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Dear Shareholder,

In the run up to the 2016 AGM, we would like to clarify our position regarding the appointment of our external auditor. We want to raise awareness of previous disclosure that provides more information on this arrangement as well as other details of the audit tender process that has been followed by Shell.

In the 2013 annual report, Shell disclosed the decision to commence a tender for the appointment of external auditor for the financial year 2016. This tender process resulted in the proposal to appoint Ernst & Young (EY) as the Shell external auditor for the financial year 2016, subject to shareholder approval at the 2016 AGM.

Following the announcement of the recommended combination with the BG Group in early April 2015, an assessment of the consequences for the audit tender was performed as EY served as auditor for BG Group since 2013.

Shell and EY separately reviewed the potential impact of the recommended combination with regard to potential conflicts of interest and required auditor independence. A formal protocol was agreed with EY to formalise certain safeguards to ensure appropriate independence arrangements and to prevent relevant potential conflicts of interest pre and post completion.

Shell Audit tender process disclosure on the processes and procedures that had been followed in relation to the appointment of EY as external auditors from the year ended 31 December 2016, subject to approval at the 2016 AGM.

Scope

The scope of the tender consisted of the Shell Group audit and statutory audits of subsidiaries with effect from the financial year 2016 for a tenure of five years * with the option of an extension by another five years.

** The appointment of EY as external auditor for a financial year is subject to approval by the Annual General Meeting in that year.*



Governance

The overall objective of the audit tender was to select the best auditor in terms of quality within a reasonable price range. To ensure a transparent and robust selection and evaluation process, the following governance model was applied. An Advisory Committee, led by the Chair of the Audit Committee and co-opting the Chief Financial Officer (CFO) and the Executive Vice President (EVP) Controller, was formed to oversee the tender process.

A Steering Committee chaired by the Vice President (VP) Accounting & Reporting and consisting of the VP Controller Upstream, VP Controller Downstream, VP Controller Finance operations, EVP Internal Audit, Head of Reporting and the Contract and Procurement manager for Professional Services was set-up to coordinate and execute the audit tender process. The main responsibilities of the different governance bodies were:

Governance body	Key responsibilities
Audit Committee	Ultimate authority over the tender process and audit firm evaluation Approve tender strategy Recommend selection of the Audit Firm to the Board
Advisory Committee	Approve detailed design of the audit tender Agree objectives & evaluation criteria Oversee the execution of the audit tender
Steering Committee	Approve Request for Proposal & Information Requirements Coordinate detailed assessment of individual Audit Firms Execute audit tender process

To avoid influencing or the perception of influencing the tender decision, existing policies were further enhanced with the participants in the tender process prohibiting the provision of any gifts and hospitality and restricting other engagement with key decision makers to regular business matters only. Both Shell staff and the participants were instructed not to discuss the audit tender and all communications on the audit tender were channelled centrally.

Market assessment and selection criteria

A desktop market assessment focusing on the audit market and firms' capabilities, network, experience in the oil and gas industry and findings of audit regulator reports, was completed in May 2014 and resulted in a shortlist of four audit firms. One firm withdrew from the process and the invitation to tender for the audit.

In order to be successful in the audit tender, the participants were assessed on certain minimum requirements. In addition, a number of selection criteria were applied with specific weightings, as described below:

Minimum requirements were in respect of:

- Willingness to bid
- Audit firm and auditor independence



- Commercial scoping including price range
- Ethics and compliance standards
- Investigations by regulators
- Acceptance of legal terms and conditions

Selection criteria:

- Technical criteria including the proposed audit plan, audit quality, structure of audit, innovative tools and the transition plan.
- Team quality including lead partner and team, industry knowledge, access to specialists and mitigation of frequent team changes.
- Resources and organisation including representation in industry and accounting bodies and conflict resolution mechanism in the audit firm.
- Value added including access to accounting training and additional assurance obtained.

Weight factors were applied to each of the selection criteria with the technical criteria and team quality being the most significant criteria. The selection criteria to evaluate each of the audit firms participating in the tender formed the basis for the questions included in the request for proposal.

Request for proposal

In November 2014 the request for proposal was issued to the audit firms invited to the audit tender. Relevant information on Shell, its structure, activities and policies was shared with each of the firms through an electronic data room that was accessible during the tender period. In this period a structured Q&A process was in place where responses to clarification questions and additional information requests were shared with all participating firms through the electronic data room.

Engagement sessions

To promote a level playing field, Shell arranged a series of structured and targeted engagement sessions with eighteen of Shell's key business and function leaders. These sessions provided participating firms the opportunity to better understand the Shell business and discuss certain subject matter areas in greater depth.

In addition to the engagement sessions the participating firms were given the opportunity to meet with the Chief Executive Officer, the CFO and the Audit Committee Chair.

Each of the participants in the tender was given the opportunity to demonstrate its differentiating capability or technology relevant to the Shell audit in a presentation dedicated to that subject. This meeting was attended by representatives from the Advisory and Steering Committee and selected functional specialists.

Each of the participating firms provided a final presentation of their proposal to the Advisory Committee early March 2015.



Evaluation

The final proposals submitted were compliant with the minimum requirements set and all bids qualified and were assessed for the evaluation against the selection criteria. The Steering Committee reviewed each of the proposals and sought additional clarifications from the audit firms through a structured Q&A.

In late March 2015 the Advisory Committee reviewed the evaluation conducted by the Steering Committee and concluded that EY was the preferred firm to conduct the Shell audit engagement. The Advisory Committee also considered the transition arrangements and concluded there were no significant blockers.

The Audit Committee during its April 2015 meeting considered the results of the tender and agreed to recommend to the Board that it would propose EY for appointment as the external auditors of RDS at the Annual General Meeting (AGM) for the financial year 2016. This advice resulted in a resolution by the Board to recommend EY to the 2016 AGM.

BG Group transaction

Following the announcement of the recommended combination with the BG Group in early April, an assessment of the potential consequences for the outcome of the external audit tender was performed. EY has served as auditor for BG Group since 2013 and the EY lead partner for BG Group at the time of the announcement of the transaction was also the proposed lead partner for Shell. Shell, and EY separately, reviewed the potential impact of the recommended combination with regard to potential conflicts of interest and required auditor independence. A formal protocol was agreed with EY to formalise certain safeguards to ensure appropriate independence arrangements and to prevent potential conflicts of interest reflecting distinct scenarios pre and post completion that might be relevant.

EY's participation in the Shell audit tender process concluded approximately one month prior to the announcement of the BG Group proposed transaction and EY had no knowledge of the pending transaction at any time during the tender process.

As part of the independence protocol the following arrangements, which are complementary to the normal ethical standards, confidentiality and conflict of interest requirements that form part of the firm's standard practices, were agreed:

- Assurances from EY that, in particular, confidentiality is preserved with respect to commercial information obtained by EY through the Shell audit tender process.
- EY to maintain strict ring fencing between the EY team involved in preparation and sign off of BG Group's completion documents and EY's proposed Shell audit team until the transaction completes.
- The former EY lead partner for BG Group, proposed as lead partner for the Shell audit, to withdraw from all involvement with BG Group following the announcement of the BG Group's half year results in July 2015.
- The EY lead audit partners for Upstream, Downstream and Trading to have had no prior involvement with either Shell or BG.
- EY to conduct an independence exercise so as to ensure that the global network of EY is fully independent of BG Group and complies with all independence, objectivity and integrity requirements of the FRC and SEC prior to the completion of the transaction.



- Any occurrence of potential conflicts of interest to be monitored by Shell and discussed with EY through regular review meetings after commencement of audit transition services.

Shell is satisfied that appropriate safeguards are in place to both ensure the required independence of EY and appropriately manage any potential conflicts of interest pre or post completion of the proposed combination with the BG Group.

Tender process and milestones:

The important milestones in the tender process are summarised below:

Milestone	Date
Decision to tender	29 October 2013
Intention to tender published in annual report	12 March 2014
Market assessment completed	26 May 2014
Selection criteria agreed	30 June 2014
Request for proposal issued to firms	3 November 2014
Engagement sessions between senior leaders and audit firms	19-21 November 2014
Audit innovation session with each audit firm	19, 23, 24 February 2015
Proposals submitted by audit firms	2 March 2015
Presentation by firms to Advisory Committee	13 March 2015
Assessment by Steering and Advisory Committee	23, 27 March 2015
Advice by Audit Committee to Board	28 April 2015
Board approval of recommendation	12 May 2015
Announcement of outcome at AGM	19 May 2015
Anticipated appointment by AGM	May 2016

In this section, we aim to provide answers to the questions we have received from some shareholders on this topic.

Can you confirm that with the proposed appointment of EY as Shell's external auditor, Royal Dutch Shell complies with its own policy regarding the independence of the external auditor i.e. can Shell confirm that the new external auditor meets the qualifications, expertise, resources and independence in the context of the standards required by applicable law, regulation and listing requirements and that Shell has considered the standards employed by EY, quality assurance procedures and auditor competence (point 4 of the Shell's Audit Committee terms of reference)?

During the external audit tender we covered both qualification criteria and selection criteria that were defined in advance. Minimum criteria set were in the area of willingness to bid, audit firm and auditor independence, commercial scoping including price range, ethics and compliance standards, investigations by regulators and acceptance of legal terms and conditions. All tender participants including EY complied with the qualification standards.



In addition, each tender participant was evaluated and scored on each of the selection criteria. On the selection criteria all tender participants were ranked against each other. The selection criteria defined were related to technical criteria, team quality, resources and organization and value added.

Can the Shell Audit Committee also confirm that it has obtained and reviewed a report from the external auditor describing (i) all relationships between the external auditor and the company and (ii) material issues, if any, raised by any inquiry or investigation by governmental authorities in the last five years relating to any audits carried out by the proposed new external auditor?

An overview of material issues including any investigations by regulators was requested and obtained during the audit tender from all participants. These were evaluated as part of the minimum criteria described above.

At the time of the tender, various services of different nature were provided by tender participants to Shell. During the tender an inventory was made of services and business relationships for each participant. After announcement of the tender outcome, EY services and business relationships found to be incompatible with independence guidance were terminated.

How did Shell's Audit Committee confirm that the new external auditor complies with all relevant provisions of the European and UK Regulations? Did the Committee request more detailed explanations and written confirmations from the new external auditor that these provisions are followed, especially given the fact that the new lead partner is the former external auditor of BG Group? Did Shell's Audit Committee seek an explanation from EY of how it established its independent status in these respects?

The audit tender process was conducted independently from the potential BG Group combination. The criteria under which the participants were evaluated are described in more detail above.

Following the outcome of the external audit tender and announcement of the BG Group combination, the Audit Committee established and documented a conflict of interest and independence protocol with EY. That protocol contains an assessment of potential conflicts regarding EY's independence in relation to the BG Group combination and measures taken to mitigate such conflicts in that respect.

Did EY discuss with Shell's Audit Committee the possibility of withdrawing from the tender when the offer of BG was announced and/or delaying the appointment of Allister Wilson as the lead partner?

The Audit Committee also made a critical assessment on independence and conflict of interest in relation to the BG Group combination followed by establishment of a conflict of interest and independence protocol with EY. Also, the proposed Shell lead partner, Allister Wilson, resigned from the BG Group audit after completion of the BG Group Q2/15 review and was replaced on the BG audit engagement by another partner.



The Audit Committee is satisfied that the additional safeguards obtained appropriately mitigate potential threats in relation to independence and conflict of interest.

Yours sincerely,

A handwritten signature in purple ink, appearing to read "JJ Traynor".

Dr. JJ Traynor, Executive Vice President Investor Relations, Royal Dutch Shell plc