Shell second quarter 2020 update note

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

Unless otherwise indicated, presented post-tax earnings impacts relate to earnings on a current cost of supplies basis, attributable to shareholders, excluding identified items.

In addition, given the impact of COVID-19 and the ongoing challenging commodity price environment, Shell continues to adapt to ensure the business remains resilient. In light of this, Shell is announcing today a revised long-term commodity prices and margin outlook, which is expected to result in non-cash impairments in the second quarter results. Details of the outlook and impairments are provided in the later part of this document.

Integrated Gas

- Production is expected to be between 880 and 910 thousand barrels of oil equivalent per day
- LNG liquefaction volumes are expected to be between 8.1 and 8.5 million tonnes
- Additional well write-offs in the range of $250 to $350 million are expected compared with the second quarter 2019. No cash impact is expected in the second quarter
- Deferred tax charges are expected to have a negative impact on earnings in the range of $100 to $200 million. No cash impact is expected in the second quarter
- Trading and optimisation results are expected to be below average
- As previously communicated, more than 90% of our term contracts for LNG sales in 2019 were oil price linked with a price-lag of typically 3-6 months. Consequently, the impact of lower oil prices on LNG margins became more prominent from June onwards
- CFFO in Integrated Gas can be impacted by margining resulting from movements in the forward commodity curves. Margining inflows are not expected to be significantly different from those received in the first quarter 2020

Upstream

- Production is expected to be between 2,300 and 2,400 thousand barrels of oil equivalent per day. Although this production range is higher compared with the outlook previously provided, it has had a limited impact on earnings in the current macro environment
- Updates related to receivables and inventory provisions are expected to have a negative earnings impact in the range of $200 to $400 million compared with the second quarter 2019. No cash impact is expected in the second quarter
- As previously communicated, CFFO is expected to be negatively impacted by the Lula unitisation settlement in Brazil of around $500 million, for which the earnings impact was recognised in the third quarter 2018
- While earnings are expected to show a loss, CFFO is not expected to reflect equivalent cash tax receipts due to the build-up of deferred tax positions in a number of countries. Additionally, due to phasing impacts, tax payments are expected in the second quarter

Oil Products

- Refinery utilisation is expected to be between 67% and 71%
- Realised gross refining margins are expected to be significantly lower compared with the first quarter 2020 and are expected to be offset by higher trading and optimisation results
- Oil Products sales volumes are expected to be between 3,500 and 4,500 thousand barrels per day, driven by a significant drop in demand related to the impact of COVID-19
- Updates related to receivables provisions are expected to have a negative earnings impact in the range of $200 to $300 million. No cash impact is expected in the second quarter
- Working capital in Oil Products are typically impacted by movements between the quarter opening and closing price of crude along with changes in inventory volumes. Inventory volumes are expected to be higher compared with the end of the first quarter 2020, impacting working capital negatively

Chemicals

- Chemicals manufacturing plant utilisation is expected to be between 75% and 79%
- Chemicals sales volumes are expected to be between 3,400 and 3,700 thousand tonnes

Corporate

- Corporate segment earnings excluding identified items are expected to be a net expense at the lower end of the $800 to $875 million range for the second quarter. This excludes the impact of currency exchange rate effects
- CFFO is expected to be impacted by a working capital outflow in respect of margining and settlement of operational foreign exchange instruments

Revised commodity price and margin outlook and impairments

In the second quarter 2020, Shell has revised its mid and long-term price and refining margin outlook reflecting the expected effects of the COVID-19 pandemic and related macroeconomic as well as energy market demand and supply fundamentals. This has resulted in the review of a significant portion of Shell's Upstream, Integrated Gas and Refining tangible and intangible assets.

The Refining asset valuation updates reflect Shell's strategy to reshape and focus its refining portfolio to support the decarbonization of its energy product mix, leveraging assets and value chains in key markets. The Upstream and Integrated Gas asset valuation updates, including of related exploration and evaluation assets, are largely driven by the change in long-term prices with some impacts due to a changed view on the development attractiveness. A revision in the decommissioning and restoration provision discount rate assumption from 3% to 1.75%, reflecting a lower interest rate environment, has impacted the asset values tested for impairment.

- The following price and margin outlook have been assumed for impairment testing:
  - Brent: $35/bbl (2020), $40/bbl (2021), $50/bbl (2022), $60/bbl (2023) and long-term $60 (real terms 2020)
  - Henry Hub: $1.75/MMBtu (2020), $2.5/MMBtu (2021 and 2022), 2.75/MMBtu (2023) and long-term $3.0/MMBtu (real terms 2020)
  - Average long-term refining margins revised downwards by around 30% from previous midcycle downstream assumption
- Based on these reviews, aggregate post-tax impairment charges in the range of $15 to $22 billion are expected in the second quarter. Impairment charges are reported as identified items and no cash impact is expected in the second quarter. Indicative breakdown per segment is as follows:
  - Integrated Gas $8 – $9 billion, primarily in Australia including partial impairment of QGC and Prelude
  - Upstream $4 – $6 billion, largely in Brazil and North America Shales
  - Oil Products $3 – $7 billion across the refining portfolio
- These impairments are expected to have a pre-tax impact in the range of $20 to $27 billion. No impairment charge on Goodwill is expected to be recorded in the second quarter
- Impairment calculations are being progressed: the range and timing of the recognition of impairments in the second quarter are uncertain and assessments are currently ongoing
- The revised outlook for commodity prices and refining margins could impact overall deferred tax positions, which will be reviewed after the finalisation of the operating plan later in 2020

Other

- Gearing is expected to increase by up to 3% due to the impairments. Additional impacts to reported gearing levels are expected due to pensions revaluations associated with the current interest rate environment along with other usual quarterly movements
- As per previous disclosures, CFFO price sensitivity at Shell Group level is still estimated to be $6 billion per annum for each $10 per barrel Brent price movement
  - Note that this price sensitivity is indicative, is most applicable to smaller price changes than those in the current environment and in relation to the full-year results. This excludes short-term impacts from working capital movements and cost-of-sales adjustments
- In order to enhance our disclosures and market communications, a quarterly press release will be published as of the second quarter 2020, in addition to the quarterly unaudited results. The quarterly press release will provide a summary of key messages and key performance drivers and should not be considered in isolation from, or a substitute for, financial information presented in compliance with Generally Accepted Accounting Principles (GAAP). To further simplify market communications, with effect from the second quarter, “CCS earnings attributable to shareholders excluding identified items” will be renamed to “Adjusted earnings” while the definition remains unchanged

Consensus

The consensus collection for quarterly earnings and CFFO excluding working capital movements, managed by VARA research, is scheduled to be opened for submission on July 8, 2020, closed on July 22, 2020, and made public on July 23, 2020.

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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 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, June 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 (SEC) strictly prohibits us from including in our filings with the SEC. 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.

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