November 2018 Remuneration Roadshow - Scripted speech text

Amsterdam, The Netherlands
London, United Kingdom

Gerard Kleisterlee

Chair of the Remuneration Committee, Royal Dutch Shell plc
November, 2018

Gerard Kleisterlee, Born September 28, 1946. A Dutch national, appointed a Non-executive Director of the Company with effect from November 2010.

Gerard was President/Chief Executive Officer and Chairman of the Board of Management of Koninklijke Philips N.V. from 2001 to 2011. Having joined Philips in 1974, he held several positions before being appointed as Chief Executive Officer of Philips' Components division in 1999 and Executive Vice-President of Philips in 2000. From 2010 to 2013, he was a member of the board of Directors of Dell Inc., from 2009 to 2014 he was a member of the Supervisory Board of Daimler AG, and from 2014 to 2016 he was a Nonexecutive Director of IBEX Global Solutions plc.

He is Chairman of Vodafone Group plc and Chairman of the Supervisory Board of ASML Holding N.V.

On March 14, 2018, the Board appointed Gerard Kleisterlee as Deputy Chair and Senior Independent Director and member of the Nomination and Succession Committee with effect from May 23, 2018.

The following text is based on presentations delivered by Gerard Kleisterlee during the November 2018 Remuneration Roadshows in the Netherlands and the UK.

Thank you for your time. At this point, in November 2018, there are four key areas I would like to focus on but I am of course open to any other questions you may have whilst we have this opportunity. The four areas are:

- To provide a reminder of our remuneration arrangements and, in particular, alignment to our strategy.
- To reflect on the 2018 AGM vote on remuneration and take account of any further feedback you have at this stage.
- To explain what we are doing on energy transition and remuneration and for the forthcoming 2020 policy review.
- To provide an update on how the business has been performing, particularly in the context of the three years from 2016 and the impact it will have on long-term incentive plan vesting this year.

Before we get into the main new areas I would like to first provide a reminder of our remuneration arrangements. Our fixed pay for the CEO is 21% of the overall target. 79% of target pay is in variable compensation.

We have a very clear strategy with three strategic ambitions (Thrive in the energy transition, World-class Investment case and strong Licence to Operate) that link to variable pay.

Each element of the package serves a clear purpose and link to strategy:

- The vision for thriving in the energy transition is led by the CEO and is embedded in his individual performance targets.
- Royal Dutch Shell as a world class investment case is driven through the LTIP and metrics such as FCF, ROACE and TSR. This represents more than half of the CEO's target package and there is a cap on LTIP outcome if TSR is below median. This gives us very strong alignment to shareholders.
- The annual bonus rewards the execution of the business plan, through operational excellence, supporting our licence to operate.

It's very fair to say that the Remuneration Committee were deeply disappointed with the voting outcome on the 2017 Directors' Remuneration Report at the 2018 AGM; more so given the strong shareholder support for the remuneration policy in the prior year and the very strong and positive engagements we had with many of you in advance of the AGM. We reflected on this very carefully at our July meeting following the AGM.

We recognise that we have a very diverse shareholder base and you have a broad range of opinions. We expect therefore that a vote of more than 90% in support is not always going to be possible. However, we also know that the vast majority of our top 20 and indeed top 100 shareholders supported us. We believe that one proxy agency in particular was a significant consideration for many investors and that particularly affects the shareholder base that do not have their own governance teams or whose policy is to follow proxy agency guidance. We cannot do meetings with all our shareholders, so we will need to find more effective ways to reach everyone.

We will look at the feedback raised on the structure of remuneration as part of our forthcoming policy review and we will also look at what we can do better on our disclosures. However, this potential disconnect between the support we have from our largest shareholders and the views of the smaller shareholders is something that we have noted and we would be interested in your views on managing this.

As you know, we spend a lot of time on engaging with our shareholders to understand your perspective and the challenges you face and will continue to engage with you in the coming year as we develop our remuneration policy and as we approach the 2019 AGM.

We recognise the significance of climate change, along with the role energy plays in helping people achieve and maintain a good quality of life. A key role for society and for Shell is to find ways to provide much more energy with less carbon dioxide emissions and thriving in the energy transition is core to our strategy.

There are several measures in the existing remuneration structure designed to reward the good execution of our strategy on energy transition. These include:

- GHG intensity targets in the scorecard which continue to evolve and for 2018 include emissions coverage in Upstream and Integrated Gas measured on an intensity basis and expanded beyond flaring (and this includes methane);
- Bonus delivery 50% in shares, LTIP holding periods and shareholding requirements to promote the long-term outlook and strategic growth necessitated by the evolving energy landscape; and
- Individual performance goals for the CEO and CFO based on the vision for Thriving in the Energy Transition.

We announced our Net Carbon Footprint Ambition in late 2017. As you know, this is a long-term ambition that takes us to 2050 and this year we have been giving thought to how we might link that to remuneration. We know that this is particularly important to a number of our shareholders, not least as further evidence of our commitment to our NCF ambition.

We would like to hear your views as we are committed to listening to and collaborating with our shareholders, to develop a workable approach.

To be clear, we intend to incorporate energy transition metrics to our long-term remuneration arrangements for the May 2020 policy vote and we would like to discuss the plan design with you in a moment.

Linking the NCF ambition and the energy transition to remuneration is not a straightforward task. This is a long-term change journey and very different to the type of performance we have typically measured and rewarded in the long-term incentive plan. There are a few things that are helpful context:

- It is truly a long-term journey. We will set out a short-term target for the remuneration plan but it is difficult to set and calibrate this in the medium term as we are break new ground in this area.
- It is not a linear journey.
- We are at the beginning of something that will go beyond the tenure of the current management team and many after that.
- We can play our part, but we need Governments and society to move too. It is not us alone that will make the goals of Paris a reality.

We would like to hear your views in three main areas:

- What is the right type of remuneration vehicle at this point of the journey – existing LTIP or using something like restricted shares.
- How do we set a balance of measures in a meaningful way? It is tough to be precise on targets and ranges. And there are a lot of things that could affect NCF.
- How much do we allocate to it? It has to be meaningful but not all of our shareholders are in the same place with their views.

We will reflect on this feedback and continue to work with some of our larger shareholders on some of the details in the coming months and adjust our proposals as needed before a further round of shareholder consultation commences. Our intent is to bring it to a shareholder vote at the 2020 AGM as part of our holistic review of the overall remuneration policy.

We are mindful not to create undesirable targets nor unintended consequences. We will need to balance the needs and interests of all our shareholders, and accept that in doing so, we may not please all investors, but we will try our best.

As part of the review, we will also be reflecting on our pay mix, comparator group and target levels of award to ensure that we can attract and retain management talent.

To deliver the right pay for performance we will review the structure and operation of the existing bonus and LTIP schemes, considering the structural questions raised by proxy agencies on certain elements of the bonus and LTIP.

So there continues to be long-term alignment with shareholder interests we will also look at malus and clawback and the shareholding guidelines.

We will be holding our usual consultation process with shareholders in the coming year, and the committee welcomes your feedback on these proposals as they develop.

I would like to move on to talk a little about historical pay outcomes and the 2018 context. As you know, the Remuneration Committee is sensitive to the public debate on executive pay and has been careful on pay.

Ben van Beurden's salary was set lower than his predecessors on appointment and has been tightly managed since then. It has only just, in 2018, exceeded the starting salary levels for the previous two CEOs and remains well below their salary levels after similar periods of tenure. The variable pay opportunity for the CEO has remained at a similar level for the past decade.

The Committee believes CEO pay should be internally proportionate and salary increases have been generally aligned with staff increases in key pay markets. All employees share in the Shell's success and the same annual bonus scorecard is used for the CEO and across the majority of Shell. In addition, approximately 20% of our employees (17,000 people) are granted performance share awards on terms incorporating the conditions that also apply to the CEO and CFO via the LTIP.

Pay also needs to be externally competitive to ensure we attract and retain management with the right capability. Target levels of remuneration are set by reference to pay levels in a comparator group chosen for their scale, complexity and global reach and our pay structures are designed to align with the shareholder experience and deliver value only where there is robust outperformance against our closest industry peers.

We pay for performance and on Slide 12 you can see that from a historical perspective, our scorecard outcome has varied from 0.85 to 1.45 over 10 years. The average outcome is above target of 1.23, but the remuneration committee has not been afraid to use discretion to reduce outcomes where appropriate having done so 5 times in the past 10 years.

Slide 12 shows how we are doing on the LTIP award made in 2016 that will vest in early 2019. It is based on the Group's performance since 1 January 2016 to end of Q2 2018 so is subject to change. For now, though you will be able to see the very strong performance of Shell relative to the other oil majors based on the 2016 LTIP award metrics. At Q2 2018, Shell was ranked first in the oil-major comparator group on TSR and EPS growth, second on ROACE growth and third on CFFO growth.

This currently equates to a vesting outcome for the 2016 LTIP of 166% at Q2 2018.

It is evident that the LTIP targets have always been quite challenging. Over the same period, the LTIP vesting has varied from 0 to 175%, with an average, including the latest estimated vesting of 87% of target (43.5% of max), demonstrating the difficulty of achieving relative outperformance against a small group of your industry peers.

There is still a lot to play for, however, the 2016 metrics illustrate that Shell is delivering on its strategic goal of been a world class investment case. Should this level of performance continue the 2016 LTIP will vest significant value for the CEO, likely above £10 million – Slide 12 shows this in the context of the single figure reporting.

Whatever the mathematical outcome of the LTIP metrics, the Committee will exercise care to ensure that the vesting outcome of the award is appropriate and adequately reflects company performance. However, we believe that the value Ben van Beurden has bought to the role of CEO and the Shell Group is clear and evident. His leadership has been critical in building and delivering on a strategy with multidimensional focus, shaping Shell for the future. For example:

- Developed and delivered on 4 levers: 1. reducing cost by 20%, 2. as at Q3 2018: completed and announced more than $30 billion from our divestment programme (completed $28 billion to date, further $4 billion announced including $1.9 billion Denmark Upstream), 3. on track to add 1 mln boe/d production and $10 billion CFFO from new projects, and 4. enhancing capital discipline and efficiency (e.g. committed to $25-$30 billion CAPEX and Upstream development since 2014: >45% reduction in expected unit development cost for major projects)
- Successful delivery and integration of BG deal. For example, the share buyback programme has started and as of middle November, we have completed tranche 1 of $2bn, and announced a further tranche of up to a further $2.5bn. We remain committed to completing the $25 billion share buyback program by end of 2020, the divestment programme is well advanced as per above, and the scrip dividend was turned off in 2017.
- Thought leadership on NCF and bigger energy transition picture (NE set-up and strategy)

Thank you for your time today. We've covered a number of topics and I appreciate your feedback. We have a number of milestones in the coming months and I look forward to our ongoing dialogue.

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Operating costs are defined as underlying operating expenses, which are operating expenses less identified items. Organic free cash flow is defined as free cash flow excluding inorganic capital investment and divestment proceeds. ROACE (Return on Average Capital Employed) is defined as the sum of CCS earnings attributable to shareholders excluding identified items for the current and previous three quarters, as a percentage of the average capital employed for the same period. Capital employed consists of total equity, current debt and non-current debt. Capital investment comprises capital expenditure, exploration expense excluding well write-offs, new investments in joint ventures and associates, new finance leases and investments in Integrated Gas, Upstream and Downstream equity securities, all of which on an accruals basis. Divestments comprises proceeds from sale of property, plant and equipment and businesses, joint ventures and associates, and other Integrated Gas, Upstream and Downstream investments, reported in "Cash flow from investing activities (CFFI)", adjusted onto an accruals basis and for any share consideration received or contingent consideration recognised upon divestment, as well as proceeds from the sale of interests in entities while retaining control (for example, proceeds from sale of interest in Shell Midstream Partners, L.P.). This presentation contains the following forward-looking Non-GAAP measures: Organic Free Cash Flow, Free Cash Flow, Capital Investment, CCS Earnings less identified items, Operating Expenses, ROACE, Capital Employed and Divestments. We are unable to provide a reconciliation of the above forward-looking Non-GAAP measures to the most comparable GAAP financial measures because certain information needed to reconcile the above Non-GAAP measure to the most comparable GAAP financial measure is dependent on future events some which are outside the control of the company, such as oil and gas prices, interest rates and exchange rates. Moreover, estimating such GAAP measures with the required precision necessary to provide a meaningful reconciliation is extremely difficult and could not be accomplished without unreasonable effort. Non-GAAP measures in respect of future periods which cannot be reconciled to the most comparable GAAP financial measure are calculated in a manner which is consistent with the accounting policies applied in Royal Dutch Shell plc's financial statements. The forward-looking break-even prices (BEP) presented are calculated based on all forward-looking costs associated from FID. Accordingly, this typically excludes exploration and appraisal costs, lease bonuses, exploration seismic and exploration team overhead costs. The forward-looking breakeven price is calculated based on our estimate of resources volumes that are currently classified as 2p and 2c under the Society of Petroleum Engineers' Resource Classification System. As the projects are expected to be multi-decade producing the per barrel projection will not be reflected either in earnings or cash flow in the next five years. The financial measures provided by strategic themes represent a notional allocation of ROACE, capital employed, capital investment, free cash flow, organic free cash flow and underlying operating expenses of Shell's strategic themes. Shell's segment reporting under IFRS 8 remains Integrated Gas, Upstream, Downstream and Corporate.

Also, in this presentation we may refer to "Shell's Net Carbon Footprint", which includes Shell's carbon emissions from the production of our energy products, our suppliers' carbon emissions in supplying energy for that production and our customers' carbon emissions associated with their use of the energy products we sell. Shell only controls its own emissions but, to support society in achieving the Paris Agreement goals, we aim to help and influence such suppliers and consumers to likewise lower their emissions. The use of the terminology "Shell's Net Carbon Footprint" is for convenience only and not intended to suggest these emissions are those of Shell or its subsidiaries.

The companies in which Royal Dutch Shell plc directly and indirectly owns investments are separate legal entities. In this presentation "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 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 presentation 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.

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