ROYAL DUTCH SHELL PLC
FIRST QUARTER 2014 RESULTS
BY CHIEF FINANCIAL OFFICER SIMON HENRY

APRIL 30th 2014

FIRST QUARTER 2014 RESULTS WEBCAST TO ANALYSTS
BY SIMON HENRY, CHIEF FINANCIAL OFFICER OF ROYAL DUTCH SHELL PLC

Ladies and gentlemen, welcome to Shell's first quarter 2014 results call. Let me run you through our figures and portfolio development, and then take your questions. And thanks to you in the US joining early today, we are not planning a time slot like this every quarter.

The disclaimer statement.

Our long term strategy is sound, and we are working towards a successful implementation of that strategy. And our financial framework is clear and consistent. Our first quarter 2014 results reflect more robust levels of profitability. However, as we saw in 2013, there is high volatility in the macro, and high volatility in our quarterly results. So, no complacency here.

The priorities we set out at the start of this year have not changed. We are determined to improve Shell's competitiveness; we will balance growth with better returns. This means focusing on better financial performance; on enhanced capital efficiency which includes more selectivity on project choices, and an increase in the asset sales programme; and continuing strong project delivery.

We are repositioning the company for changes in the industry landscape, particularly in Oil Products and North America resources plays. The impairments we have announced today, in Downstream, reflect Shell's updated views on the outlook for refining margins, where there are substantial pressures on the industry. We are taking hard choices on portfolio, with some $4.5 billion of asset sales announced in the quarter, including Wheatstone LNG, and Downstream positions from four countries.

Our investment strategy is delivering at the bottom line. The first quarter of 2014 has seen new, profitable production from deep-water Gulf of Mexico and ramp-up in Iraq, together with new LNG from our acquisition of Repsol's portfolio. And we are maturing new options, with front end engineering and design (FEED) decisions in deep-water and LNG.

This is part of a project flow that should continue to drive further financial growth from Shell. And of course the dividend increase we have announced today for the first quarter 2014, around 4% higher, underscores our delivery in recent years, and the future potential.

Turning to the results, and I'll start with the macro. If you look at the picture compared to the first quarter of 2013, Brent oil prices were some $4 per barrel lower than year-ago levels, with narrower differentials between Brent and North America markers. Shell's liquids realizations declined from the first quarter 2013, with an increase in gas realizations. The North America winter was especially cold, with milder conditions year on year in Europe, and that has been reflected in gas prices and volumes.

On the Downstream side; you might remember that Q1 2013 refining margins were boosted by a number of industry capacity outages, and the aftermath of hurricane Sandy in the US. This quarter, refining margins weakened in all regions, apart from an uptick on the Gulf Coast, where margins were lifted by inventory draw-down and industry outages. Chemicals margins declined in Europe and the US, due to weakening market conditions for intermediate products, but increased in Asia where industry cracker margins have improved.

Turning to earnings. Earnings for the quarter included a $2.9 billion identified item, predominantly in Downstream, and I will say more about that in a moment. Excluding identified items, Shell's underlying CCS earnings were $7.3 billion for the quarter, a 2% decrease in earnings per share from the first quarter of 2013. There was a slight decline in Downstream earnings, and broadly flat Upstream results. Return on average capital employed, on a reported basis, was 6%, including impairments in the quarter, or around 9% excluding identified items. Cash flow from operations was $14 billion, an increase of 21% year-over-year.

Dividends are Shell's main route to return cash to shareholders. We have declared more than $11 billion of dividends in the last 12 months, and executed more than $5 billion of buy backs. We have announced today that the first quarter 2014 dividend will be 47 dollar cents per share, an increase of over 4% from year ago levels. Scrip dividend uptake for Q4 2013 interim dividend was 47% and we will be offering scrip again for the Q1 2014 dividend. Scrip shares issued are the A class of share. Buy backs will continue as part of our policy to offset dilution from the scrip program, subject of course to the share price and balance sheet. So far this year, we have repurchased more than $1.2 billion of B shares.

Due to Dutch withholding tax rules, buy backs are currently limited to the B shares, for economic reasons. The buy-back did slow down recently, due to the relatively high premium of B shares over A shares - we don't want to issue low and buy high. We are working hard on solutions to give us the flexibility to buy back both A and B shares.

Looking at the moving parts in our results. Environmental factors such as oil and gas prices and Downstream margins were in aggregate a slight positive, some $300 million, on a Q1 to Q1 basis.

The security picture remains difficult in Nigeria, although this has improved from the very tough situation a year ago, where you might remember there were disruptions to gas supply to NLNG, as well as ongoing crude oil theft. We saw a slight reduction in earnings from lower volumes, and cash and non-cash costs: about $500 million. It's worth noting that the last three quarters of 2013 saw the impact of a series of strong negatives in these 'choices' categories, a $2 billion impact for Q4 to Q4 for example, which are bottoming out in this quarter.

Our Upstream results included $3.3 billion of underlying earnings from Integrated Gas, that's LNG and GTL, which was a record result for this business, and a 30% increase year-over-year. Let me be clear that there were some effects in this result that may not repeat, such as around $90 million of exchange rate gains, and $170 million higher dividends from the MLNG joint venture, both on a Q1 to Q1 basis, and a strong LNG trading environment. However, over time, we are seeing the impact of a steady improvement in plant availability here.

This is the first quarter where we consolidated the LNG portfolio that we acquired from Repsol at the end of last year. This helped drive the strong Q1 earnings and cash flow shown on the slide, adding a few hundreds of millions to earnings and CFFO in the quarter, and we are on track for up to $1 billion per year CFFO potential from the Repsol acquisition from the base offtake, and from enhanced trading opportunities by combining the two portfolios. Integrated Gas is a profitable and growing business segment for Shell and we continue to be the leader among IOCs in this business.

Overall, Upstream earnings, on an underlying basis, were $5.7 billion, essentially unchanged from year ago levels. Earnings were supported by higher contributions from Integrated Gas and trading, as well as higher gas realizations overall, which offset lower oil prices, increased costs, DD&A and exploration charges.

We've given you the split of exploration charges on the chart here, and I hope you find that useful. You can see that in some quarters, the scale of exploration activity in Upstream Americas for example can dwarf the results overall. Our Upstream Americas results were in profit, compared to losses in the last several quarters. This reflects higher Henry Hub gas prices and better gas trading results in the cold snap.

Volume effects were neutral on a Q1 to Q1 basis in Upstream Americas, and we are looking forward to continued ramp-up in the Gulf of Mexico later this year. Oil and gas production overall for the first quarter was 3.2 million boe per day, a headline decline of 9%. That is a large movement, but the earnings impact was Q1 to Q1 basis negligible, with much of this reduction in low margin barrels. This figure includes some 180,000 barrels oil equivalent per day of negative impacts for licence expiries, PSC effects, Nigeria security and Netherlands gas production reduction related to earthquake mitigation.

Excluding these effects, production volumes declined by 4%. Production was impacted by warm weather in Europe and by some 60,000 boe per day of maintenance impacts and asset replacement, dominated by South East Asia, Canada oil sands and Gulf of Mexico.

Looking into the second quarter, LNG sales volumes are expected to be higher, mainly driven by the volumes from the Repsol acquisition. The ADCO licence in Abu Dhabi expired in January 2014, which will reduce our production by over 155,000 barrels per day, from a low margin contract. In Upstream we are expecting continued impacts from the Nigeria operating environment, but recall we had gas constraints in Q2 2013 and the start of the blockade on NLNG. Compared to Q2 2013, we are expecting an off-set from lower maintenance activities, and increased exploration costs and higher depreciation charges, all on a Q2 to Q2 basis.

Turning to Downstream. We are working hard to improve our competitive position in Downstream. This business has generated 7% underlying ROACE in the last 12 months, we are driving for $10 billion CFFO per year and 10-12% ROACE on a sustained basis.

As we indicated earlier, we have reviewed the balance sheet values for the Oil Products portfolio, and have taken a $2.6 billion impairment today. This charge reflects an updated view on the industry landscape in refining. We see continued pressure on margins from the growth of liquids rich shales in North America, from stronger demand growth for diesel products ahead of gasoline, and continued overbuild in refining capacity, especially in Asia. This impairment represents about 14% of the fixed assets in refining.

We are continuing to refocus our Downstream portfolio, with divestments of non-core positions underway in four countries, out of a total of some 70, and the further reviews underway. Downstream earnings for the quarter, excluding identified items, were $1.6 billion, marked by lower results in Oil Products and Chemicals.

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Earnings were impacted by lower margins in refining, and lower trading results, year ago Oil Products margins were supported by industry outages which led to a positive refining and trading environment, these effects have to a large extent reversed out this year. We also saw a positive Q1 to Q1 uplift for tax and exchange rates of some $200 million. Overall, these are resilient results from Downstream, in a more difficult industry environment. We saw some uplift in our earnings from lower levels of unplanned downtime, and from higher retail and lubricants volumes. Our Motiva joint venture on the Gulf Coast was in loss a year ago, and has returned to profit this quarter due to better industry margins in the Gulf Coast and improving operating performance.

Looking to the second quarter of 2014, we are expecting higher chemicals availability than second quarter of 2013, and lower refining availability, due to planned maintenance.

Turning to cash flow and balance sheet. Our business strategy aims to grow cash flow on a sustainable basis to finance competitive dividends and investment for future growth. Cash flow for the quarter was $14 billion, the highest level for some years. We've generated $45 billion of cash inflows in the last 12 months, including some $2 billion of divestments. Over the same period, cash outflows for capex and acquisitions were $42 billion, with a further $12 billion on dividends and buy backs.

The final tranche of the acquisition for Repsol's LNG portfolio, $2 billion, was booked to capital investment in the first quarter 2014. Gearing sits at 15.6% at the end of the first quarter, a slight reduction from the position at the end of 2013.

Our free cash flow position is improving here, $3 billion on a four quarters rolling basis, defined as CFFO less cash used in investing activities, and $6 billion for first quarter 2014. This reflects an uptick in CFFO, and the 2013 acquisitions rolling out of the figures. All of this underscores that our strategy is delivering results, and it underpins the increase in dividend that we have announced today.

Turning to competitive performance. This chart shows the progression of the company on some of the key financial metrics, and where we sit versus the competition. As we said at our recent management day presentations, targets can be useful in some circumstances, but we have taken a time out from precise outlook statements, and we think it's important to look at the competitive position of the company. Some of you have asked how you can measure our progress. This chart shows the primary metrics to track our progress on growth - both cash generation from operations and free cash flow; and returns - return on capital employed.

Our CFFO development has been competitive in the sector, and this has been a major strategic objective for Shell in the last few years. Free cash flow, which is how we finance dividends over time, has fallen recently as a result of more acquisitions and fewer divestments in 2013, and many in our sector have also seen falling free cash flow. On a first quarter 2014 basis, our CFFO reached $14 billion and free cash flow was $6 billion, which are improving trends.

On return on average capital employed, reported returns are the basis of long term remuneration, and include factors such as impairments. While Shell's returns have been trending down here, this is common to the industry. It's important to also look at returns excluding indentified items when we look at the competitive picture, so that we don't drive the wrong decisions or assessment by things like large write downs or asset sales. On this clean basis, our ROACE is also low in the peer group, and we want to move nearer the middle of the pack and be more competitive here. We are clear that positive progress on these three metrics, turning the trends in the right direction, is our primary medium term financial objective.

Now, let me update you on portfolio activity. We've added new opportunities during the quarter, started up new production, and announced further asset sales. This is all part of positioning the company for profitable growth in the future. You can see the details on this chart: we completed the Repsol LNG acquisition; made new oil and gas discoveries in Asia Pacific, and added new exploration acreage in Namibia, Norway and Russia. We entered FEED on a series of new projects, LNG Canada, Appomatox in the Gulf of Mexico, and the Peterhead CCS project in the United Kingdom. These are some of the projects that could see more substantial spending in the second half of this decade.

Divestments continue in non-core portfolio, with some $4.5 billion of deals announced so far this year, as we build up our asset sales to more typical levels, following a slower pace in 2013.

Integration of the Repsol LNG portfolio is going well, and we are ramping up new production in the Gulf of Mexico, Iraq and Malaysia.

Let me update you on two of these start-ups. In Iraq, the Majnoon field, where Shell is the operator with a 45% stake, has reached its first commercial production threshold of 175,000 barrels per day in the 4th quarter 2013, and has been running at over 200,000 barrels per day excluding curtailments.

Majnoon will make only a limited earnings contribution, but we expect to see a significant CFFO contribution from Majnoon from second quarter 2014. And in the Gulf of Mexico, production from Mars B, which commenced on the 3rd of February, averaged approximately 3,000 boe per day for the quarter, and is currently producing over 30,000 boe per day. Mars B ramp up is progressing well, and we should be at full production in 2016.

Let me sum up. Our first quarter 2014 results reflect more robust levels of profitability. However, as we saw in 2013, we are in an industry which is seeing high volatility, the macro outlook is very uncertain. The priorities we set out at the start of this year have not changed. We are driving to grow our cash flow and improve our returns. This means delivering a better financial performance, an enhanced capital efficiency, and a continued strong project delivery. And our investment strategy is delivering at the bottom line. The first quarter of 2014 has seen new production from deep-water Gulf of Mexico and Iraq, together with new LNG from our acquisition of Repsol's portfolio. This is part of a project flow that should continue to drive further financial improvement from Shell.

The dividend increase we have announced today for the first quarter 2014 underscores our delivery in recent years, and the future potential. We have distributed more than $11 billion of dividends in the last 12 months, and completed $5.7 billion of share buy backs. All of this underlines our commitment to 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. Operator, please poll for questions.

Thank you for your questions and for joining the call today. The second quarter results will be released on the 31st July of 2014, and Ben and I will talk to you all then.

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