December 16, 2016

Dear Shareholder,

In October we have held an extensive engagement to present to you Shell’s proposed Directors’ Remuneration Policy ahead of the 2017 AGM, when it will be put to a new binding shareholder vote.

We would like to point you to the additional information shared during the Board Engagement Day, held on 28 November 2016. During that day we reflected and updated on three key themes of feedback received during the consultation.

**Free cash flow (FCF)**  – FCF replaces earnings per share in the Long-term Incentive Plan (LTIP). One specific priority that flows from Shell’s purchase of BG is the need to optimise the expanded portfolio. While Shell is using divestment to move towards its intended mix of BG and Shell assets, FCF will be measured on an absolute basis. Once the portfolio is optimised FCF may be measured against the four other oil majors.

**Greenhouse gas management metrics**  – To support the efforts Shell is already making, and to incentivise further action, we have selected scorecard measures focused on three specific business areas: refining, chemical plants and flaring in upstream assets. This goes beyond carbon dioxide and specifically includes methane, which is also a greenhouse gas. The Corporate and Social Responsibility Committee (CSRC) recommended these measures.

**Energy Transition and Remuneration**  – In the past year we have increased transparency around the Energy Transition and Shell has made significant steps by having the reduction of carbon intensity as one of the pillars of our strategy and we have set up a New Energies division in 2016. During recent shareholder consultation the energy transition and link to remuneration has been broadly discussed. We have considered how to best reflect this area also in remuneration and we have moved to ensure there is an incentive to reduce Shell’s greenhouse gas emissions by including it in the bonus metrics. At this moment, this is the measure which lends itself to a meaningful performance metric. The energy transition is wider and this is where, for now, Ben’s personal performance in progressing New Energies is key. This will be reflected in the Chairman’s assessment of his individual performance and then Remco’s bonus assessment.


We would like to thank shareholders for their time and views on our policy to date and also welcome additional feedback so that we have the opportunity to reflect on your views prior to finalising our policies and presenting it to you next year.

Yours faithfully,

Dr. G. Kleisterlee

Chair of the Remuneration Committee, Royal Dutch Shell plc