Shell LNG Outlook 2021

Royal Dutch Shell

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01

02

03

Gas and LNG have a key role to play in a decarbonising world

2020 saw new net-zero emissions (NZE) announcements at both national and regional levels. Natural gas can help lower overall emissions, whether in partnership with renewables to deliver a reliable energy choice or to power hard-to-electrify sectors. 65% of the growth in natural gas use in the next twenty years is expected to come from non-power sectors. LNG is expected to be the fastest growing source of natural gas.

LNG shows its resilience and flexibility in 2020

While COVID-19 derailed expected forecasts, LNG demand still grew with trade reaching 360 million tonnes in 2020. The industry reacted swiftly to changing market conditions, diverting cargoes to shifting demand centres and through adjusting supply. Prices remained volatile, hitting a record low before rebounding to record high in early 2021. New LNG supply investment decisions ground to a halt due to the pandemic-driven economic crisis.

Complementary spot and term contract structures and cleaner pathways to drive LNG growth

LNG demand is expected to grow steadily with a supply-demand gap estimated to emerge in the middle of the current decade. With an increasing number of buyers and suppliers, the industry has evolved to offer a wider choice of commercial structures to meet changing needs. Against a backdrop of increasing NZE targets, the industry will need to further innovate to offer cleaner energy supply.

01

Gas and LNG have a key role to play in a decarbonising world

Royal Dutch Shell

Three of the ten highest CO_2 emitting countries announce net-zero emissions (NZE) targets during 2020

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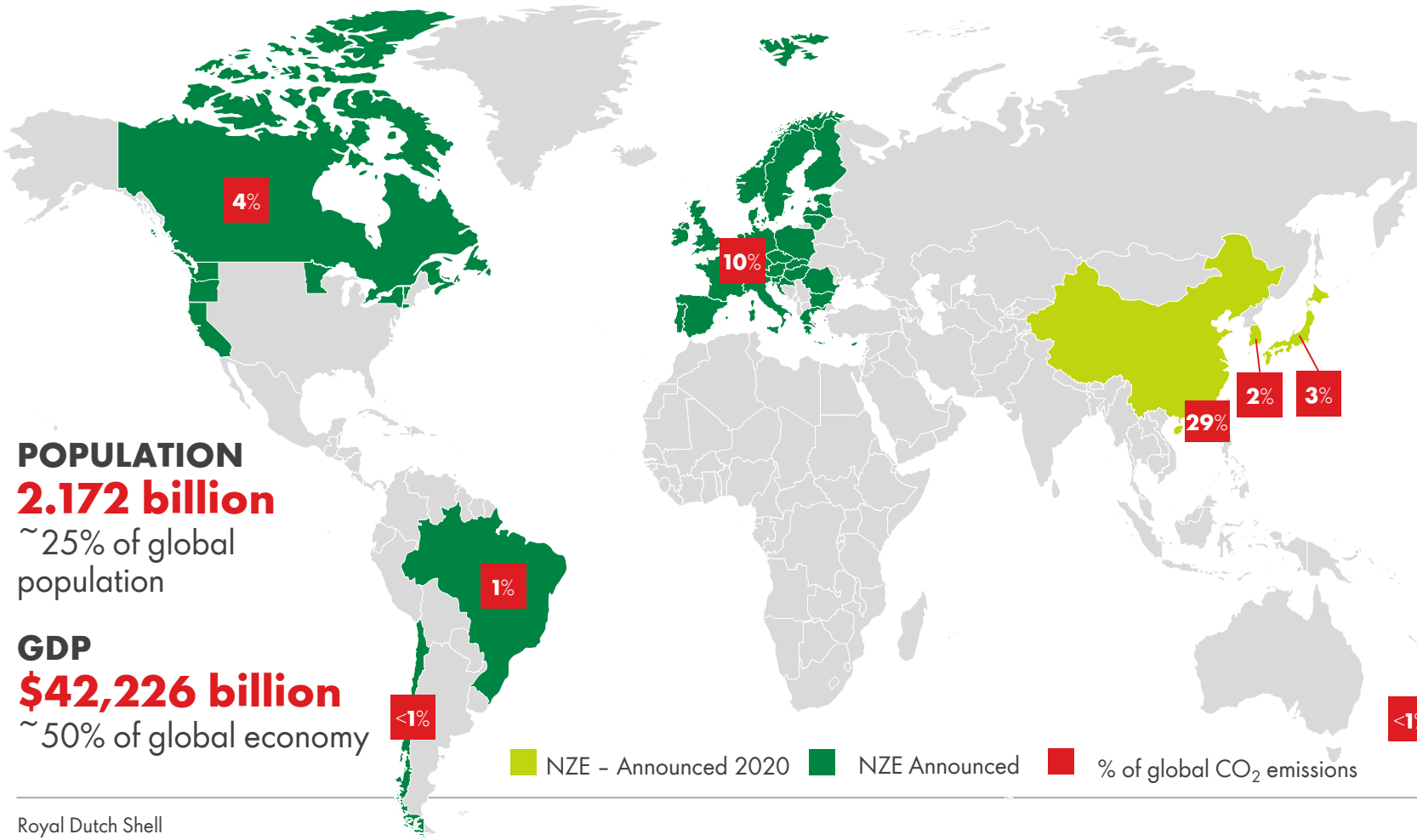
NZE announcements globally



POPULATION
2.172 billion
~25% of global population

GDP
$42,226 billion
~50% of global economy

South Korea 2030's energy outlook

24
coal-fired power plants to switch to LNG

PM2.5 REDUCTION
-57%

06
coal-fired power plants to shutdown

300%
increase in renewable capacity

Source: Shell interpretation of Global Carbon Atlas, National Policy announcements, UNFCC, Climate Action Tracker, World Bank, CDP and US Bureau of Economic Analysis and Ministry of Trade Industry and Energy South Korea 2019 and 2020 data

PM2.5: Particulate Matter 2.5 micrometres
Europe is EU 27+3, (Norway, Switzerland, UK)

Gas demand projected to grow and play a key role in decarbonising sectors

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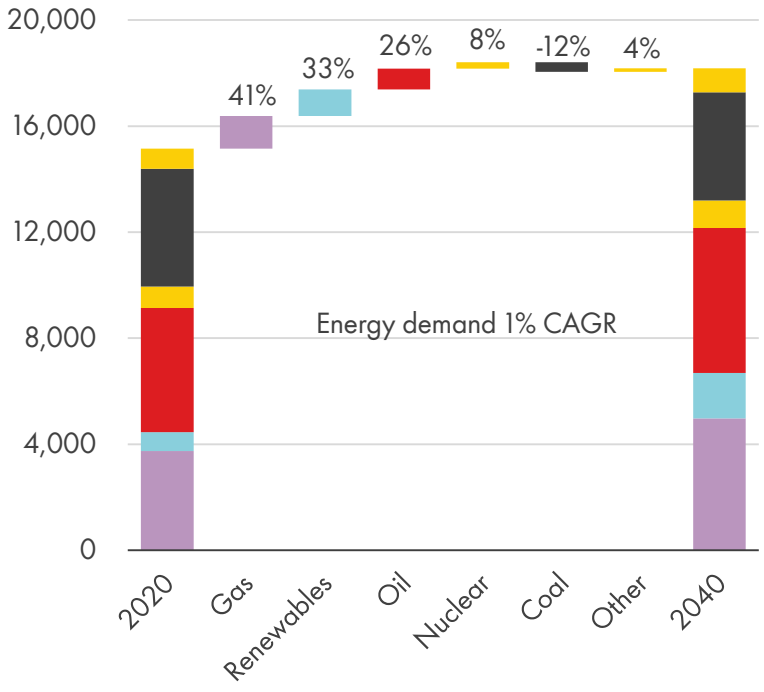
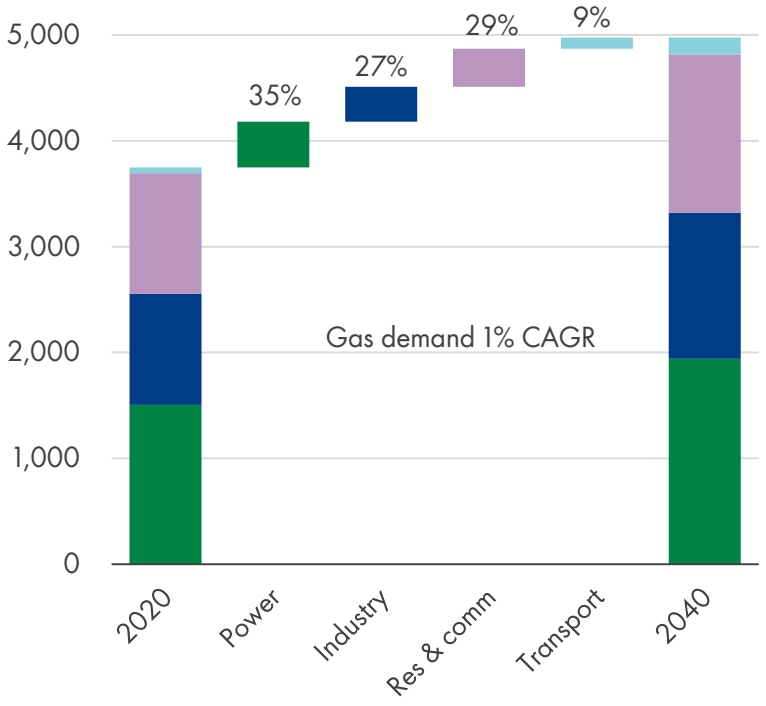
Global energy demand growth by fuel type

BCM



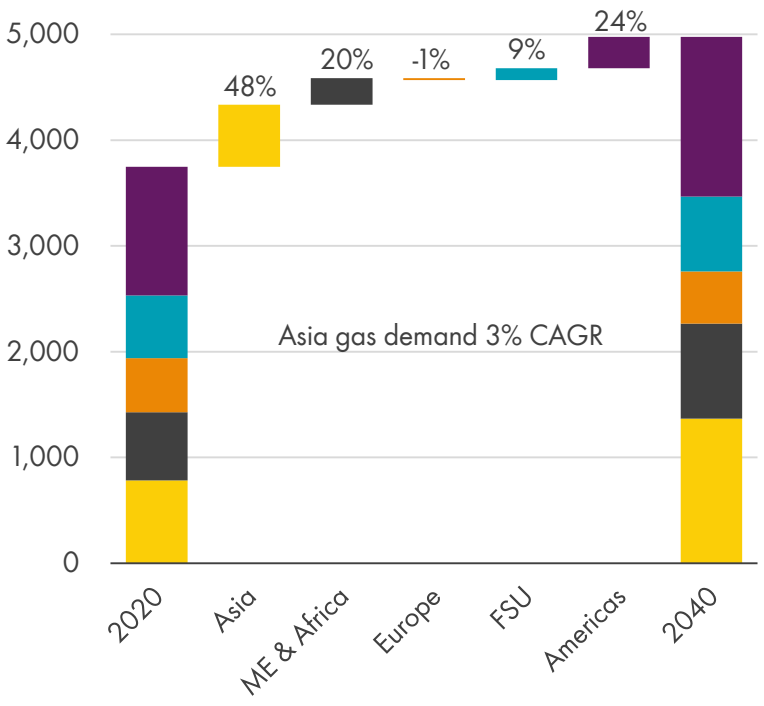
Global gas demand growth by sector

BCM



Global gas demand growth by region

BCM



Source: Shell interpretation of Wood Mackenzie H1 2020 data

CAGR - Compound annual growth rate Res & comm: Residential and Commercial

Gas is a reliable partner to renewable power and provides flexibility to meet seasonal heating demand

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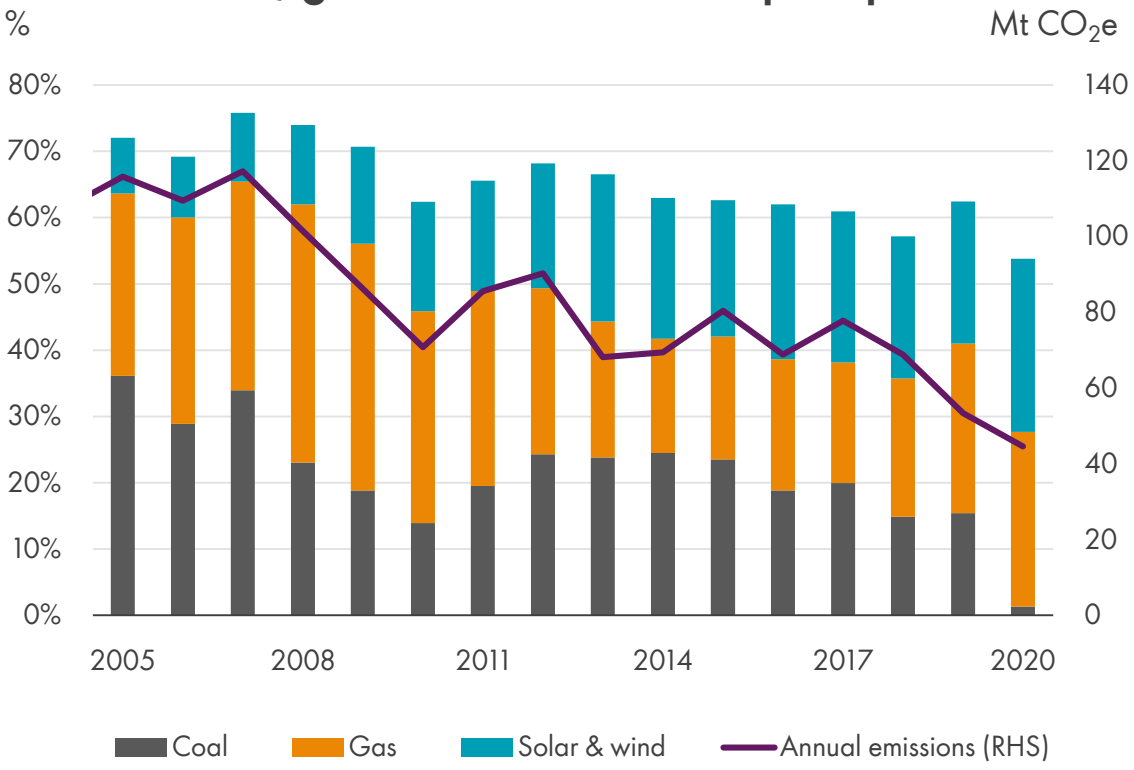
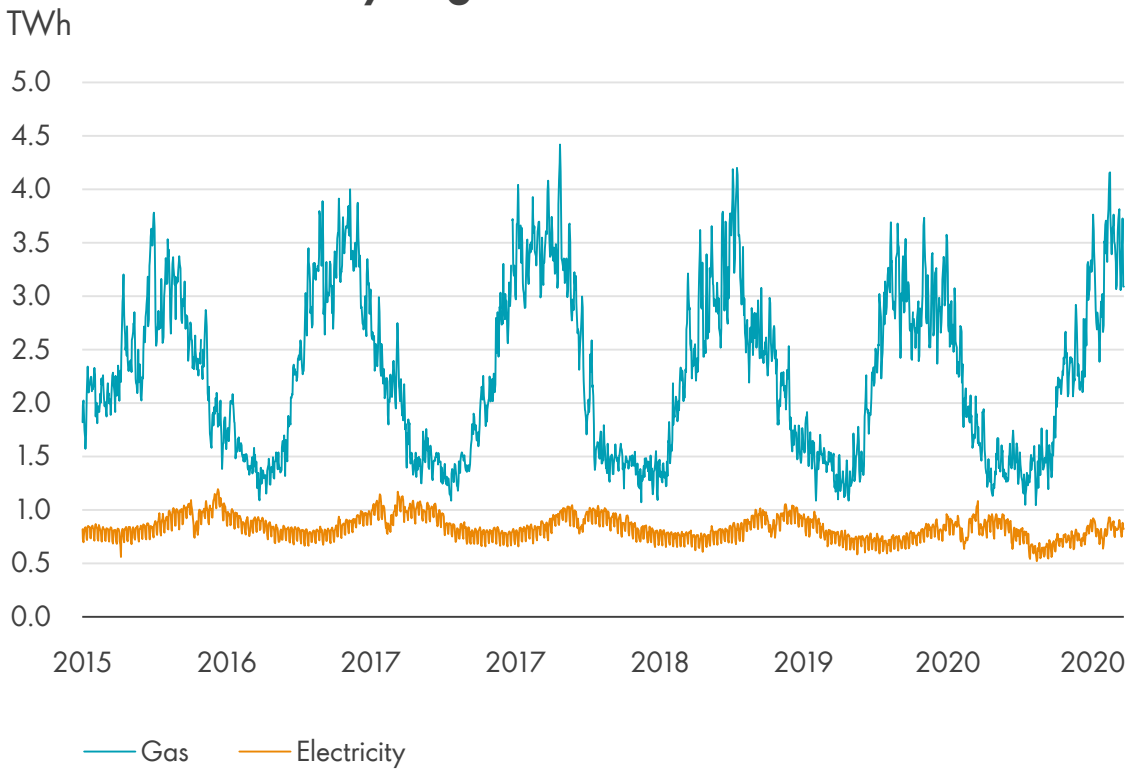
Share of coal, gas & renewables in Spain power sector



UK total electricity & gas demand



Source: Shell interpretation of Wood Mackenzie, IEA, Aurora Energy Research, National Grid, Grid Watch UK 2021 and Sustainable Gas Institute White Paper 5 2020 data

Gas enables reduction of industrial emissions

Iron and steel sector benefitting from coal-to-gas switching

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Benefits of using gas in the iron & steel sector

-36%
EMISSIONS

Coal-to-gas switching

36% CO_2 emissions saving through the use of natural gas, hydrogen and LNG for direct reduced iron (DRI) steel production

-85% -90%
EMISSIONS

Carbon capture & storage

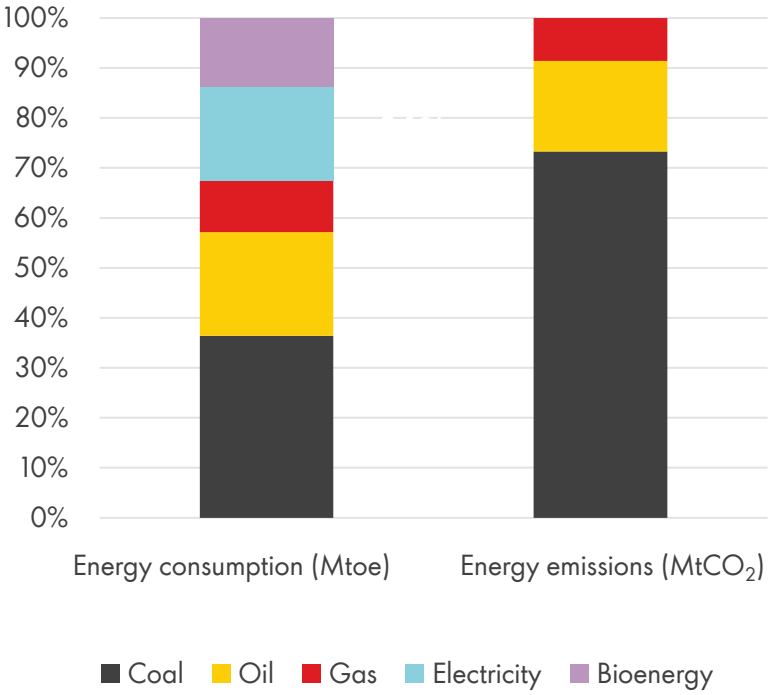
85-90% CO_2 emissions saving

-100%
EMISSIONS

Biogas & BECCS

86% CO_2 emissions reduction using electric arc furnace (EAF)*
Potentially negative when using biogas / bioenergy + CCS

2020 industrial energy use and emissions in India



Source: Shell interpretation of IEA ETP, Wood Mackenzie, worldsteel data 2020 data

* If electricity is sourced from renewable generation BECCS: Bioenergy carbon capture & storage Mtoe: Million tonnes of oil equivalent $MTCO_2$: Million tonnes CO_2

Uptake of gas in the road transport sector

Demand increasing as number of LNG-fuelled vehicles increase

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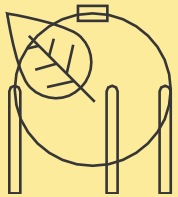
In 2020, China's road transport sector consumed nearly **13 million tonnes of LNG**

3,000+
LNG stations in China

300+
in 21 countries across Europe

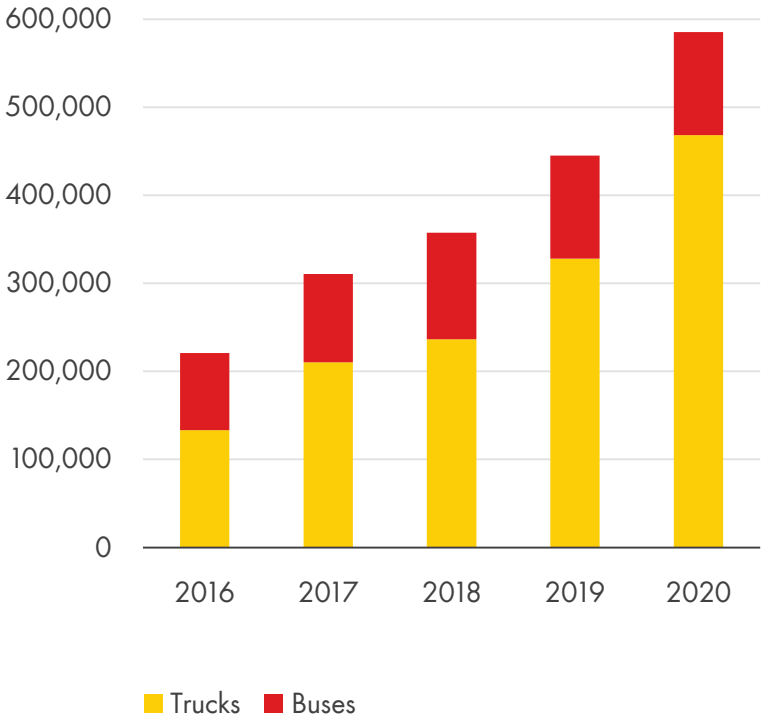


7.9 million tonnes
of LNG demand projected for road transport in Europe by 2030

40% of which is expected to be met with bio-LNG

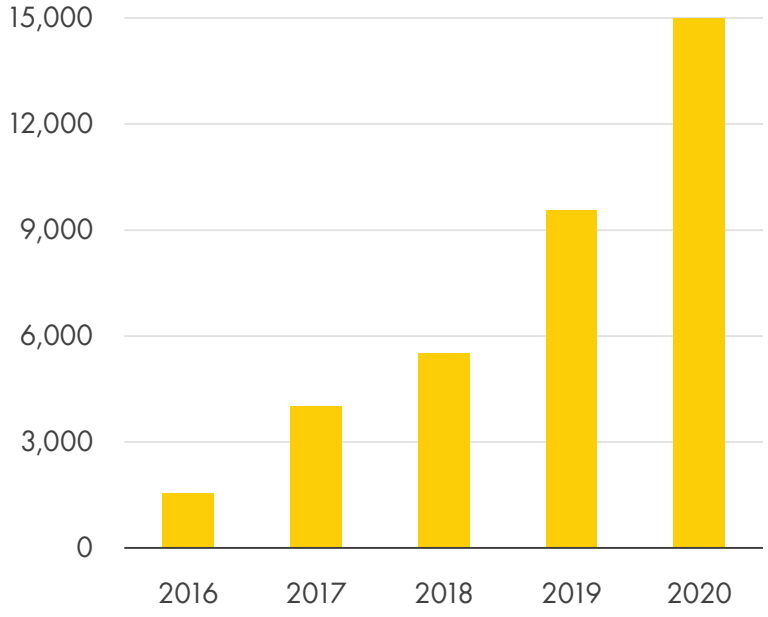
LNG-fuelled trucks & buses (China)

of vehicles



LNG-fuelled trucks (Europe)

of trucks



Source: Shell interpretation of NGVA 2020, Less Better, SCI China, CARTAC and other industry 2019 and 2020 data

Marine sector LNG demand grows as global bunkering infrastructure develops rapidly

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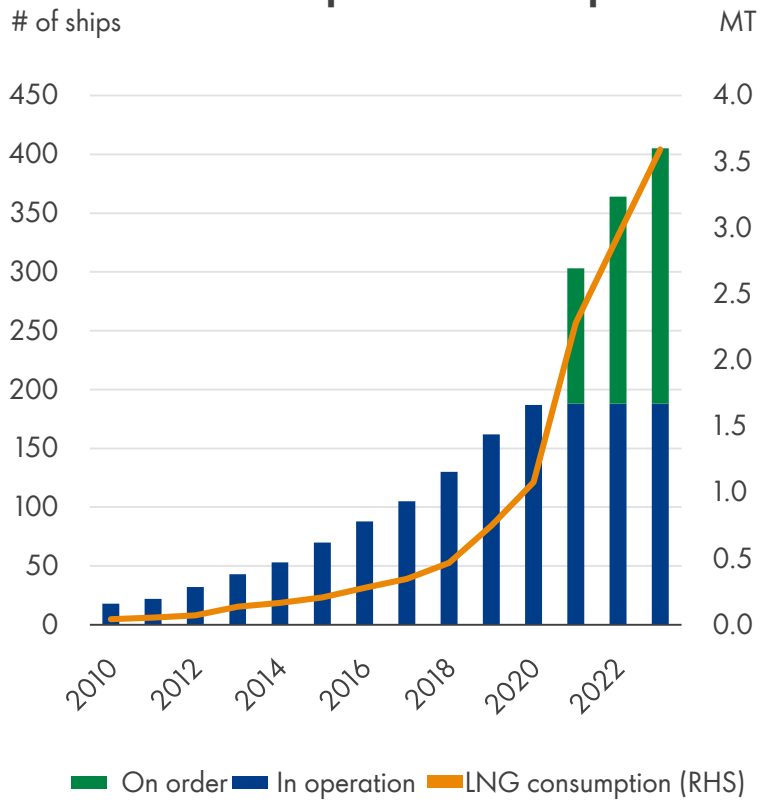
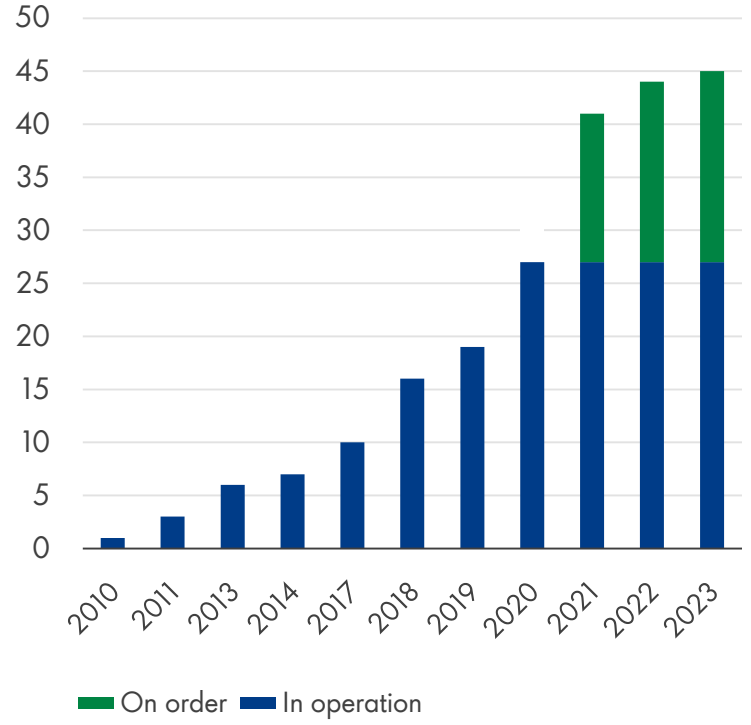
LNG fuelled ships & consumption



LNG bunker vessels



A choice of LNG enabling access to green financing

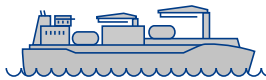
2017

Brittany Ferries
LNG-powered ferry Honfleur

2018

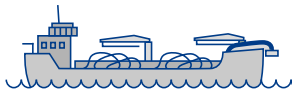
Sovcomflot
9 LNG-powered Aframax tankers

2019



MOL
18,600 cubic metre bunkering vessel

2020



Van Oord
3 LNG-powered dredging vessels

2021

Hapag Lloyd
6 LNG-powered containerships

Source: Shell interpretation of DNV GL 2020 data and various news reports

LNG to play a pivotal role in meeting gas demand growth, particularly in Asia

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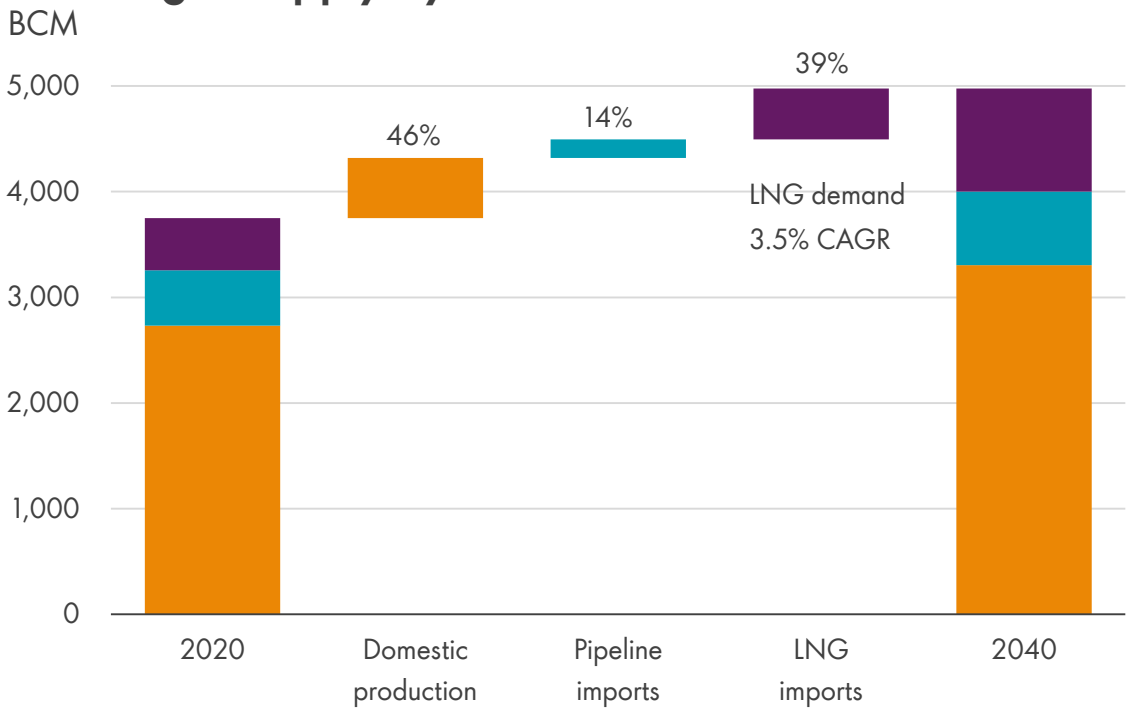
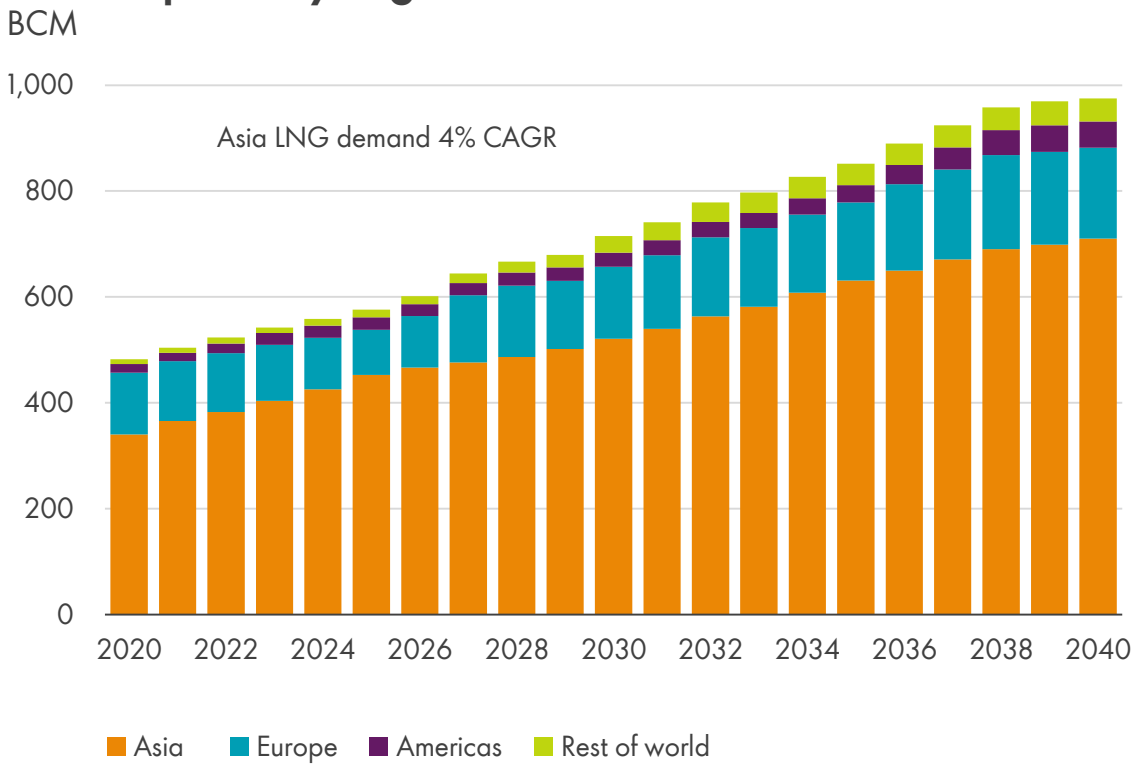
Global gas supply by source



LNG imports by region



Source: Shell interpretation of Wood Mackenzie H1 2020 data CAGR: Compound annual growth rate

02

LNG shows its resilience and flexibility in 2020

LNG shows resilience and flexibility in a rapidly changing environment

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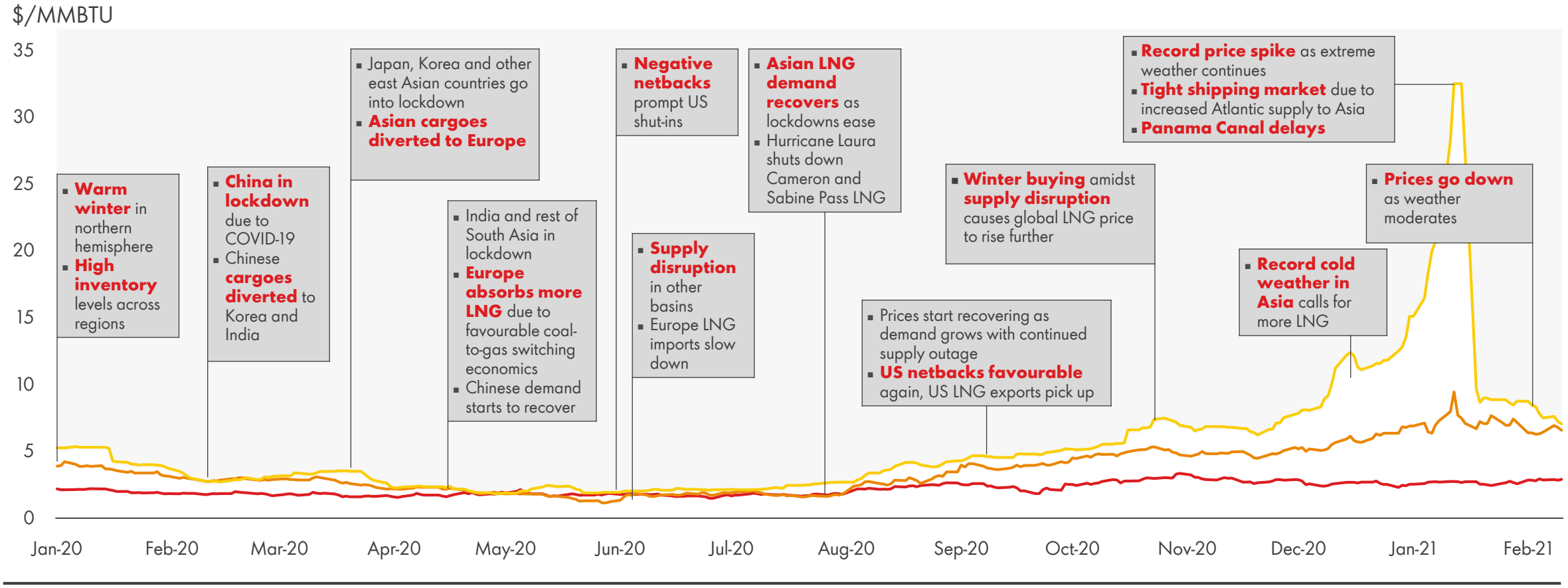

Source: Shell interpretation of ICE, CME, S&P Global Platts 2020 and 2021 data

2020 started with a well-supplied global gas and LNG market

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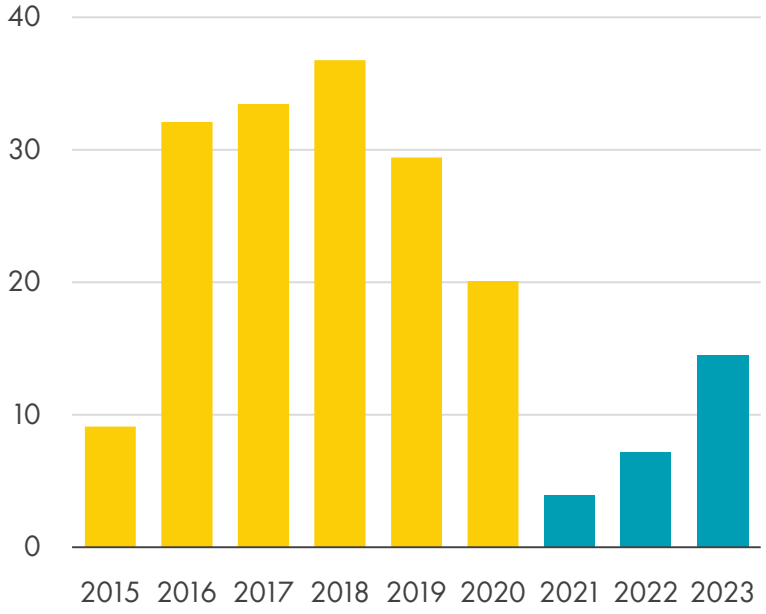
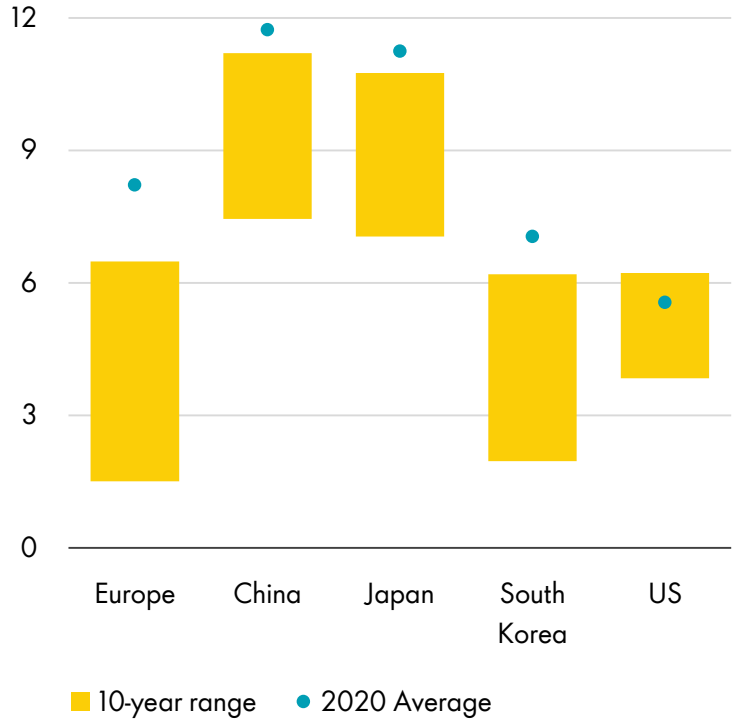
LNG liquefaction capacity additions

MT



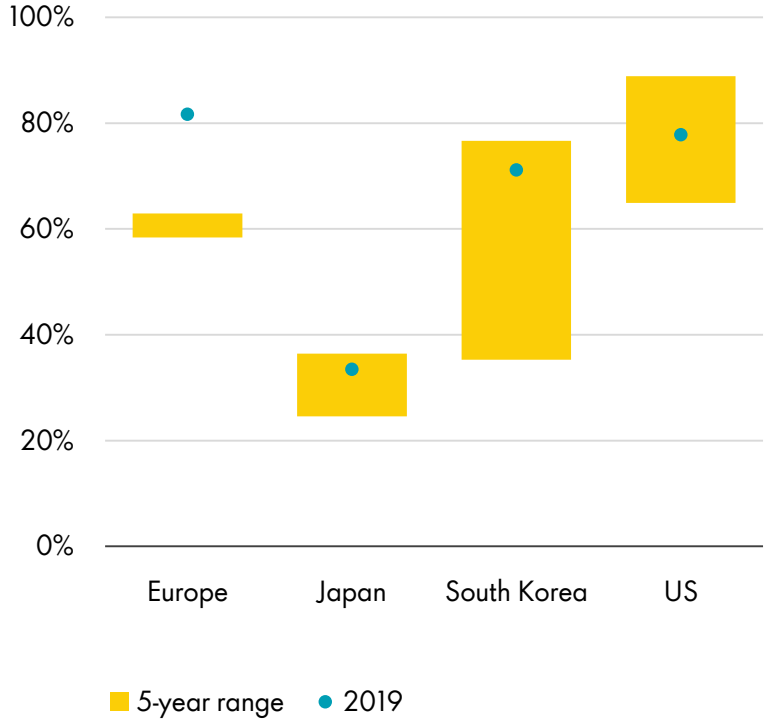
Winter* average temperature

Degrees Celsius



Gas/LNG storage level**

% utilisation



Source: Shell interpretation of IHS Markit, PIRA, AGSI, METI, KESIS and EIA 2020 data

*Winter months are from October through March. 2020 winter average from October 2019 to March 2020

**As of 31st December 2019

LNG demand continued to grow despite a global pandemic

China and India lead demand recovery

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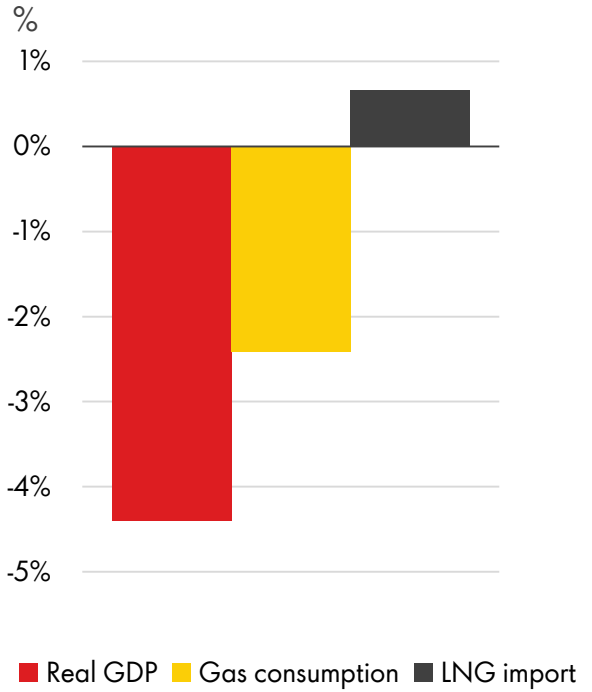
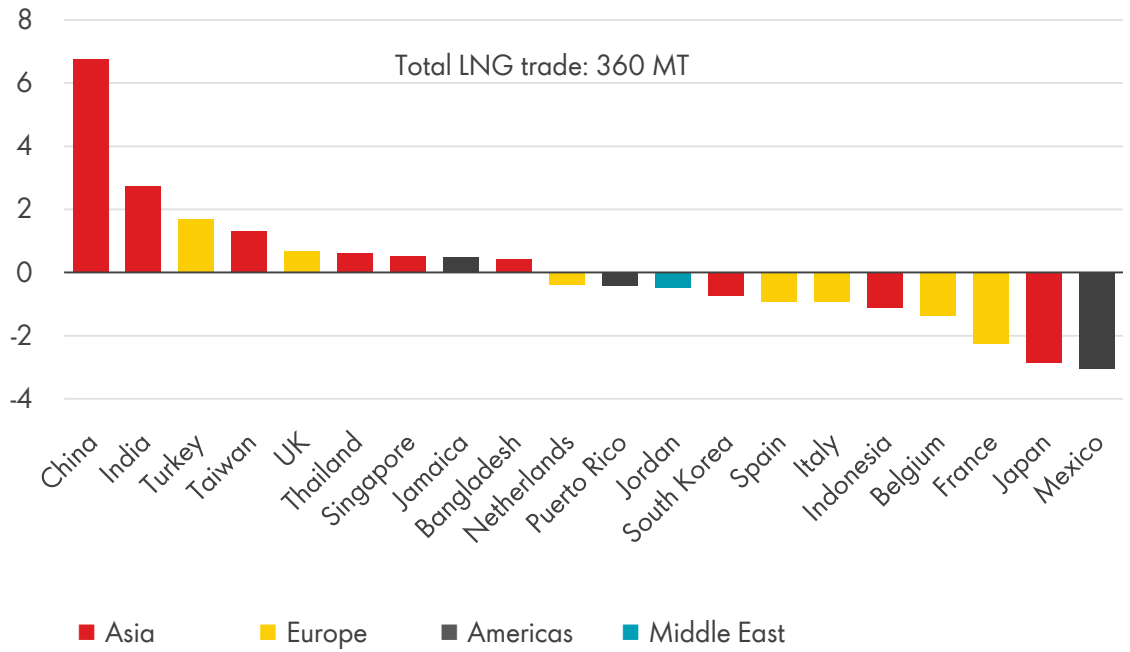
GDP, gas & LNG growth in 2020

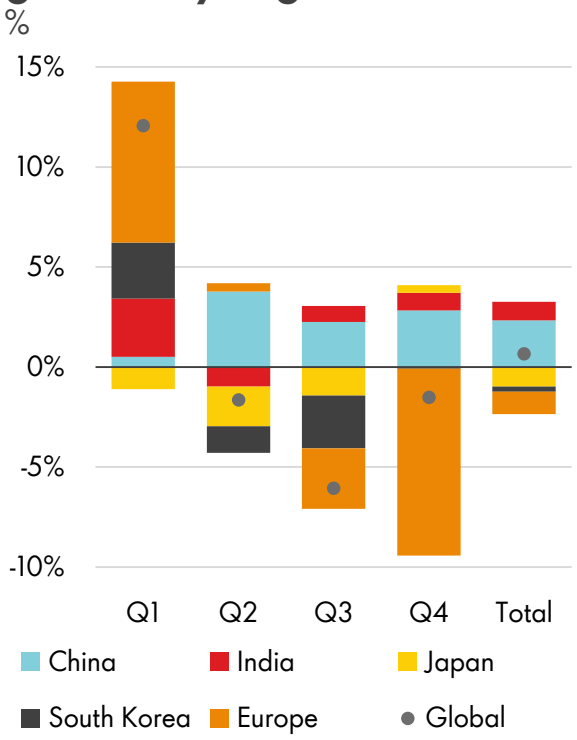


Net LNG imports: 2020 y-o-y

MT



2020 share of demand growth by region



Source: Shell interpretation of IHS Markit, customs, Kpler and International Monetary Fund 2020 data

LNG importers with minimal year-on-year change are not included in this chart

China gas demand growth remained resilient in 2020

Record Chinese LNG imports in December 2020

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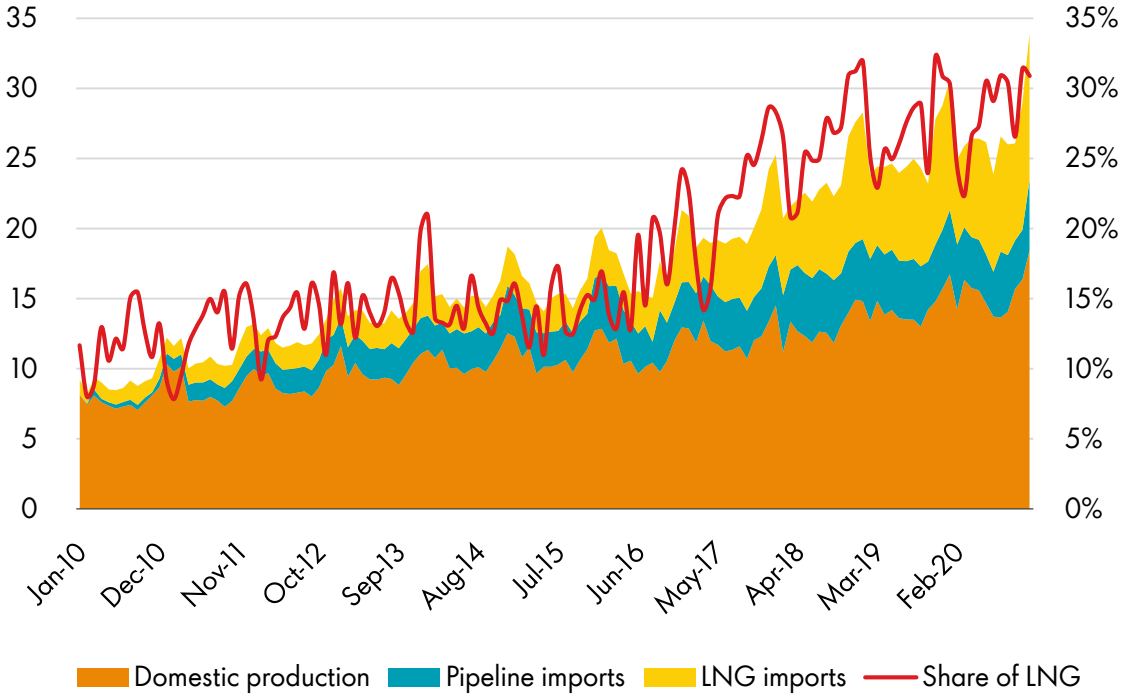
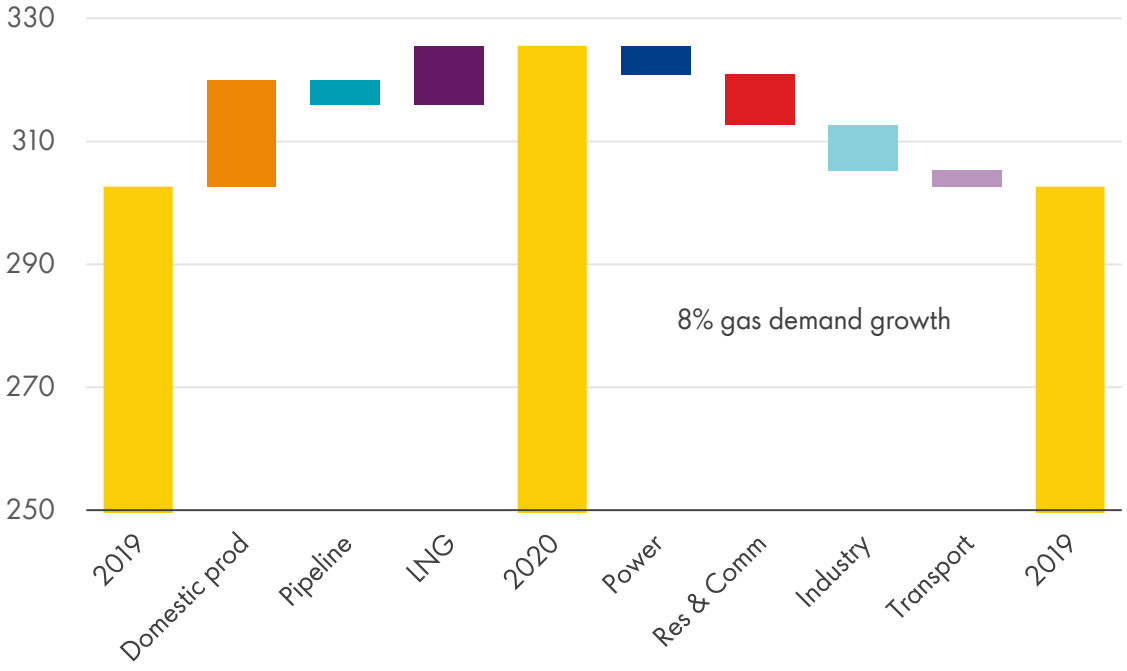
China domestic gas production & LNG demand

BCM



China gas supply & demand

BCM



Source: Shell interpretation of IHS Markit and Chinese customs 2020 data

Res & Comm: Residential and commercial Domestic Prod: Domestic Production

Lower-priced LNG results in 11% increase in Indian imports

LNG supplements reduced domestic gas production

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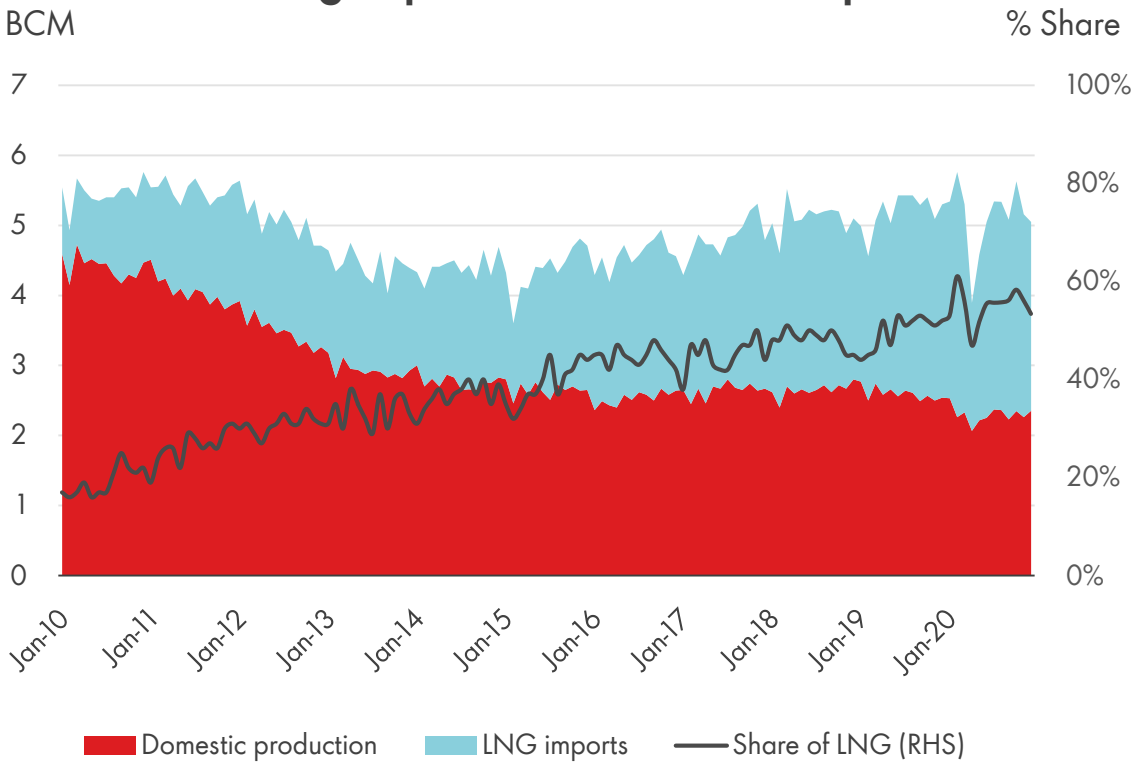
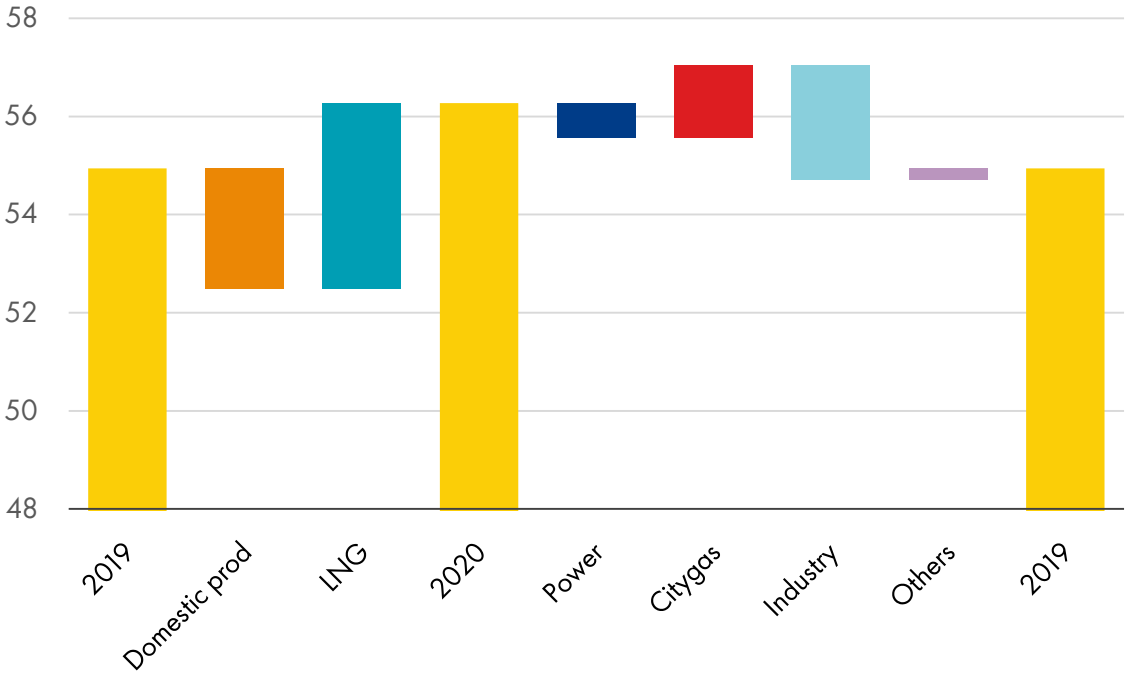
India domestic gas production & LNG imports



India gas supply & demand



Sources: Shell interpretation of Petroleum Planning and Analysis Cell (PPAC), Central Electricity Authority (CEA), IHS Markit and Kpler 2020 data

Flexibility in European gas supply sources helped with global LNG balance

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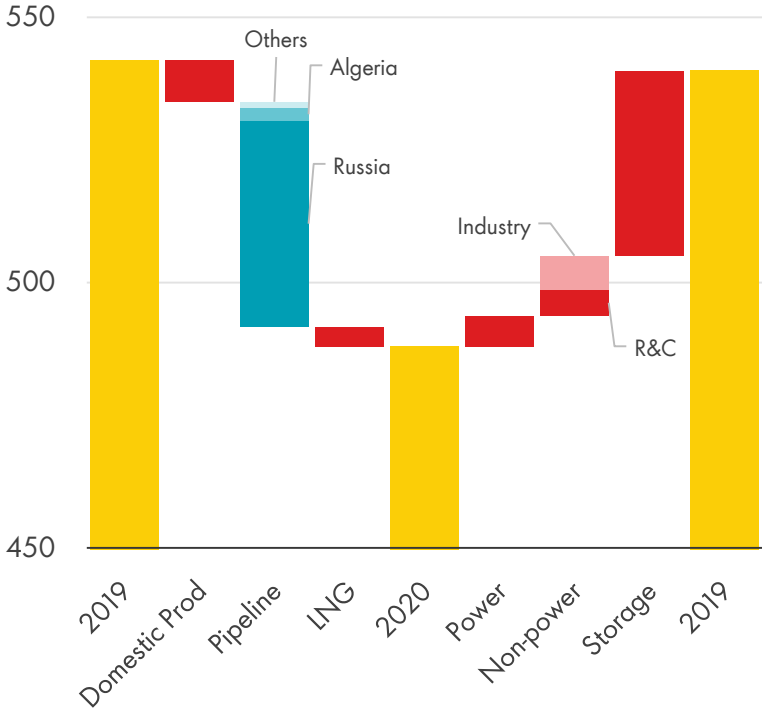
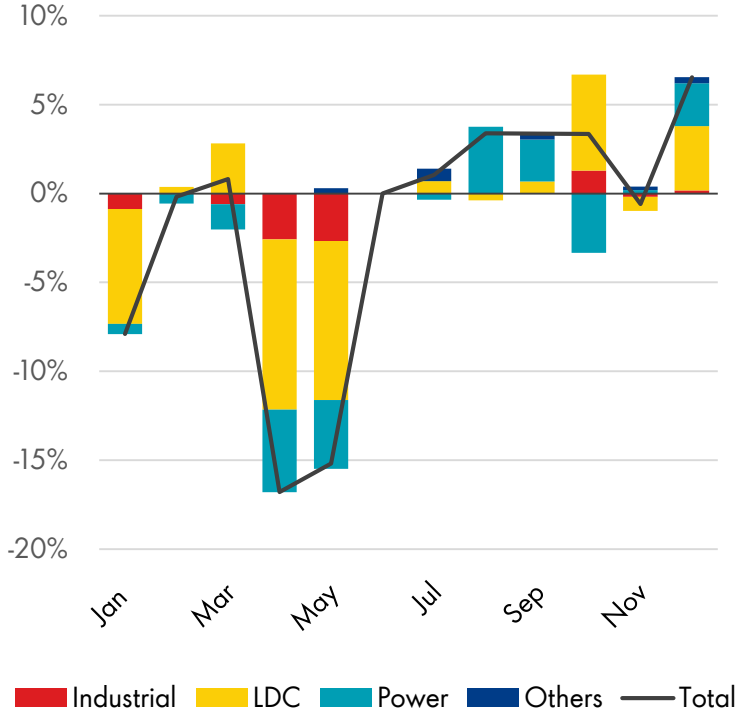
Europe gas supply & demand

BCM



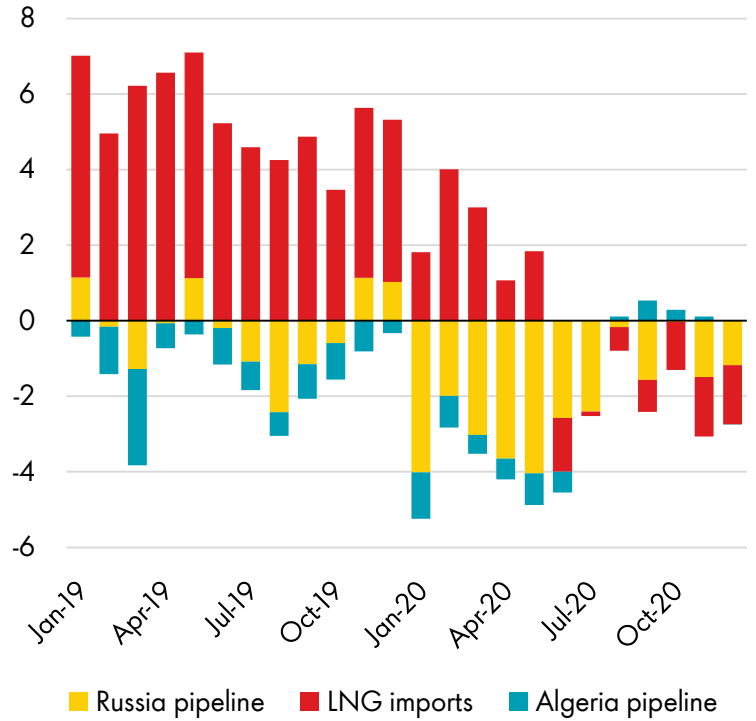
Europe gas demand growth y-o-y

%



Europe gas & LNG import growth

BCM



Source: Shell's interpretation of ENTSOG, Wood Mackenzie and European TSO 2020 data

LDC – Local distribution company R&C: Residential and commercial

Supply response to changing market conditions

US supply added volume and flexibility

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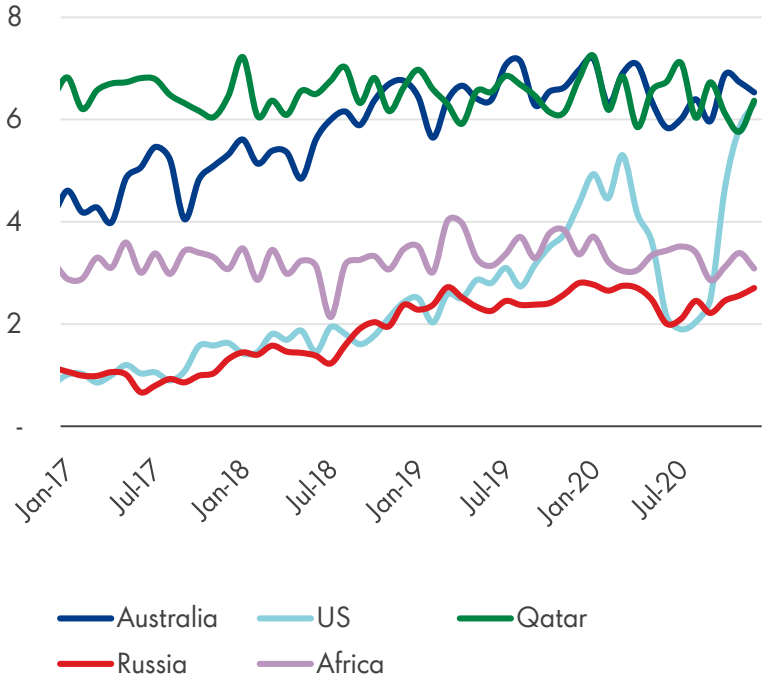
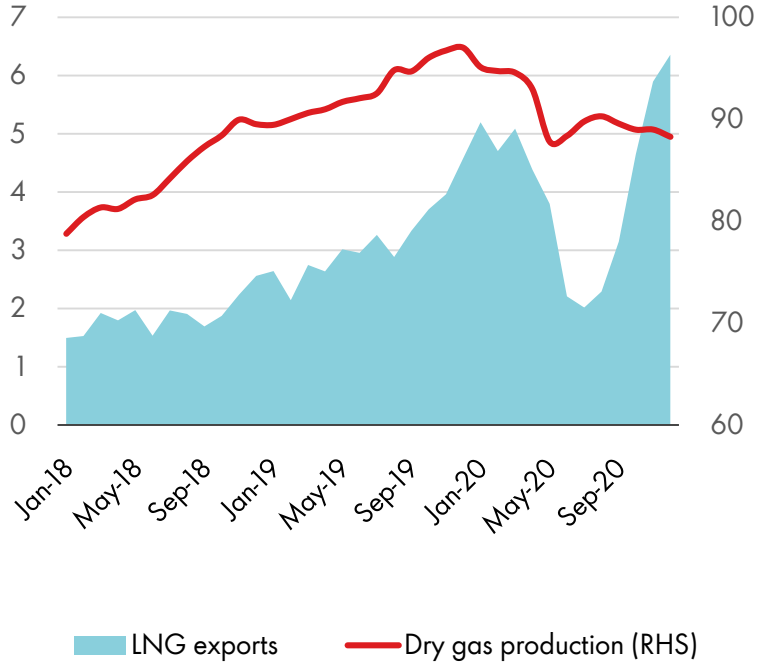
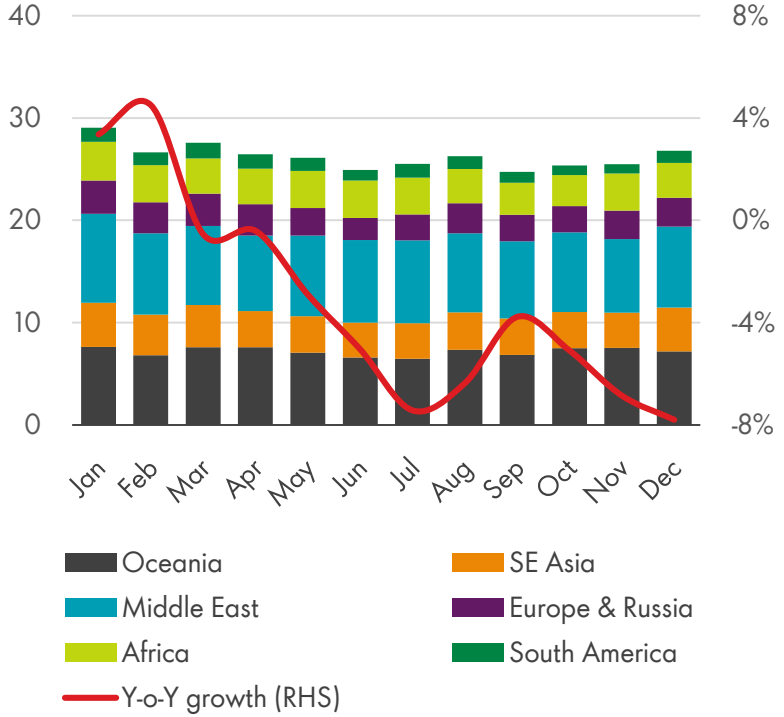
Major LNG exporters



US LNG exports



Non-US LNG supply



Source: Shell interpretation of Kpler, EIA and Wood Mackenzie 2020 data

Global LNG prices hit a record low before rebounding to hit a record high in January 2021

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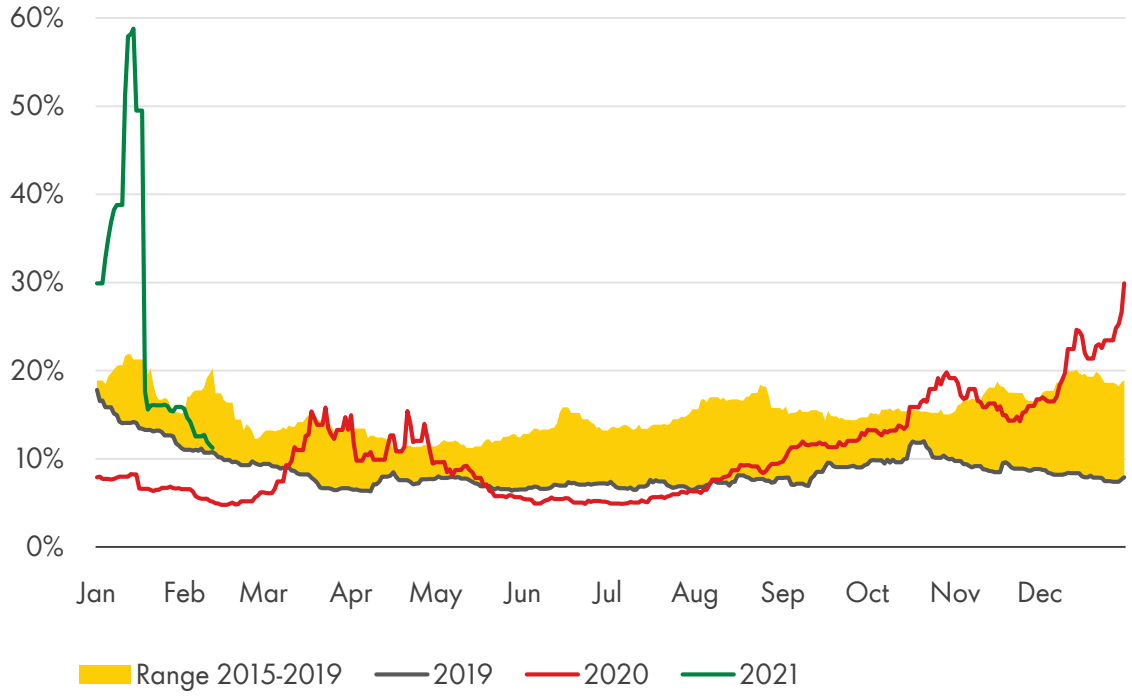
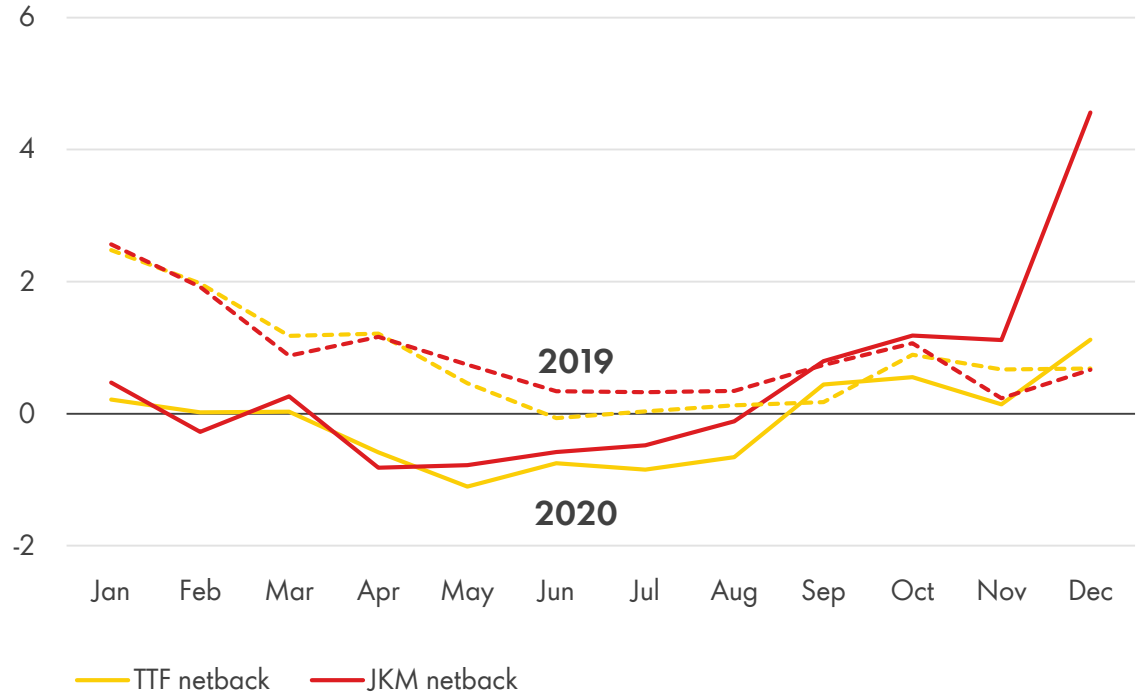
Asia spot price

JKM as % of Brent



US LNG export margins*

$/MMBTU



Source: Shell interpretation of ICE, CME, S&P Global Platts 2020 and 2021 data

*Excludes liquefaction fee; netback calculated as: JKM and TTF minus regasification and transportation cost minus 115% Henry Hub

A combination of structural issues and singular events caused the price rally

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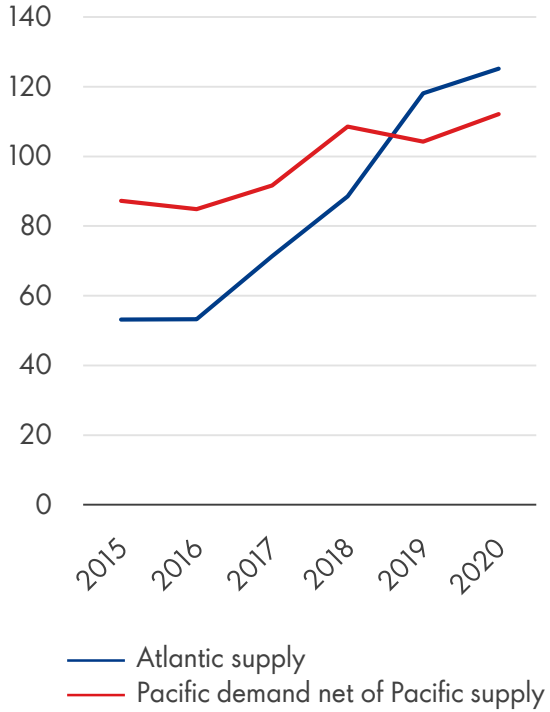
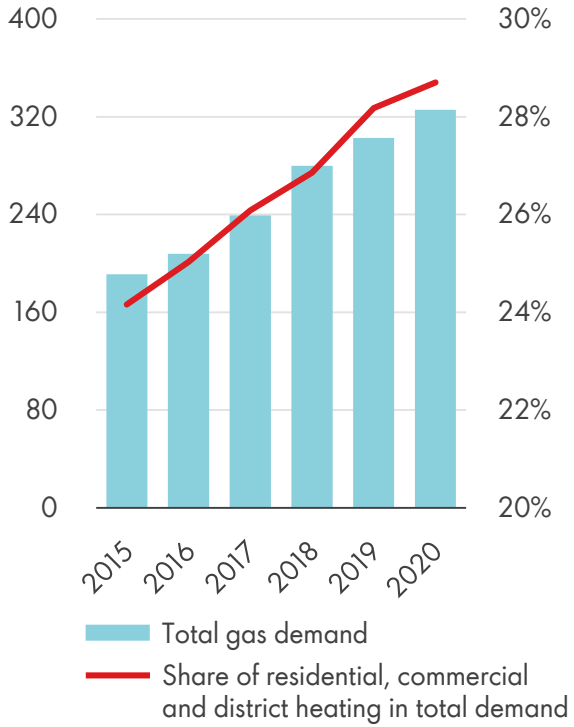
Regional supply & demand

MTPA



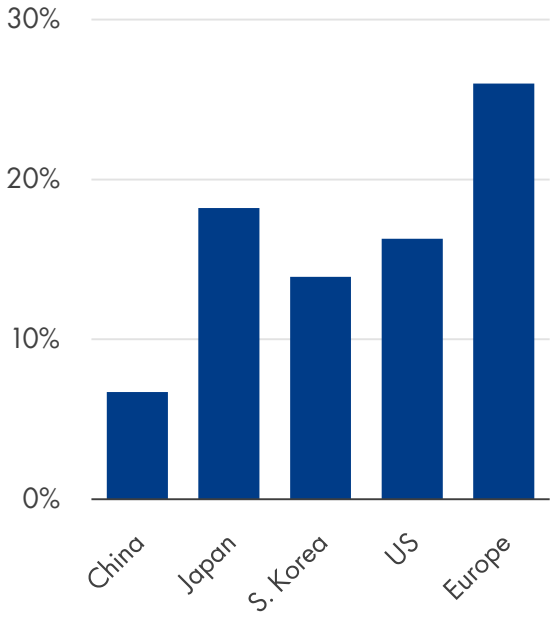
China heating demand

BCMA



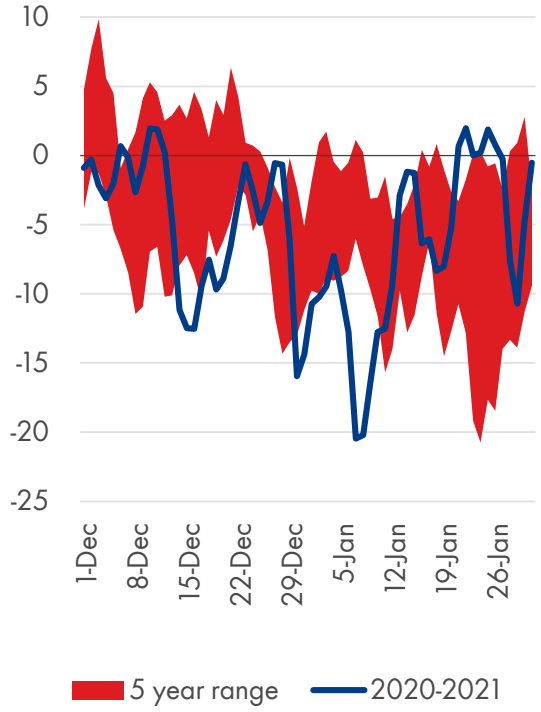
Gas storage capacity

Share of storage in total gas demand



North Asia temperature

Degrees Celsius



Source: Shell interpretation of IHS Markit, Wood Mackenzie and S&P Global Platts 2020 and 2021 data

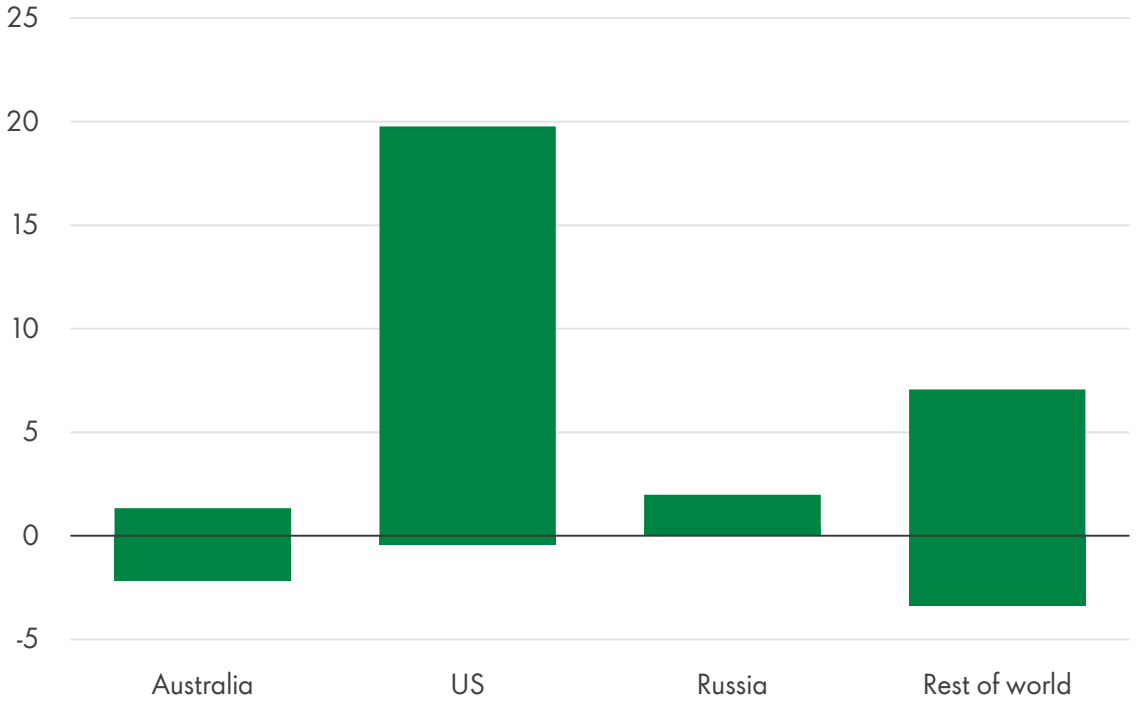
Asian LNG demand recovery projected to continue in 2021

LNG exports from the US expected to offer flexible supply

Shell LNG Outlook 2021

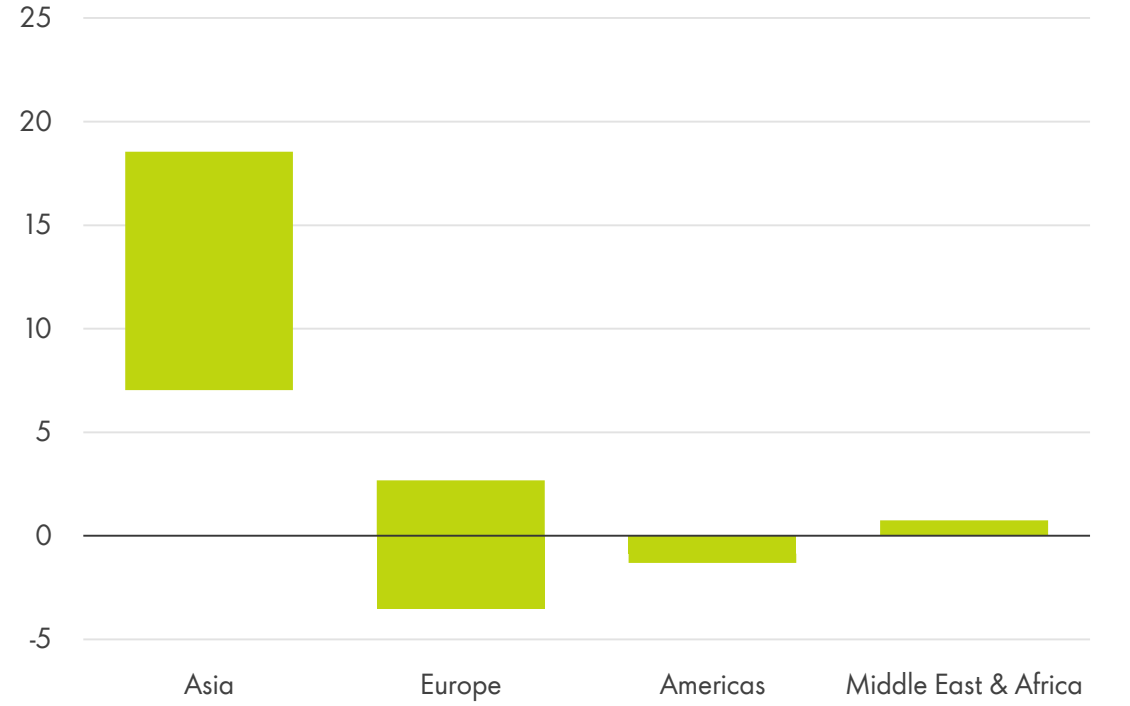
LNG supply growth range by country

MTPA



LNG demand growth range by region

MTPA



Source: Shell interpretation of IHS Markit and Wood Mackenzie 2020 data

LNG supply investment halts due to pandemic-related economic crisis

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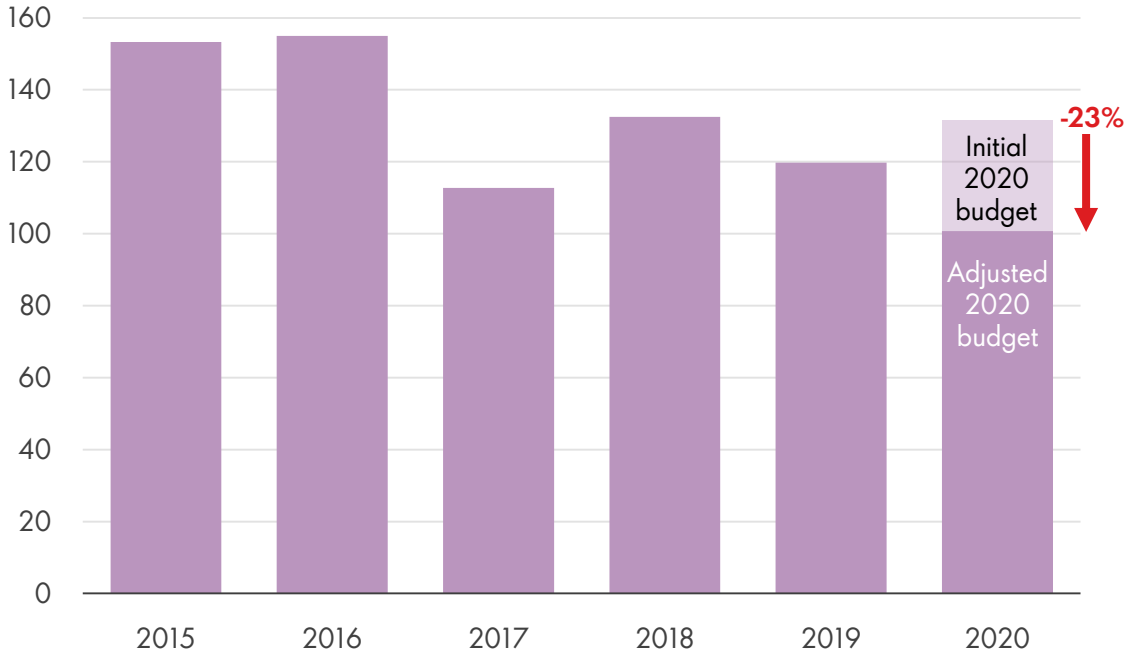
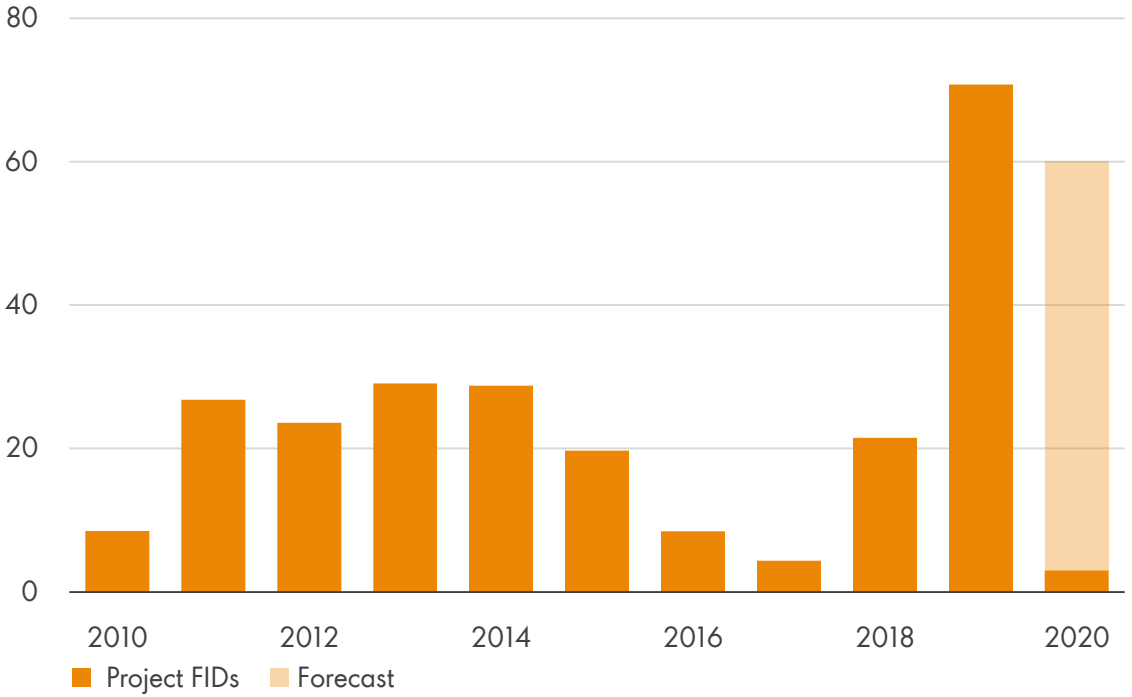
Oil & gas industry* capex spend

$billion



Investment in liquefaction capacity

MTPA



Source: Shell interpretation of IHS Markit and Wood Mackenzie 2020 data

*Industry represents estimated capital budgets of ExxonMobil, Shell, Chevron, Total, BP, Equinor and Eni, as calculated by Wood Mackenzie

03

Complementary spot and term contract structures and cleaner pathways to drive LNG growth

COVID-19 pandemic delays project construction timelines

Lasting impact expected on LNG supply not demand

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Global LNG supply forecast

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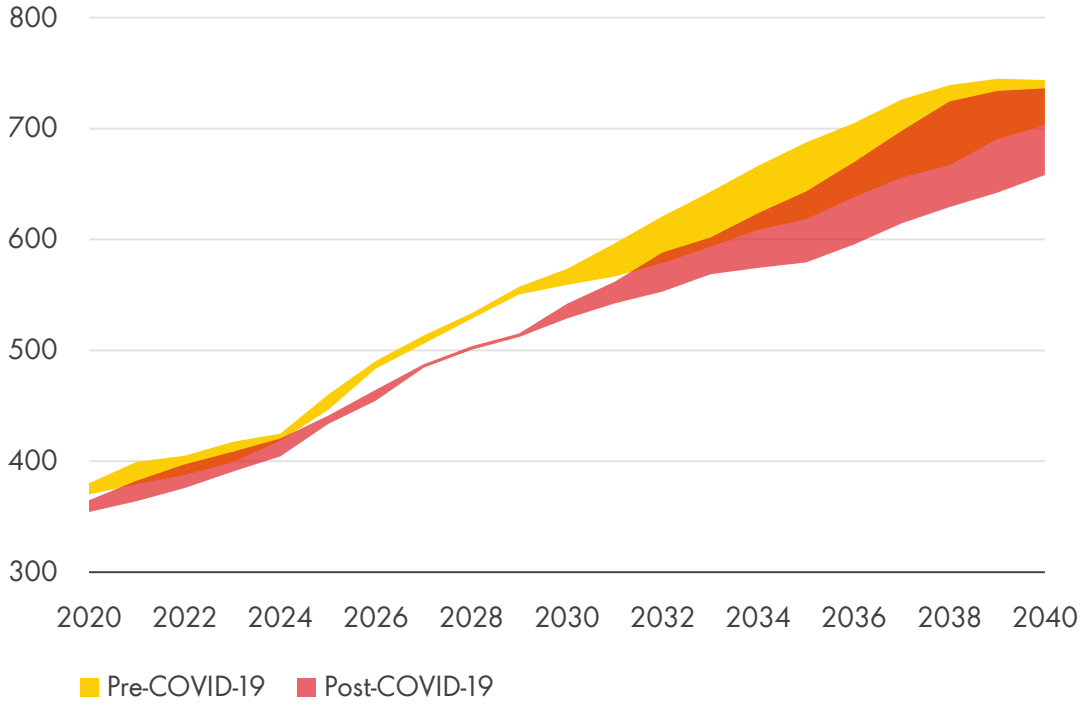
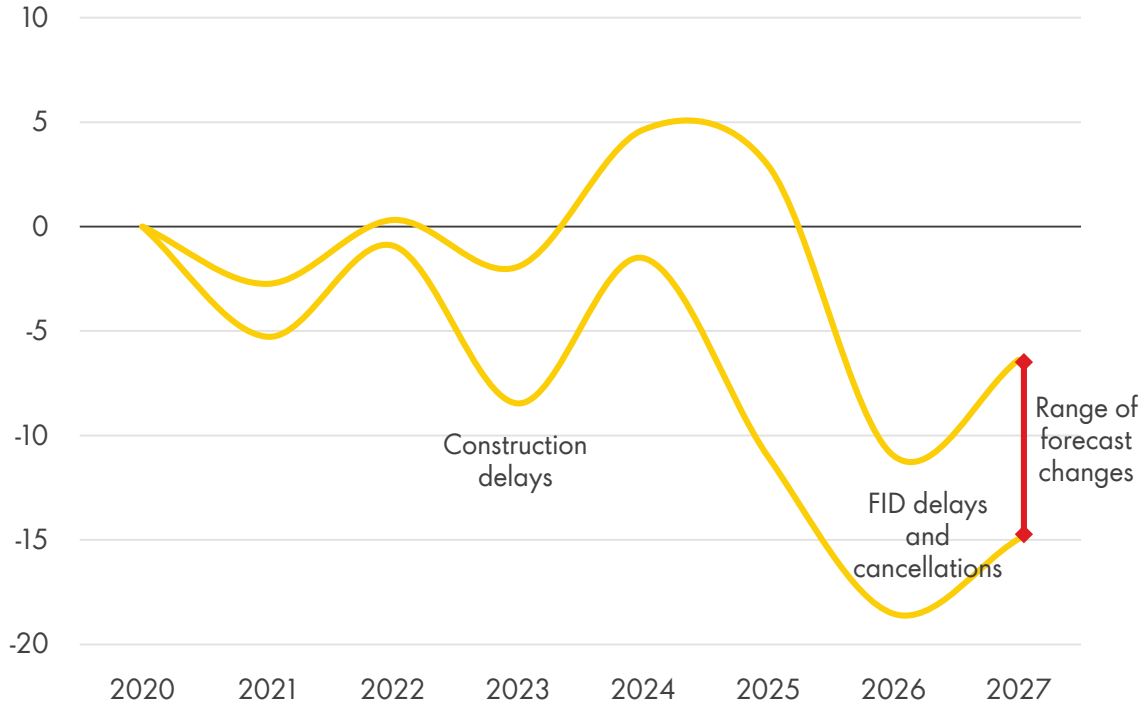


EU LNG import forecast change

MTPA



Source: Shell interpretation of Wood Mackenzie and IHS Markit 2020 data

Supply-demand gap estimated to emerge in the middle of the current decade as demand rebounds

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LNG trade volume growth

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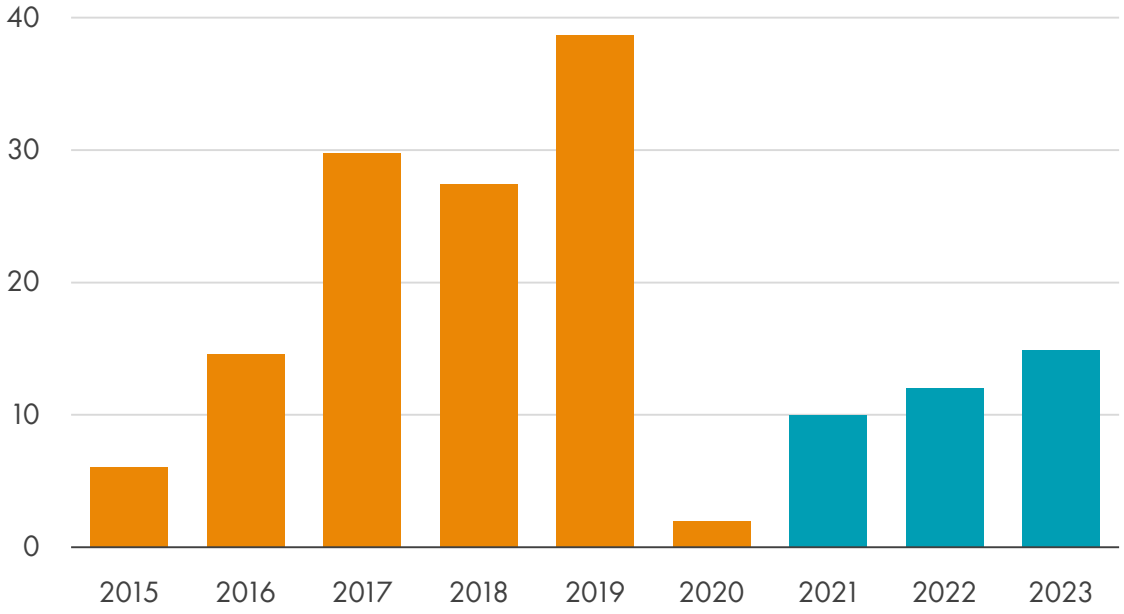
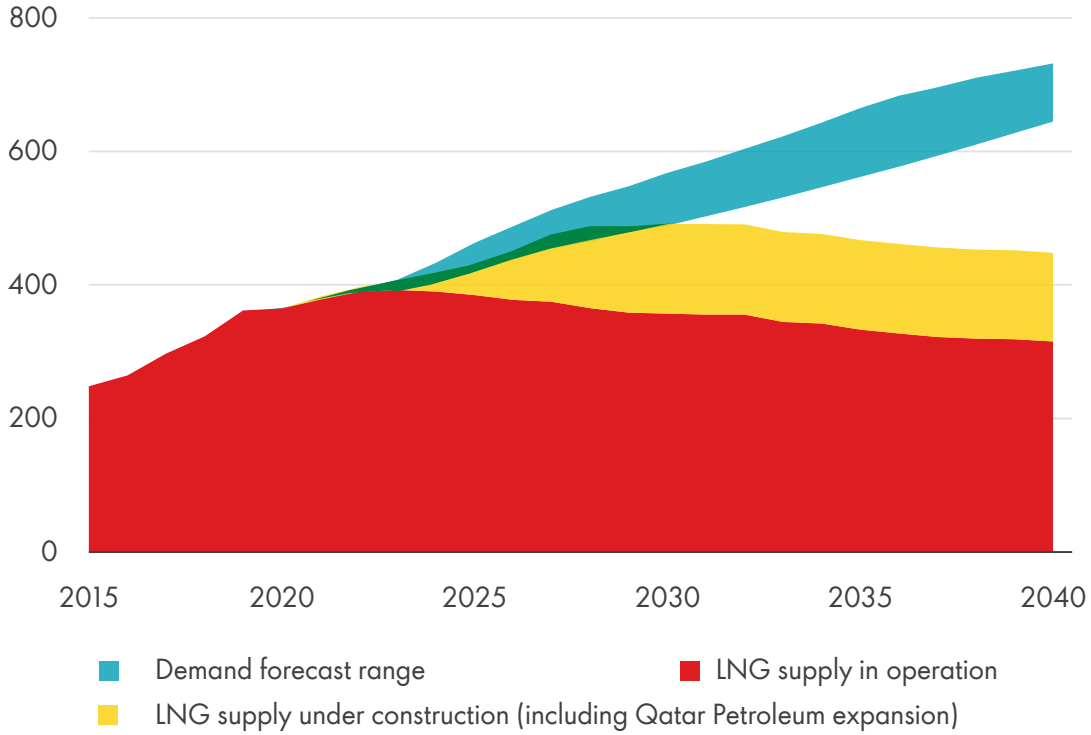


Emerging LNG supply-demand gap

MTPA



Source: Shell interpretation of IHS Markit, Wood Mackenzie, FGE and Poten & Partners 2020 and 2021 data
Qatar Petroleum LNG expansion announced in February 2021

Triggers exist for change in the global LNG market

More market participants with increasingly diverse needs

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Long-term LNG contract expiries

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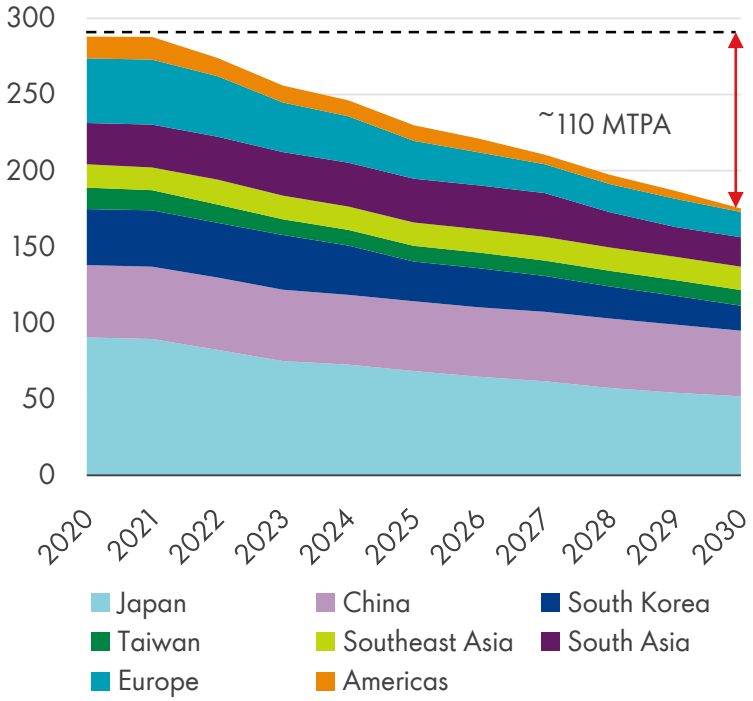
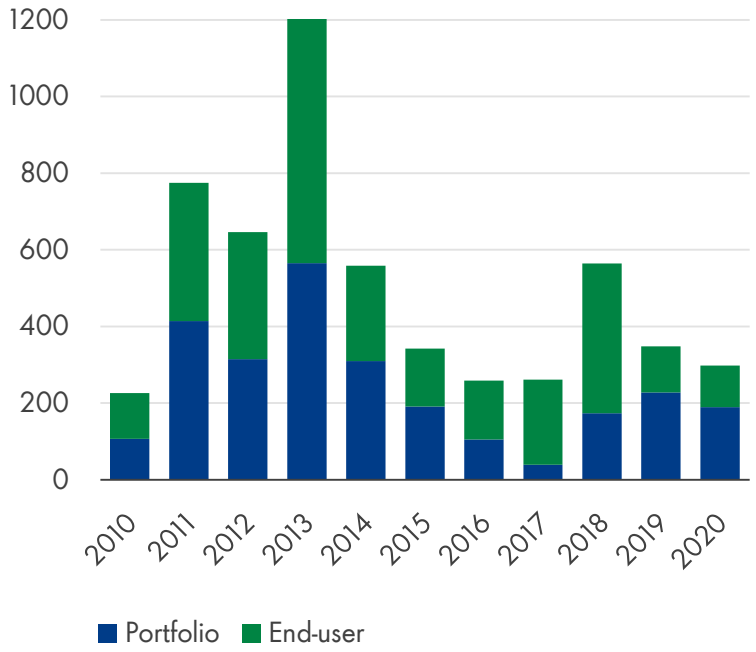


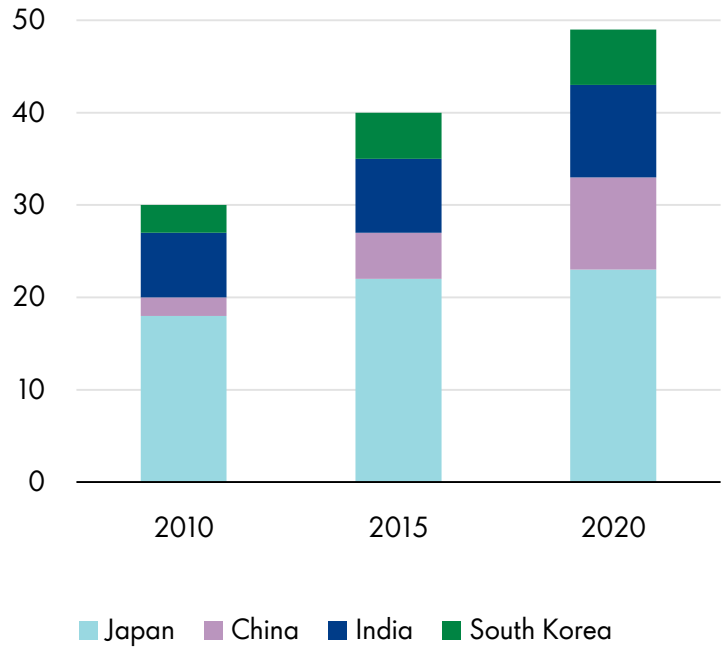
Total LNG contract volumes by buyer type

MT



LNG importers

of regasification capacity holders in Japan, China, India and South Korea



Source: Shell interpretation of IHS Markit 2020 data

Current industry structure appears sustainable

No acceleration in the move to commoditisation

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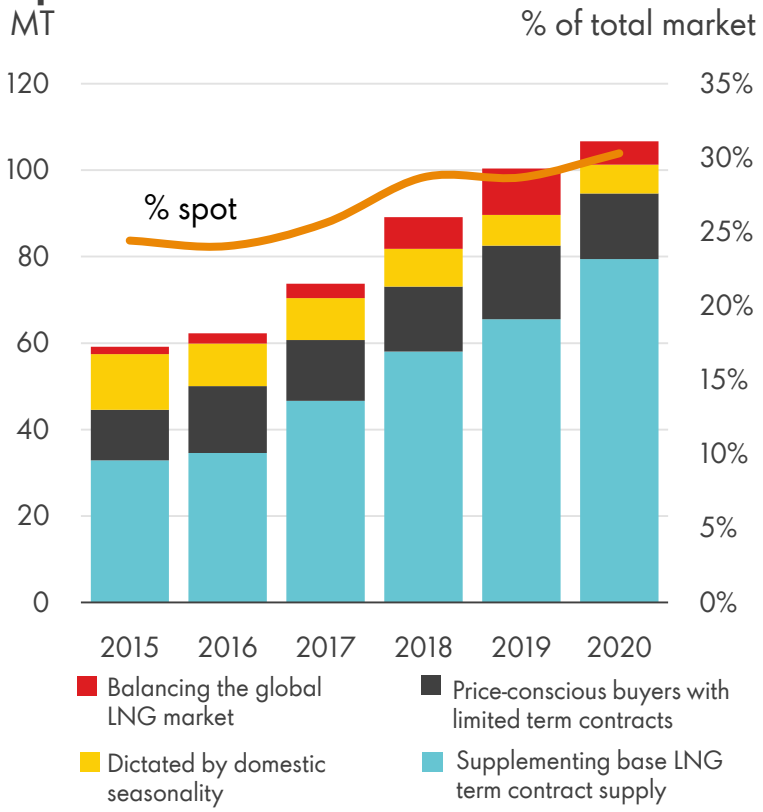
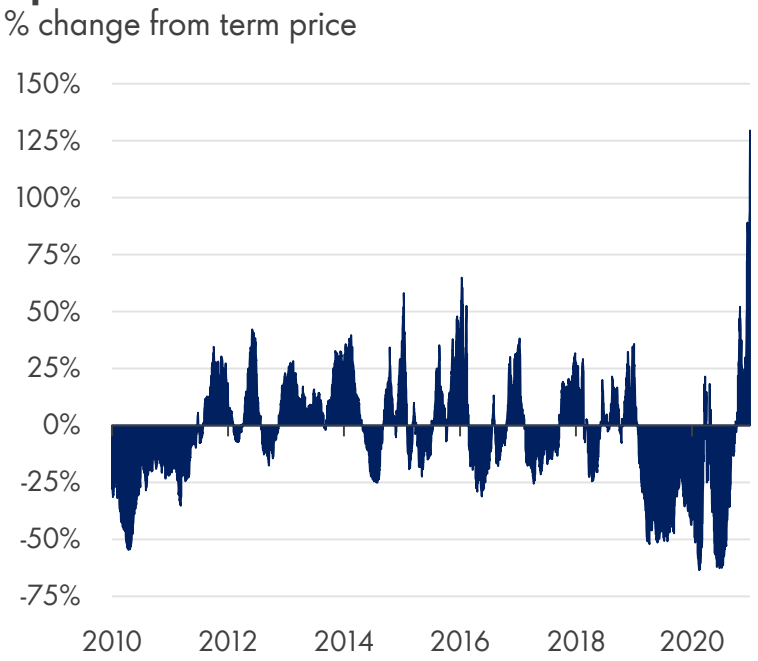
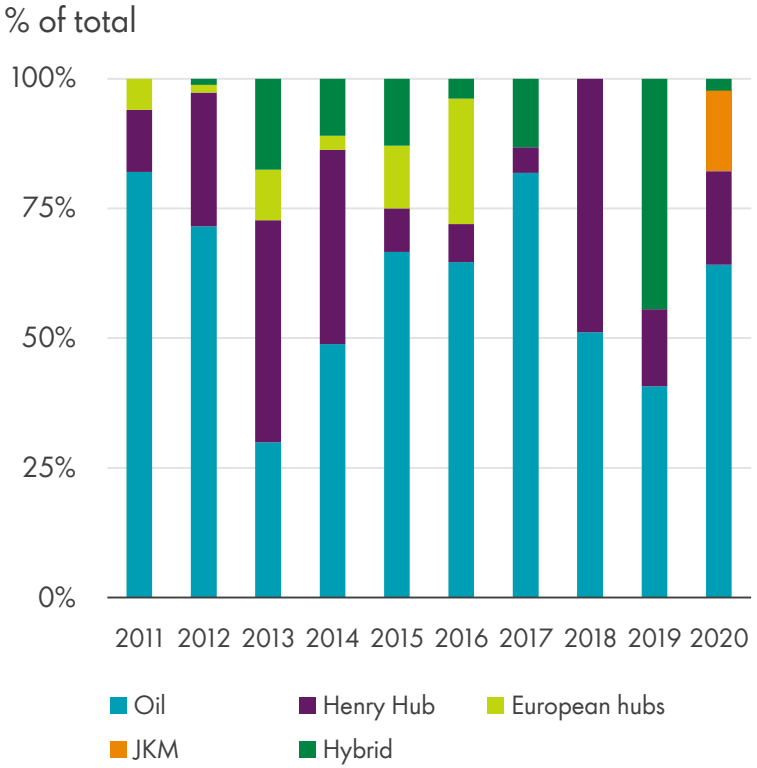
Spot LNG deliveries



Spot deviation from term



Term contract indexation



Shell interpretation of IHS Markit, Wood Mackenzie, ICE, CME and S&P Platts 2020 and 2021 data

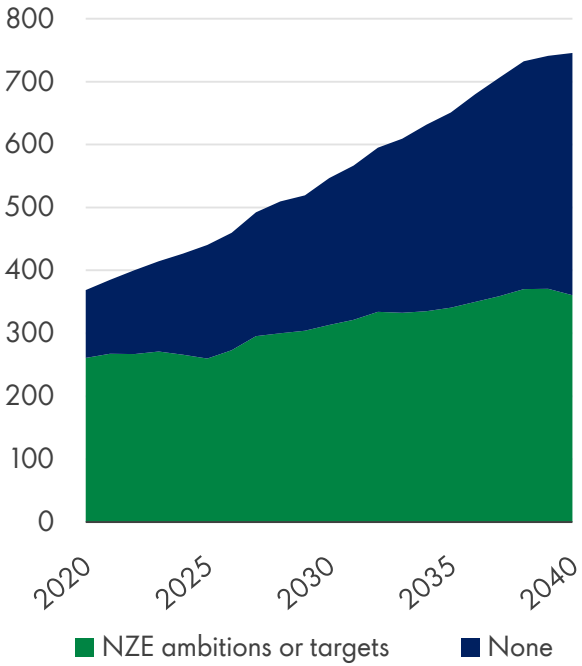
NZE targets will need cleaner and innovative solutions

All levers needed to decarbonise LNG

Shell LNG Outlook 2021

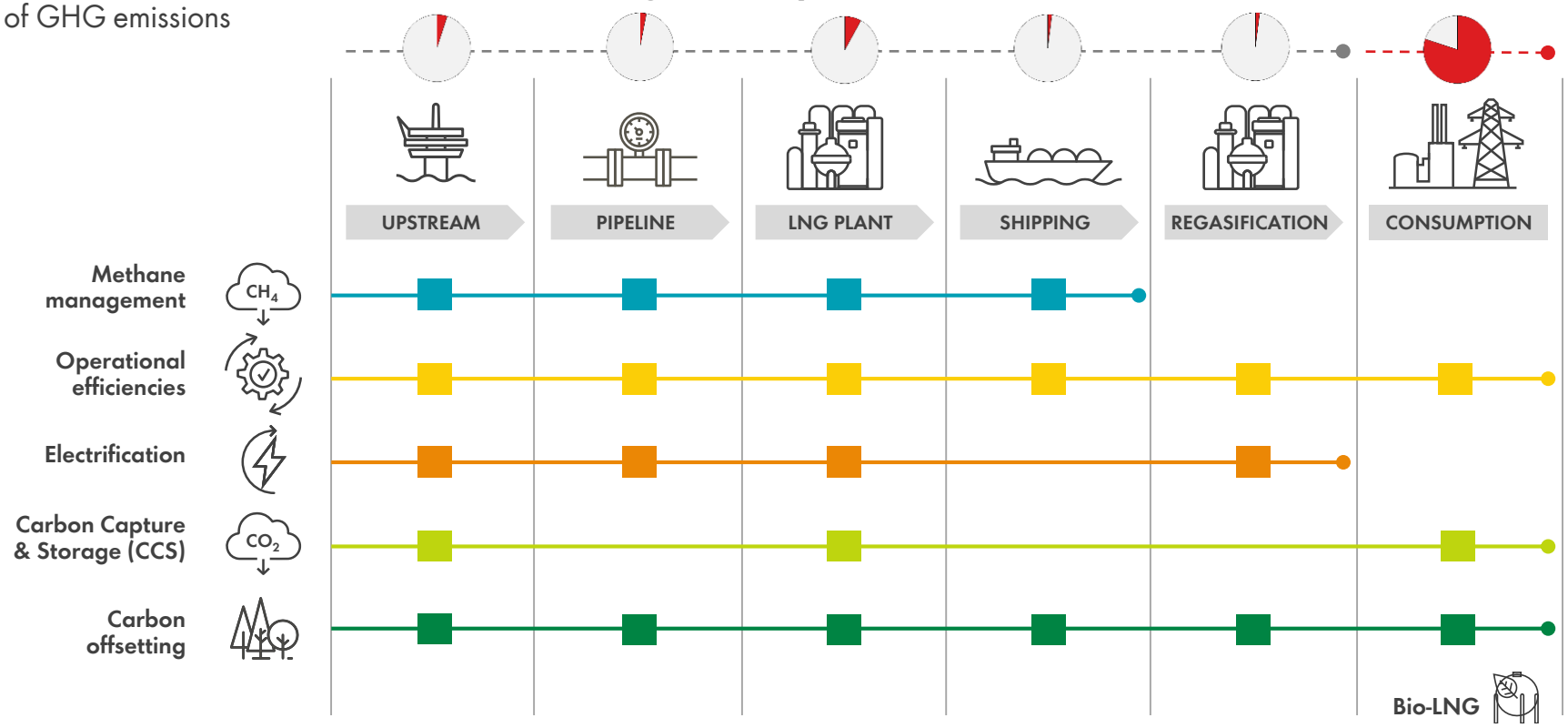
LNG demand forecast by net-zero emissions pledge

MTPA



LNG value chain emissions and mitigation options

% of GHG emissions



Source: Shell interpretation of IHS Markit, Wood Mackenzie and IEA 2020 data

Summary

01

Gas and LNG have a key role to play in a decarbonising world

- Net-zero emissions announcements across the globe
- Gas and LNG can play a key role in decarbonising hard-to-electrify sectors
- Nearly half of gas demand growth in the next 20 years expected to come from Asia

02

LNG shows its resilience and flexibility in 2020

- LNG demand continued to grow despite the global pandemic and ensuing economic crisis
- Global LNG prices hit a record low before rebounding to hit a record high in January 2021
- New LNG supply investment decisions ground to a halt

03

Complementary spot and term contract structures and cleaner pathways to drive LNG growth

- Supply-demand gap estimated to emerge in the middle of the current decade
- Current industry structure supports the changing needs of buyers
- Net-zero emissions targets will need cleaner and innovative energy solutions

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