Shell third quarter 2020 update note

The Hague, September 30, 2020 − This is an update to the third quarter 2020 outlook provided in the second quarter results announcement on July 30, 2020. The impacts presented here may vary from the actual results and are subject to finalisation of the third quarter 2020 results.

Unless otherwise indicated, presented impacts relate to Adjusted Earnings on a post-tax basis.

INTEGRATED GAS

- Production is expected to be between 820 and 860 thousand barrels of oil equivalent per day.
- LNG liquefaction volumes are expected to be between 7.9 and 8.3 million tonnes.
- Trading and optimisation results are expected to be below average.
- A one-off tax charge is expected to have a negative impact on Adjusted Earnings in the range of $100 to $200 million, no cash impact is expected in the third quarter.
- Approximately 80% of our term sales of LNG in 2020 have been oil price linked with a price-lag of up to 6 months. Consequently, lower realised prices due to this price-lag are expected to have a significant impact on LNG margins in the third quarter.
- CFFO can be impacted by margining resulting from movements in the forward commodity curves up until the last day of the quarter. Margining inflows are expected to be in line with the second quarter 2020.

UPSTREAM

- Production is expected to be between 2,150 and 2,250 thousand barrels of oil equivalent per day, which includes a production impact of 60 to 70 thousand barrels of oil equivalent per day from hurricanes in the US Gulf of Mexico.
- Realised liquids prices in the first two months of this quarter reflected a 15 to 20 percent discount to Brent, similar to the discount in the second quarter 2020. Realised gas prices are trending in line with Henry Hub.
- Depreciation is expected to be at a similar level as in the second quarter 2020.
- Similar to the second quarter 2020, while Adjusted Earnings are expected to show a loss, CFFO is not expected to reflect equivalent cash tax effects due to the build-up of deferred tax positions in a number of countries.

OIL PRODUCTS

- Refinery utilisation is expected to be between 64% and 68%.
- Realised gross Refining margins are expected to be significantly lower compared with the second quarter 2020.
- Sales volumes are expected to be between 4,000 and 5,000 thousand barrels per day.
- Trading and optimisation results are expected to be lower than the historical average and significantly lower compared with the second quarter 2020.
- Marketing margins are expected to be significantly higher compared with the second quarter 2020.
- Compared with the second quarter 2020, Adjusted Earnings are expected to be negatively impacted by $200 to $400 million due to higher volume driven activity, phasing of maintenance activities and provisions.
- A one-off deferred tax benefit is expected to have a positive impact on Adjusted Earnings of around $100 million, no cash impact is expected in the third quarter.
- Working capital movements are typically impacted by movements between the quarter opening and closing price of crude along with changes in inventory volume. Inventory volumes are expected to be lower compared with the end of the second quarter 2020, impacting working capital positively.

CHEMICALS

- Chemicals manufacturing plant utilisation is expected to be between 79% and 83%.
- Chemicals sales volumes are expected to between 3,700 and 4,000 thousand tonnes.
- Compared with the second quarter 2020, Adjusted Earnings are expected to be negatively impacted by around $100 million due to increased activity, provisions and phasing of maintenance activities.

CORPORATE

- Corporate segment Adjusted Earnings are expected to be a net expense at the lower end of the $800 to $875 million range for the third quarter. This excludes the impact of currency exchange effects.

OTHER

- As per previous disclosures, CFFO price sensitivity at Shell Group level is estimated to be $6 billion per annum for each $10 per barrel Brent price movement.
  - Note that this price sensitivity is indicative and is most applicable to smaller price changes than those in the current environment and in relation to the full-year results. This excludes the short-term impacts from working capital movements and cost-of-sales adjustments.
- Post-tax impairment charges in the range of $1.0 to $1.5 billion are expected for the third quarter. Impairment charges are reported as identified items.

Consensus

The consensus collection for quarterly Adjusted Earnings and CFFO excluding working capital movements, managed by VARA research, is scheduled to be opened for submission on 8 October 2020, closed on 21 October 2020, and made public on 22 October 2020.

Recent publications

Two recent news publications are highlighted below. They do not to impact the third quarter 2020 results.

- In an interview published today, Ben van Beurden, Chief Executive Officer of Royal Dutch Shell, discusses how Shell has responded to the COVID-19 pandemic, explains the drive behind the enhanced ambition to be a net-zero emissions energy business, and outlines the direction of the ongoing restructuring of Shell’s ways of working and organisation. Specifically, the simpler, streamlined and lower-cost organisation will focus on:
  - Upstream providing strong and resilient cash generation, focused on accelerating value;
  - reducing the Refining footprint to less than 10 sites, keeping those sites that are strategically essential in key locations, with flexibility to adapt and further integrate with the growing Chemicals and Trading businesses;
  - Integrated Gas having a larger focus on unlocking new and expanding existing LNG markets and furthering customer-led energy solutions; and
  - a customer-focused organisation, providing lower and zero carbon solutions through the Integrated Power, Biofuels and Hydrogen businesses that are significant, competitive, and complement existing businesses like Marketing.

  Reduced organisational complexity, along with other measures, are expected to deliver sustainable annual cost savings of between $2.0 to $2.5 billion by 2022. This will partially contribute to the announced underlying operating cost reduction of $3.0 to $4.0 billion by the first quarter 2021. Job reductions of 7,000 to 9,000 are expected (including around 1,500 people who have agreed to take voluntary redundancy this year) by the end of 2022.

  The full interview is available here: https://www.shell.com/reshape

- Our Shell Scenarios team considered the implications of choices societies could make while living with COVID-19 and explored what this might mean for energy demand and the energy transition. Explore the Rethinking the 2020s publication here: https://www.shell.com/rethinkingthe2020s

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Cautionary Note

The companies in which Royal Dutch Shell plc directly and indirectly owns investments are separate legal entities. In this announcement “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 its 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 announcement 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.

This announcement contains forward-looking statements (within the meaning of the U.S. Private Securities Litigation Reform Act of 1995) concerning the financial condition, results of operations and businesses of Royal Dutch Shell. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements are statements of future expectations that are based on management’s current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in these statements. Forward-looking statements include, among other things, statements concerning the potential exposure of Royal Dutch Shell to market risks and statements expressing management’s expectations, beliefs, estimates, forecasts, projections and assumptions. These forward-looking statements are identified by their use of terms and phrases such as “aim”, “ambition”, ‘‘anticipate’’, ‘‘believe’’, ‘‘could’’, ‘‘estimate’’, ‘‘expect’’, ‘‘goals’’, ‘‘intend’’, ‘‘may’’, ‘‘objectives’’, ‘‘outlook’’, ‘‘plan’’, ‘‘probably’’, ‘‘project’’, ‘‘risks’’, “schedule”, ‘‘seek’’, ‘‘should’’, ‘‘target’’, ‘‘will’’ and similar terms and phrases. There are a number of factors that could affect the future operations of Royal Dutch Shell and could cause those results to differ materially from those expressed in the forward-looking statements included in this announcement, including (without limitation): (a) price fluctuations in crude oil and natural gas; (b) changes in demand for Shell’s products; (c) currency fluctuations; (d) drilling and production results; (e) reserves estimates; (f) loss of market share and industry competition; (g) environmental and physical risks; (h) risks associated with the identification of suitable potential acquisition properties and targets, and successful negotiation and completion of such transactions; (i) the risk of doing business in developing countries and countries subject to international sanctions; (j) legislative, fiscal and regulatory developments including regulatory measures addressing climate change; (k) economic and financial market conditions in various countries and regions; (l) political risks, including the risks of expropriation and renegotiation of the terms of contracts with governmental entities, delays or advancements in the approval of projects and delays in the reimbursement for shared costs; (m) risks associated with the impact of pandemics, such as the COVID-19 (coronavirus) outbreak; and (n) changes in trading conditions. No assurance is provided that future dividend payments will match or exceed previous dividend payments. All forward-looking statements contained in this announcement are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Readers should not place undue reliance on forward-looking statements. Additional risk factors that may affect future results are contained in Royal Dutch Shell’s Form 20-F for the year ended December 31, 2019 (available at www.shell.com/investor and www.sec.gov). These risk factors also expressly qualify all forward-looking statements contained in this announcement and should be considered by the reader. Each forward-looking statement speaks only as of the date of this announcement, September 30, 2020. Neither Royal Dutch Shell plc nor any of its subsidiaries undertake any obligation to publicly update or revise any forward-looking statement as a result of new information, future events or other information. In light of these risks, results could differ materially from those stated, implied or inferred from the forward-looking statements contained in this announcement.

We may have used certain terms, such as resources, in this announcement that the United States Securities and Exchange Commission

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