

# Royal Dutch Shell plc

## Consolidated Interim Report 2005



Royal Dutch Shell's income attributable to shareholders for the first half of 2005 was \$11,911 million, an increase of 39% compared to a year ago. These are good financial results and reflect a continuing focus on our business strategy of more upstream and profitable downstream.

The first half of the year was characterised by strong operational performance and cash generation. Performance was particularly strong in Oil Products and the upstream businesses benefited from high prices. The programme to reshape the portfolio continues at good pace and there were encouraging successes in exploration in the first half of 2005. We continue to work on improving the delivery of major projects.

Basic earnings per share for the Shell Group in the first half of 2005 were \$1.77, an increase of 39% compared to a year ago. Basic current cost of supplies (CCS) earnings per share were \$1.51, an increase of 28% compared to a year ago. The return on average capital employed\*, on a reported income attributable to shareholders basis, was 23.6%.

Net cash from operating activities was \$15,002 million compared to \$13,310 million a year ago. Capital investment in the first half of 2005 was \$7,375 million, including the minority interest in Sakhalin. Of this, \$5,866 million was spent in upstream and \$1,509 million in downstream and other activities.

Proceeds from divestments were \$1.7 billion. Our cash position remains exceptionally strong.

### Exploration & Production

Exploration & Production earnings were \$5,700 million compared to \$4,562 million a year ago, an increase of 25%. This reflected higher realised prices partly offset by lower volumes and higher costs including depreciation. Segment earnings included net charges of \$190 million, mainly from a \$442 million charge related to the mark-to-market valuation of certain UK gas contracts and net tax charges partly offset by divestment gains, compared to net charges of \$226 million a year ago.

Hydrocarbon production in the first half of 2005 was 3,684 thousand barrels of oil equivalent (boe) per day. Excluding the impact of divestments of 19 thousand boe per day and the end of a Production Sharing Contract in the Middle East of 108 thousand boe per day, total production was flat compared to a year ago.

The focus on exploration will continue and expenditure is being increased to \$1.8 billion a year in 2005 and 2006. A number of new opportunities were also secured including an agreement with PetroChina to develop the Changbei gas field; the award of exploration rights in the Carnarvon Basin offshore Western Australia; and the signing of an integrated gas deal with the Libyan National Oil Corporation relating to the redevelopment of a liquefied natural gas (LNG) facility and exploration rights in the Sirte Basin.

### Gas & Power

Gas & Power earnings of \$487 million for the first half of 2005 were 43% lower than a year ago. These results included net charges of \$178 million mainly related to the expected divestment of power generation assets held through the joint venture InterGen. Segment earnings of \$856 million for the first half of 2004 included divestment gains of \$184 million. Excluding these items, earnings in 2005 were similar to a year ago.

Higher earnings from higher LNG prices and volumes were more than offset by loss of earnings as a result of divestment and other items such as lower trading and LNG shipping results. LNG sales volumes were up 8% as a result of the expansion in the North West Shelf project in Australia which came on stream in late 2004, although partially offset by planned major plant shut downs elsewhere.

Shell's leading position in LNG was further strengthened with progress in the construction of new trains in Nigeria and Oman; the start of the engineering and design phase of the Gorgon gas projects in Australia; and agreement with Qatar Petroleum to develop a new integrated LNG project that will produce 7.8 million tonnes a year. Subsequent to the first half of 2004, divestments of assets held through InterGen and Shell's interests in Gasunie transportation assets in the Netherlands were agreed and have since been completed.

### Oil Products

Oil Products CCS segment earnings were \$3,908 million compared to \$2,729 million for the first half of 2004. Higher earnings due to strong refining margins and increased trading results were partially offset by lower marketing earnings.

Industry refining margins increased in the USA and Asia Pacific leading to higher earnings in the first half of 2005 compared to the same period last year. Refining margins benefited from strong demand and wide differentials between light and heavy crude. Refinery intake declined overall but increased comparatively after adjusting for divestments over the past year. Global refinery utilisation was up from the first half of 2004 as a result of lower planned and unplanned downtime.

Marketing earnings declined in the first half of 2005 compared to the same period last year. In the first quarter, retail marketing margins in the USA came under pressure from rising product costs that could not be fully recovered in the marketplace. Margins in the commercial fuels business also declined for the same reason. Lubricants earnings declined compared to the first half of 2004. Marketing sales volumes declined mainly as a result of divestments in 2004 and the first quarter of 2005.

## Chemicals

Chemicals earnings were \$708 million and included an impairment of the investment in Basell of \$214 million, as well as legal and environmental charges of some \$80 million. Earnings were \$596 million in the first half of 2004. Sales volumes were 5% lower and mainly reflected a planned reduction in lower-margin volumes, which had a minimal impact on earnings.

Higher earnings reflected higher margins, especially in the first quarter of 2005, and improved operating rates compared to a year ago. With effect from the first quarter of 2005, earnings from the polyolefins joint venture Basell, which was held for sale, were no longer included in the results.

## Other industry segments, Corporate and Minority interest

Other industry segments, Corporate and Minority interest earnings resulted in a loss of \$627 million in the first half of 2005 compared to a loss of \$749 million in the first half of 2004. Corporate net costs were \$327 million compared to \$462 million in the comparable period last year.

## Cash flow

Cash flow from operating activities, excluding net working capital movements and taxation paid/accrued, was \$17,762 million, compared to \$13,778 million a year ago. Capital investment for the first half of 2005 was \$7,375 million (including the minority share of Sakhalin) of which \$5,063 million was invested in Exploration & Production. Gross proceeds from divestments were \$1.7 billion. Share purchases for cancellation for the year to date amounted to \$0.5 billion and were suspended during the second quarter to meet the requirements of the unification process of Royal Dutch Petroleum Company (Royal Dutch) and The "Shell" Transport and Trading Company, p.l.c. (Shell Transport).

## Dividends

On April 28, 2005 first quarter interim dividends were announced of €0.46 per share for Royal Dutch and 4.55p per share for Shell Transport. On July 28, 2005 second quarter interim dividends were announced of €0.23 (15.89p) per A and B shares for Royal Dutch Shell.

## Outlook

Royal Dutch Shell reaffirms the commitment previously made by Royal Dutch and Shell Transport to return surplus cash to shareholders for the year 2005 at the upper end of the range of \$3 to \$5 billion through market purchases of shares. The production outlook for 2005 and 2006 is unchanged at 3.5 to 3.8 million boe per day. The outlook for 2009 of 3.8 to 4.0 million boe per day is unchanged. Building on the successful exploration programme for the first half of 2005, the Group will increase exploration expenditure for the years 2005 and 2006 to \$1.8 billion a year. Shell's overall capital investment programme will reflect its recently announced new project opportunities such as LNG projects in Qatar, Nigeria and Libya, as well as market inflation specific to large construction projects and foreign exchange rate movements. The overall Shell investment programme for 2006 and beyond, including these projects and Sakhalin II, will be subject to review, consideration and approval by the Board later in 2005. The latest estimate for Shell's 2005 total capital investment, across all its business activities, remains some \$15 billion (excluding the investment by the 45% minority partners of Sakhalin II).

\* Return on average capital employed on an income basis is the sum of the current and previous three quarters' income attributable to shareholders plus interest, less tax and minority interest as a percentage of the average of the shareholders share of closing capital employed and the opening capital employed a year earlier. The tax rate and the minority interest components are derived from calculations at the published segment level.

## Summary results

	\$ million	
	Six months ended June 30	
	2005	2004 <sup>1</sup>
<b>Income attributable to Royal Dutch Shell shareholders</b>	<b>11,911</b>	<b>8,598</b>
Estimated current cost of supplies (CCS) adjustment for Oil Products segment	1,735	604
<b>CCS earnings*</b>	<b>10,176</b>	<b>7,994</b>
Cash from operating activities	15,002	13,310
Cash from operating activities excluding net working capital movements and taxation paid/accrued	17,762	13,778
Capital investment	7,375	6,542
Upstream production (thousand boe per day)	3,684	3,821

\* To facilitate a better understanding of underlying business performance, the financial results are also analysed on an estimated CCS basis as applied for the Oil Products segment earnings. Earnings on an estimated current cost of supplies basis provide useful information concerning the effect of changes in the cost of supplies on Royal Dutch Shell's results of operations but are not a measure of financial performance under IFRS. On this basis, Oil Products segment cost of sales of the volumes sold during the period is based on the cost of supplies during the same period after making allowance for the estimated tax effect, instead of the first-in-first-out (FIFO) method of inventory accounting. The adjustment from income to an estimated current cost of supplies basis has no related balance sheet entry. Earnings calculated on this basis do not represent an application of the last-in, first-out (LIFO) inventory basis and do not reflect any inventory draw down effects.

## Segment earnings

	\$ million	
	Six months ended June 30	
	2005	2004 <sup>1</sup>
Exploration & Production	5,700	4,562
Gas & Power	487	856
Oil Products (CCS basis)	3,908	2,729
Chemicals	708	596
Other industry segments, Corporate and Minority interest	(627)	(749)
<b>CCS earnings</b>	<b>10,176</b>	<b>7,994</b>

## Summarised statement of income

	\$ million	
	Six months ended June 30	
	2005	2004 <sup>1</sup>
Sales proceeds	191,451	154,628
Less: Sales taxes, excise duties and similar levies	36,651	35,228
Revenue	154,800	119,400
Cost of sales	128,029	99,297
Gross profit	26,771	20,103
Selling and distribution expenses	6,312	5,936
Administrative expenses	1,144	1,113
Exploration	509	1,000
Share of profit of equity accounted investments	2,653	2,242
Net finance costs and other (income)/expense	109	(43)
<b>Income before taxation</b>	<b>21,350</b>	<b>14,339</b>
Taxation (includes UK taxation of \$982 million, 2004; \$533 million)	8,869	5,485
<b>Income from continuing operations</b>	<b>12,481</b>	<b>8,854</b>
Income from discontinued operations	(214)	42
<b>Income for the period</b>	<b>12,267</b>	<b>8,896</b>
Attributable to minority interest	356	298
Income for the period attributable to shareholders	11,911	8,598
Basic earnings per share:		
Income per share (\$)	1.77	1.27
CCS earnings per share (\$)	1.51	1.18
Diluted earnings per share:		
Income per share (\$)	1.77	1.26
CCS earnings per share (\$)	1.51	1.18

<sup>1</sup> The summarised financial information for 2004 has been restated to reflect the transition from the previously applied generally accepted accounting principles (US GAAP) to International Financial Reporting Standards (IFRS) as of January 1, 2005. Reconciliations and descriptions of the effect of the transition from US GAAP to IFRS on equity, income and cash flows were presented on April 21, 2005 and can be found at [www.shell.com/investor](http://www.shell.com/investor) under Quarterly results - 2004. As part of the Group's adoption of IFRS, the following elections were made under IFRS 1 First-time Adoption of IFRS as at January 1, 2004:

- cumulative currency translation differences were eliminated by transfer to retained earnings;
- cumulative previously unrecognised actuarial gains and losses on post-employment benefits were recognised;
- prior business combinations have not been restated; and
- IFRS 2 Share-based Payment has only been applied to options issued after November 7, 2002 and not vested by January 1, 2005.

The policies have been consistently applied to all periods presented except for those relating to the classification and measurement of financial instruments to the extent that IFRS differs from US GAAP. The Group has also taken the exemption available under IFRS 1 to only apply IAS 32 and IAS 39 from January 1, 2005.

## Statement of changes in equity

	Shareholders equity	Minority interest	Total equity
<b>At December 31, 2004</b>	86,070	5,313	<b>91,383</b>
IAS 32/39 transition	796	-	<b>796</b>
<b>At January 1, 2005</b>	86,866	5,313	<b>92,179</b>
Income for the period	11,911	356	<b>12,267</b>
Income/(expense) recognised directly in equity	(3,908)	38	<b>(3,870)</b>
Dividends	(6,785)	(105)	<b>(6,890)</b>
Other changes	(255)	638	<b>383</b>
<b>At June 30, 2005</b>	<b>87,829</b>	<b>6,240</b>	<b>94,069</b>

## Summarised balance sheet

	\$ million	
	June 30, 2005	June 30, 2004 <sup>1</sup>
Non-current assets:		
Property, plant and equipment	84,816	84,440
Intangible assets	4,403	4,380
Investments	22,080	22,531
Deferred tax	2,961	3,038
Other	6,731	5,232
	120,991	119,621
Current assets:		
Inventories	18,566	14,545
Accounts receivable	51,420	32,505
Cash and cash equivalents	11,520	3,244
	81,506	50,294
<b>Total assets</b>	<b>202,497</b>	<b>169,915</b>

## Summarised balance sheet continued

	June 30, 2005	\$ million June 30, 2004 <sup>1</sup>
Non-current liabilities:		
Debt	7,905	9,673
Deferred tax	12,807	13,225
Employee benefit obligations	6,239	6,939
Other	10,801	10,022
	<b>37,752</b>	<b>39,859</b>
Current liabilities:		
Debt	5,479	6,867
Accounts payable and accrued liabilities	52,678	33,040
Taxes payable	10,789	8,835
Other	1,730	1,478
	<b>70,676</b>	<b>50,220</b>
<b>Total liabilities</b>	<b>108,428</b>	<b>90,079</b>
Equity attributable to:		
Royal Dutch shareholders	87,829	75,688
Minority interest	6,240	4,148
<b>Total equity</b>	<b>94,069</b>	<b>79,836</b>
<b>Total liabilities and equity</b>	<b>202,497</b>	<b>169,915</b>

## Summarised statement of cash flows

	\$ million	
	Six months ended June 30 2005	2004 <sup>1</sup>
Income for the period	12,267	8,896
Adjustment for:		
Taxation accrued	9,397	6,087
Interest accrued	364	534
Depreciation, depletion and amortisation	6,291	5,947
(Profit)/loss on sale of assets	(751)	(675)
Decrease/(increase) in net working capital	(3,469)	(2,003)
Share of profit of equity accounted investments	(2,439)	(2,284)
Dividends received from equity accounted investments	2,507	1,872
Deferred taxation and other provisions	(534)	(290)
Other	57	(222)
<b>Cash flow from operating activities (pre-tax)</b>	<b>23,690</b>	<b>17,862</b>
Taxation paid	(8,688)	(4,552)
<b>Cash flow from operating activities</b>	<b>15,002</b>	<b>13,310</b>
Capital expenditure	(6,670)	(5,719)
Proceeds from sale of assets	1,498	853
Other proceeds from sales and (additions)	51	452
Interest received	367	185
<b>Cash flow from investing activities</b>	<b>(4,754)</b>	<b>(4,229)</b>
Net increase/(decrease) in debt	(699)	(3,107)
Interest paid	(529)	(426)
Change in minority interest	803	588
Dividends paid	(7,515)	(4,532)
Treasury shares: net sales/(purchases) and dividends received	274	(424)
<b>Cash flow from financing activities</b>	<b>(7,666)</b>	<b>(7,901)</b>
<b>Currency translation differences relating to cash and cash equivalents</b>	<b>(263)</b>	<b>(43)</b>
Increase in cash and cash equivalents	2,319	1,137
Cash and cash equivalents at beginning of period	9,201	2,107
Cash and cash equivalents at end of period	11,520	3,244

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All amounts shown in this Consolidated Interim Report are unaudited.

This announcement contains forward-looking statements that are subject to risk factors associated with the oil, gas, power, chemicals and renewables businesses. It is believed that the expectations reflected in these statements are reasonable, but may be affected by a variety of variables which could cause actual results, trends or reserves replacement to differ materially, including, but not limited to: price fluctuations, actual demand, currency fluctuations, drilling and production results, reserve estimates, loss of market, industry competition, environmental risks, physical risk, risks associated with the identification of suitable potential acquisition properties and targets and the successful negotiation and consummation of transactions, the risk of doing business in developing countries, legislative, fiscal and regulatory developments including potential litigation and

regulatory effects arising from recategorisation of reserves, economic and financial market conditions in various countries and regions, political risks, project delay or advancement, approvals and cost estimates.

Please refer to the Royal Dutch and Shell Transport Annual Report on Form 20-F/A (Amendment No.1) for the year ended December 31, 2004 for a description of certain important factors, risks and uncertainties that may affect Royal Dutch Shell businesses. Royal Dutch Shell does not undertake any obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information, future events or otherwise.

The companies in which Royal Dutch Shell plc directly and indirectly owns investments are separate entities. The expressions "Shell", "Group" and "Shell Group" are sometimes used for convenience where references are made to Group companies in general. Likewise, the words "we", "us" and "our" are also used to refer to Group companies in general or those who work for them. These expressions are also used where there is no purpose in identifying specific companies.