to take a slightly longer perspective by looking at our financial performance on a four-quarter rolling basis. At an average oil price of $69 per barrel, CCS earnings excluding identified items amounted to $20 billion. The return on average capital employed for these earnings was 7.1% and is expected to continue to improve as we continue to start up new projects and improve performance and capital efficiency. We are on track for a 10% return on average capital employed in 2020. On a four-quarter rolling basis we have generated some $29 billion of free cash flow, including around $13 billion of cash proceeds from divestments. We are on track for our 2020 cash flow outlook. And finally, we are making progress on our net debt with a $8.3 billion reduction since Q3 2017 with gearing reduced to 23.1% from 25.7%. We are on track towards a gearing of 20%.

Now, I would like to show you how we are continuing to improve the company. Our focus on cost reduction and efficiency gains remains unchanged. We will do this through simplification, standardisation and digitalisation. Machine learning and advanced analytics can help improve our predictive maintenance capability and identify equipment at risk of failing. For example, it can help us see 'weak signals' and act before a trip occurs in our compressors, therefore preventing associated production losses and reducing maintenance costs. We are already delivering these benefits in some of our Upstream assets and are pursuing replication across the portfolio. Shell is also broadening its strategic collaboration with Microsoft to accelerate industry transformation and innovation. As part of this, Shell has selected C3 IoT with Microsoft Azure as its Artificial Intelligence platform. Shell expects to realise substantial economic value by rapidly scaling and replicating Artificial Intelligence and machine learning applications and the collaboration with Microsoft gives us a solid digital platform to make our core business more effective and efficient.

On divestments, we have completed and announced the sale of more than $30 billion of assets as part of our divestment programme. Cash proceeds for this programme total around $27 billion to date. We expect further divestments in 2019 and 2020 of around $5 billion per year, as we continue to reshape our business. We have also been consistent with our strategy on capital investment. We are confident our investments will support growth and we see potential to further improve capital efficiency. As I have said before, you should expect our 2018 capital investment to be around $25 billion. For 2019, we will maintain the range of $25 to $30 billion for capital investment.

Our projects delivered since 2014 are expected to generate $10 billion of additional cash flow from operations by the end of 2018, and $15 billion by the end of 2020, at $60 per barrel real terms 2016. As at Q3 2018 year to date, these new projects at current prices contributed some $9 billion of cash flow from operations and at $60 per barrel real terms 2016, this would be equivalent to around $7.5 billion.

Let us now have a look at our project delivery in more detail and how these projects contribute through to 2020. We have many new projects that will deliver material cash flows from now until well into the 2020s. As you can see on the slide, most of these projects are already producing while others are ramping up towards peak production. Examples include recent additions I have already mentioned, like our FPSO facility P-69 in Brazil, and the solvent deasphalter in Pernis. We are also on track to start production at Prelude, our floating liquified natural gas facility, in Australia around year end. And in Brazil we are adding production from three more new FPSO facilities. One before the end of the year and then two more next year. Also, Appomatox, our deepwater oil and gas project in the Gulf of Mexico, is expected to start up in 2019. In addition to these selected key projects on the slide, there is a list of further projects included in the appendix.

I would now like to bring together what I have told you about our financial performance to date, the progress on our four levers – in particular our new projects – and show you how this connects to our 2020 outlook. On a four-quarter rolling basis, we have generated $24 billion organic free cash flow at $69 per barrel. This is adjusted for around $7 billion of working capital movements and Integrated Gas margining. To keep a consistent view, we present all data on a $60 per barrel real terms 2016. This would mean a reduction in the organic free cash flow of about $3 billion to our four-quarter rolling organic free cash flow. At this oil price, assuming a stable price environment, we would not have been subject to the margin calls or working capital movements as we have to date. So, against this lower oil price of $60 per barrel, our cash flow would have been around $21 billion. Taking into account the additional cash flow expected from new projects of more than $7 billion, we expect to see organic free cash flow within the range of $25 to $30 billion.

Even as prices increase, our financial framework remains as disciplined as before. Our cash flow priorities are unchanged. Firstly, we use proceeds from divestments to reduce debt. Secondly, through the cycle, dividend, net interest payments and capital investment should all be covered by cash flow from operations. Excess cash flow will be partly used to reduce our debt further and partly distributed to shareholders. Considering specifically our share buyback programme, we have announced a second tranche of up to $2.5 billion. This tranche is in line with our intention to purchase $25 billion of our shares by the end of 2020. The pace of this programme continues to depend on oil price and our progress on debt reduction.

Let me return to where I started. We remain committed to our financial framework. Our 2020 cash flow outlook is strong. We have a focus on capital discipline and rigorous capital allocation. With our performance track record, and our cash generation outlook, Shell's on track to deliver on our commitments.

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

Thank you for your questions and for joining the call today. The fourth quarter results are scheduled to be announced on the 31st of January 2019, and Ben and I will talk to you all then from London.

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DEFINITIONS AND CAUTIONARY NOTE

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Operating costs are defined as underlying operating expenses, which are operating expenses less identified items. Organic free cash flow is defined as free cash flow excluding inorganic capital investment and divestment proceeds. ROACE (Return on Average Capital Employed) is defined as the sum of CCS earnings attributable to shareholders excluding identified items for the current and previous three quarters, as a percentage of the average capital employed for the same period. Capital employed consists of total equity, current debt and non-current debt. Capital investment comprises capital expenditure, exploration expense excluding well write-offs, new investments in joint ventures and associates, new finance leases and investments in Integrated Gas, Upstream and Downstream equity securities, all of which on an accruals basis. Divestments comprises proceeds from sale of property, plant and equipment and businesses, joint ventures and associates, and other Integrated Gas, Upstream and Downstream investments, reported in "Cash flow from investing activities (CFFI)", adjusted onto an accruals basis and for any share consideration received or contingent consideration recognised upon divestment, as well as proceeds from the sale of interests in entities while retaining control (for example, proceeds from sale of interest in Shell Midstream Partners, L.P.). This presentation contains the following forward-looking Non-GAAP measures: Organic Free Cash Flow, Free Cash Flow, Capital Investment, CCS Earnings less identified items, Operating Expenses, ROACE, Capital Employed and Divestments. We are unable to provide a reconciliation of the above forward-looking Non-GAAP measures to the most comparable GAAP financial measures because certain information needed to reconcile the above Non-GAAP measure to the most comparable GAAP financial measure is dependent on future events some which are outside the control of the company, such as oil and gas prices, interest rates and exchange rates. Moreover, estimating such GAAP measures with the required precision necessary to provide a meaningful reconciliation is extremely difficult and could not be accomplished without unreasonable effort. Non-GAAP measures in respect of future periods which cannot be reconciled to the most comparable GAAP financial measure are calculated in a manner which is consistent with the accounting policies applied in Royal Dutch Shell plc's financial statements. The forward-looking break-even prices (BEP) presented are calculated based on all forward-looking costs associated from FID. Accordingly, this typically excludes exploration and appraisal costs, lease bonuses, exploration seismic and exploration team overhead costs. The forward-looking breakeven price is calculated based on our estimate of resources volumes that are currently classified as 2p and 2c under the Society of Petroleum Engineers' Resource Classification System. As the projects are expected to be multi-decade producing the per barrel projection will not be reflected either in earnings or cash flow in the next five years. The financial measures provided by strategic themes represent a notional allocation of ROACE, capital employed, capital investment, free cash flow, organic free cash flow and underlying operating expenses of Shell's strategic themes. Shell's segment reporting under IFRS 8 remains Integrated Gas, Upstream, Downstream and Corporate.

The companies in which Royal Dutch Shell plc directly and indirectly owns investments are separate legal entities. In this presentation "Shell", "Shell group" and "Royal Dutch Shell" 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 Royal Dutch Shell plc and subsidiaries in general or to those who work for them. These terms are also used where no useful purpose is served by identifying the particular entity or entities. ''Subsidiaries'', "Shell subsidiaries" and "Shell companies" as used in this presentation refer to entities over which Royal Dutch Shell plc either directly or indirectly has control. Entities and unincorporated arrangements over which Shell has joint control are generally referred to as "joint ventures" and "joint operations", respectively. Entities 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 an entity or unincorporated joint arrangement, after exclusion of all third-party interest.

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