

Progress against the successful 2015 shareholder resolution: strategic resilience for 2035 and beyond

Mr Chairman, members of the Board, Fellow Shareholders.

This statement and question is supported by the following shareholders:

Andra AP-fonden (AP2), Arjuna Capital/Baldwin Brothers Inc., As You Sow, Aviva Investors, AXA Investment Managers, BMO GAM (EMAE), BNP Paribas Investment Partners, CCLA, Central Finance Board of the Methodist Church, Christopher Reynolds foundation, Church Commissioners for England and the Church of England Pensions Board, Dignity Health, Environment Agency Pension Fund, Epworth Investment Management, ERAFP - French Public Service Additional Pension Scheme, Fjärde AP-fonden (AP4), Hermes Equity Ownership Services, HSBC Global Asset Management, Kempen Capital Management, Legal & General Investment Management, Local Authority Pension Fund Forum (LAPFF), Mercy Investment Services, MN, Nordea Asset Management, Pensioenfond Metaal en Techniek, Pensioenfond van de Metalektro, Railpen, Rathbone Greenbank Investments, Robeco, Sarasin and Partners, Sisters of St. Francis of Philadelphia, and Tredje AP-fonden (AP3)

Collectively we represent \$5.05 trillion in assets under management

Mr Chairman,

As long-term institutional investors who must manage retirement savings and investments for millions of people, we believe climate change to be one of the biggest systemic risks we face. Any gaps, weaknesses or delays in climate change policies and responses by companies will increase these risks to our investments. At the 2015 AGM, over 98% of shareholders backed calls for enhanced reporting from your company on the risks that climate change poses to the business.

We recognise the company's first moves in the current reporting cycle as it takes steps to align its external reporting with the *special resolution on strategic resilience for 2035 and beyond* and the wider requirements of investors who voted for the resolution. Having reviewed the materials in the company's Annual Report and Accounts, Sustainability Report and Scenario Supplement, in addition to the ad-hoc publication released on May 11th we commend the company for the steps it has already taken and for the direction of travel it has chosen.

However, the requests made by an overwhelming majority of investors who backed the 2015 special resolution will only be met by ongoing, detailed, strategic reporting over the coming years showing that the decisions regarding Shell's portfolio and strategy indeed enhance the company's resilience in line with a low carbon energy transition.

Since last year's AGM, this challenge has only become more important as the Paris Agreement signalled that decarbonisation should become the overarching goal of policy makers. At the same time, the G20's Financial Stability Board created a Task Force on Climate-related Financial Disclosures (TCFD), which recognises climate risk management as key to financial stability and is likely to recommend further disclosure on resilience in Annual Reports.

We believe the ongoing need to clarify the company's strategic options in this area is underscored by another shareholder resolution about future strategy placed on the ballot this year. Bearing in mind

growing investor concern about climate risk, and with regard to specific requests detailed in the 2015 special resolution (and reporting given to date), we wish to encourage further progress, particularly in the following areas:

- **Ongoing operational emissions management**

Shell has not yet re-stated its rationale for not setting a clear group-wide or divisional public targets for reducing the carbon intensity of the entire business or key asset classes, lagging behind its peers. The Paris Agreement reflects a level of political will which the company has previously claimed is required in order to make such targets meaningful. We welcome Shell's objective to achieve top-quartile carbon emissions performance across their assets, but would urge greater transparency around its internal targets and performance against those. The adoption of public targets would create a sense of accountability and, crucially, enable investors to monitor performance.

- **Asset portfolio resilience to the International Energy Agency's (IEA's) and other scenarios**

We welcome the company's analysis of resilience within its business model against the IEA 450 scenario and the additional supplement provided to investors. We request that future portfolio resilience modelling more clearly addresses the fundamental issue of demand for the company's products. We believe that current assumptions stated in the Sustainability Report focus too narrowly on the effects of carbon pricing and do not adequately analyse demand risks, for example, as posed by rapid uptake of electric vehicles, improvements in energy efficiency or distributed renewable power generation. Whilst we welcome the portfolio resilience update provided to shareholders in the past month, this does not negate the need for more comprehensive routine, strategic assessment of carbon asset risks in the company's Annual Report. The merger with BG also creates both the opportunity and imperative to ensure the combined company/portfolio is indeed resilient and adding value. As does your 'New Energies' strategic theme, which helps us assess the part of the 2015 resolution which asks for greater clarity on developing low-carbon energy business opportunities.

- **Relevant strategic key performance indicators (KPIs) and executive incentives**

We urge the company to clarify how strategic considerations around its preparedness to manage a period of increased uncertainty and change are reflected in key performance indicators and executive incentives as you review the remuneration policy over the coming year

- **Public policy positions relating to climate change.**

We acknowledge the company's recent moves, including as part of the Oil and Gas Climate Initiative (OGCI), and the non-renewal of its membership with ALEC. We look forward to hearing details on the OGCI's post-Paris strategy, and hopefully its extension to your US peers.

Mr. Chairman, the Paris Agreement sent an unequivocal signal to financial markets; the ultimate aim of 195 countries is decarbonisation of the global economy by the end of the century. Every transition creates winners and losers. For the long term future of the company to be secure it is paramount that Shell complete ongoing thorough, realistic assessments of the risks and opportunities posed by climate change, and develop a business strategy aligned with the findings of such assessments. Will the board please give assurances that shareholder concerns regarding the resilience of the company's business model to climate change will continue to be addressed, including responding to the 2015 resolution in the Annual Report in future given the material nature of the risks to shareholder value?