ROYAL DUTCH SHELL PLC
THIRD QUARTER 2014 RESULTS

OCTOBER 30TH 2014

THIRD QUARTER 2014 RESULTS WEBCAST TO MEDIA

BY SIMON HENRY, CHIEF FINANCIAL OFFICER OF ROYAL DUTCH SHELL PLC

Ladies and gentlemen, a very warm welcome to you all.

We've announced our third quarter results today, and I will run you through them, and of course there will be plenty of time for your questions.

First, we must reflect on last week's tragic event in Moscow. Christophe was a warm, unique and charismatic individual who touched thousands of people in our industry. His thoughtful leadership and the huge impact he had will be sadly missed by us all.

The disclaimer statement.

Our results today show that we are delivering on the three priorities we set out at the start of 2014 – better financial performance, enhanced capital efficiency and continued strong project delivery. We aim to grow cash flow through the cycle and deliver competitive shareholder returns. We're making good progress with restructuring in North America resources plays, essentially completing the asset sales programme there, and continuing with cost and portfolio reductions in Oil Products.

The recent decline in oil prices is part of the volatility in our industry. We plan our strategy around an expectation of such volatility; our portfolio needs to be attractive and resilient in a wide range of circumstances. It underlines the importance of our drive for better performance management, to keep a hold on costs and spending, to improve the balance between growth and returns, and to improve capital efficiency.

Proceeds from asset sales so far this year total almost $12 billion, with further disposals ongoing. Our new projects are delivering benefits to the bottom line. Our overall production volumes are lower, but margins are higher, as our strategy of investing in profitable projects, with or without equity production, pays off. We've continued to mature new investment opportunities in the quarter, and we've added new barrels with the drill bit.

Turning to results, and I will start with the macro. Shell's liquids and natural gas realisations declined from the third quarter 2013. Brent oil prices were some $8 per barrel lower than year-ago levels, with similar differentials between Brent and WTI. Of course current prices are below this level, squeezing revenues further.

On the Downstream side, this was a quarter characterised by higher levels of industry refinery downtime, which led to a year-on-year up-tick in margins in all regions, although Singapore margins remained in negative territory. Industry base chemicals margins increased on the back of reduced feedstock costs and tight supply conditions. Intermediates margins declined in challenging market conditions.

Now, turning to earnings. Excluding identified items, Shell's underlying CCS earnings were $5.8 billion for the quarter, a 30% increase in earnings per share from the third quarter of 2013. On a Q3 to Q3 basis we saw higher earnings in Upstream and Downstream. Earnings were supported by a range of factors. In Downstream, industry margins were higher and our operating performance improved. In Upstream, we benefited from new, higher-margin production, lower exploration expenses, and higher Integrated Gas results.

Return on average capital employed was 10.1%, excluding identified items, and cash flow from operations was some $13 billion, an increase of 23% year-on-year, supported among others by higher dividends from joint ventures this quarter.

Our dividend for the third quarter of 2014 is up 4% from year-ago levels. With $8.9 billion of dividends declared and over $3 billion of shares repurchased to date this year, we are on track for a programme of over $30 billion of dividend distributions and buybacks for 2014 and 2015 combined.

Turning to the businesses in more detail. Excluding identified items, Upstream earnings for the third quarter 2014 were $4.3 billion, an increase of almost $900 million, or 25%, versus Q3 2013. This figure includes a $400 million Q3-Q3 reduction in earnings, due to the increase of a deferred tax liability as a result of the weakening Australian dollar. This was partly offset by a $200 million dividend receipt from an LNG joint venture which was delayed from the second quarter 2014, and lower exploration charges overall. Upstream Americas and Integrated Gas both showed positive earnings momentum on a third quarter to third quarter basis.

We benefited from new, high-margin production, offsetting the effect of lower oil prices and lower volumes overall. This is as a result of a strategy to invest for profitability - not simply volumes - and in fact some of our recent projects, such as Iraq gas and the Repsol LNG deal, come with financial uplift, but no equity production volumes. Headline oil and gas production for the third quarter was 2.8 million boe per day, an underlying increase of 2%. Volumes were supported by on-going ramp-up at Mars B in the Gulf of Mexico and Majnoon in Iraq, as well as new volumes from existing fields in deep-water Brazil and the Gulf. There were also lower levels of maintenance compared with the third quarter 2013. LNG sales volumes were up 16% Q3 to Q3 - strong growth - driven by the acquisition of Atlantic and Peru LNG.

Turning to Downstream. Underlying earnings were $1.8 billion, effectively double year-ago levels, driven by higher Oil Products results. In Oil Products, we delivered an increase in refining results, due to a combination of better operating performance and a stronger margin environment in all regions. Refinery availability averaged some 94% in the third quarter, which is a strong and improved performance. Marketing and trading results increased from year-ago levels, although Chemicals earnings were lower.

Turning to cash flow and the balance sheet. Cash flow on a 12-month rolling basis was some $41 billion, with an average Brent price of $107 per barrel. Free cash flow has improved sharply, and was nearly $8.5 billion in the quarter and $14 billion in the last 12 months. Gearing at the end of the quarter has reduced to 11.7%. Returns to shareholders – dividends declared plus buybacks – were $15 billion over the last 12 months, in line with the over $30 billion projected for 2014 and 2015.

We don't take a particular view on near-term oil prices, we have a strong balance sheet and take a long-term view on financing and project economics. As you would expect from Shell, we are keeping the pressure on our spending and operating costs, and there may be opportunities to get better value from the supply chain here. So, that's a round-up on the results.

Now, let me update you on portfolio developments. The asset sales programme is making good progress, with around $12 billion of proceeds in the bank so far this year. The announcements we made over the summer on Lower 48 onshore gas essentially mark the completion of our portfolio reduction in North America resources plays, with around $3 billion of disposals proceeds announced in 2013 and 2014. Once these deals and license expiry effects have all been completed, we will have exited around 11% of our 2013 oil and gas production and some 6% of refining capacity, meaning we will enter 2015 with a more focused and efficient portfolio and balance sheet, but of course with a reduction to headline production and reserves. In Oil Products, where portfolio restructuring is a longer-term drive, we completed the exit from the bulk of our Australia business in the third quarter, with further assets such as Denmark on the market today, and we are making good progress with the US Midstream Master Limited Partnership, or MLP.

This is called Shell Midstream Partners, L.P., a limited partnership formed by Shell in the United States earlier this year. The MLP has announced the pricing of its initial public offering of 40.0 million common units representing limited partner interests at $23.00 per common unit. The common units began trading on the New York Stock Exchange on October 29th under the ticker symbol "SHLX." The underwriters of the offering have a 30-day option to purchase up to an additional 6.0 million common units from Shell Midstream Partners. The offering is expected to close on or around November 3rd, subject to customary closing conditions.

Turning to project delivery. We've had a strong year in portfolio development. First oil at Gumusut-Kakap in Malaysia completes the list of four, Shell-operated, deep water start-ups we had planned for 2014, and it's good to see these fields making an impact at the bottom line. There have been some well-publicised delays in some non-operated projects in our portfolio, and this, combined with the 2014 divestment programme and licence expiries, means that headline production has been falling.

Looking to the longer term, we have a highly competitive set of fields under construction for start-up, particularly in the 2016-18 timeframe, for example Prelude, Stones and Carmon Creek, as well as non-operated developments such as Gorgon, Clair and Schiehallion. And we've made a lot of progress in 2014 on maturing new opportunities, with FEED underway in some very substantial plays such as Appomattox and Vito, that could drive production into the next decade, and LNG Canada where we can leverage our leadership in Integrated Gas.

Now, let me update you on exploration in the quarter. We've announced four interesting new discoveries in the last few months, and continued with a successful near-field programme. In the Gulf of Mexico, the Rydberg and Kaikias oil discoveries could add new barrels in the Appomattox and Mars areas with tie-back potential. In deep-water Malaysia, the Marjoram gas find is one of a series of new hubs and near-field discoveries there that could feed into existing LNG schemes, and I'm pleased to confirm that we've found gas in deep-water Gabon, with a sub-salt exploration well called Leopard-1. We are going to appraise this one, with at least one more well, potentially in 2015. We are also assessing further exploration potential in the area.

Now, let me update you on the competitive position. We take a dashboard approach here, and we are looking for a more competitive performance on a range of metrics over time, not single-point outcomes. We've been trending higher on return on capital employed and cash flow in 2014, with a pronounced up-tick in free cash flow. And our competitive position is improving. There's no complacency here, and there remains a lot to do.

Let me sum up. Our third quarter 2014 results reflect more robust levels of profitability. However, we are in an industry which is seeing high volatility. The priorities we set out at the start of this year have not changed. We are taking firm actions to improve our capital efficiency by selling selected assets and making tougher project decisions. We've continued to ramp up new production, and our exploration programme is delivering, with new finds in the Gulf of Mexico, Gabon and Malaysia. We have declared $15 billion of dividends and buybacks in the last 12 months, and we're expecting dividend distributions and buybacks of over $30 billion for 2014 and 2015 combined. 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 fourth quarter results are scheduled to be announced on the 29th of January 2015, and Ben and I will talk to you all then.

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