

To: James Smith
Shell Centre
4 York Road
London
SE1 7NA

8th April 2009

Re: Shareholder Resolution on Oil Sands (the "Resolution").

Dear James,

In light of the meetings that have taken place between investors and Shell since the filing of the Resolution and Shell's publication of its Report on Royal Dutch Shell PLC & Oil Sands (the "Report") on 17th March, we felt it was appropriate to formally reply to the disclosures which Shell has made.

As stated at our first group meeting with Ken Lawrence and Alger Steenhuis on 22nd January, we regard the Resolution as an appropriate form of investor engagement intended to encourage a mutually beneficial process of dialogue and disclosure rather than an aggressive action against our company. We are very pleased to see that Shell has responded in such a positive manner to the Resolution through meetings with co-filers and other stakeholders, the investor road show and the publication of the Report. These engagement efforts on the part of Shell emphasise the valuable role played by the Resolution process in providing investors with important information. We hope that the high level of investor engagement prompted by the Resolution will continue after the AGM on May 18th.

We have, in discussions with Shell, acknowledged the significant disclosures made by the company regarding operational issues at its current mining project (AOSP). However, we have stated that we are particularly concerned with the economic viability of future in-situ projects. Accordingly, while we welcome the additional disclosures made by Shell both in investor meetings and the Report, it remains the case that the company has yet to make any significant disclosures regarding its strategy for the exploitation of in-situ projects comprised within resources which as of 2008 represented approximately one third of Shell's total global resources. ¹ As noted in a recent IIGCC Report "*Approximately half of the value of companies in the industry lies in the assets they have yet to exploit - their reserves - the values of which are significantly greater than the value of currently productive assets. As a consequence, analysis of the prospective carbon liabilities associated with those future productive reserves is vital to understand the extent of value at risk through climate and policy related change in coming years.*"² Shell's Report only states that "*all aspects of oil*

¹ Shell has 20 billion barrels of tar sands resource among 66 billion barrels of oil equivalent globally, Shell, March 2008 strategy update: Investing in new heartlands for Shell.

² Global Climate Disclosure Framework for Oil & Gas Companies, p. 4 available at <http://www.iigcc.org/docs/PDF/Public/GlobalClimateDisclosureFrameworkforOilandGasCompanies.pdf>

price outlook, oil demand, regulatory framework and industry cost structure will be taken into account when such investment decisions are considered” without disclosing any of the company’s assumptions on these key macro-economic factors as they pertain to future in-situ production. Accordingly, Shell’s decision to slow its development of oil sands projects does not mean that Shell should not make disclosures about its future projects. Examples of information yet to be provided includes Shell’s plans for carbon reduction on future in-situ projects given the company’s acknowledgment of the difficulties in applying carbon capture and storage to such projects and the anticipated timeframe for recovering all capital costs of the current expansion. Shell has been firm in its refusal to disclose its assumed carbon price on the basis of commercial sensitivity, but several investors with whom we have been in contact have noted that this has not prevented BP plc from disclosing theirs. We would also note that the 2009 changes in accounting rules which resulted in oil sands revenues no longer being reported separately has made it more difficult for investors to clearly assess the annual profitability of AOSP though the data regarding projected profitability in the report of 17th of March is nevertheless welcome.

In addition to AOSP, Shell currently has in-situ projects at Orion Cold Lake and Peace River. The Report makes no reference to these projects. We understand from our meeting with Alger and Ken that these projects are very small relative to AOSP. However, in-situ production presents a different set of issues to be addressed than mining and as the majority of Shell’s oil sands resources are in-situ, it would be beneficial for shareholders to understand how Shell is currently coping with the specific operational issues arising from in-situ production. In-situ production is more carbon intensive than mining with studies suggesting an average in-situ operation generates 2.5 times more greenhouse gas (GHGs) emissions per barrel than mining³ and as acknowledged by Shell in a meeting, carbon capture and storage is not so readily applicable to in-situ projects as it is to mining. Studies have also shown that peatlands cease to operate as a carbon sink and become a net emitter of GHG emissions when only 5% of the peatlands are disturbed⁴. In light of this, investors need information on the actual GHG emissions of the Orion Cold Lake and Peace River operations and the steps being taken by Shell to reduce them. This information is needed, regardless of the size of such operations relative to AOSP, given that in-situ projects represent the majority of Shell’s Canadian oil sands assets.

We note that Shell states that it decided to issue the Report at this time rather than “*waiting until the publication of next year’s Annual Report, and a year earlier than the proposal in this oil sands resolution*”. While we welcome all disclosures, the Resolution’s call for the issue of a report at the 2011 AGM was to give our company adequate time to prepare the kind of detailed report the resolution required and to give the audit or risk committee the time needed to review it. In this way investors would be reassured that key strategic assumptions were approved by an appropriate board committee. Accordingly, the company still has the

³ The Pembina Institute: “Drilling Deeper: The In Situ Oil Sands Report Card, March 2010 available at <http://pubs.pembina.org/reports/in-situ-report-card.pdf>

⁴ Global Forest Watch: “Bitumen and Biocarbon: Land use conversions and loss of biological carbon due to bitumen operations in the Boreal Forests of Alberta, Canada”, 2009 available at http://www.globalforestwatch.ca/climateandforests/bitumenbiocarbon/BioCarbon_WEB_LR.pdf

opportunity to provide the comprehensive report requested by the resolution reviewed by an appropriate committee at the 2011 AGM.

As shareholders in Shell we are keen to ensure that our company is positioned to flourish in the necessary transition to a low carbon economy. As Shell itself notes on its website *“transforming our use of energy is a major priority”* and will require *“an explosive pace of industrial transformation going beyond even the aggressive developments outlined in the Blueprints scenario.”*⁵ A recent McKinsey and Carbon Trust analysis of the oil and gas sector concluded that *“winning players can mitigate the value-at-risk by anticipating changes in demand and managing new capital expenditure correctly whilst investing to achieve below carbon intensity in operations and diversifying. A failure to take these actions place significant value-at-risk”* [c.35%].⁶ Shell has stated its preference is to work towards its Blueprint Scenario which assumes growing actions to address the challenges of economic development, energy security and environmental pollution.⁷ However Shell also acknowledges that oil sands production fits within its Scramble Scenario (which assumes government action on energy efficiency and GHG emissions only in reaction to tight supply and major climate shocks): *“How unconventional oil from oil sands, shale, and coal is developed provides a typical Scramble example of solutions being introduced with immediate benefits to energy security but some later negative consequences. Throughout the 2010s, investors pour more and more capital into unconventional oil projects that make an important contribution to addressing supply pressures. Nevertheless, these attract increasing opposition from powerful water and climate lobbies that oppose the environmental footprint of additional developments. This ultimately provokes a political backlash that challenges even the best-managed projects.”*⁸ Investors would benefit from clarification regarding Shell’s overall strategy as to how the pursuit of Scramble projects such as oil sands fits within the company’s stated preference for Blueprint and how Shell is positioning its oil sands projects to survive *“the political backlash that challenges even the best-managed projects”*.

We believe that co-ordinated investor/corporate dialogue is necessary to bring about the required “industrial transformation” and would encourage Shell to adopt a leadership role within the industry by participating in such dialogue with major investors. We believe the Pharma Futures Initiative provides a good precedent for the energy sector to follow.

As regards operational issues (which in reference to AOSP we acknowledge has to date been of sufficient quality) there is a strong precise signal from a coalition of investors backed by \$3 trillion of assets under management in the form of the UN-PRI letter of July 8, 2009,

⁵ Shell Energy Scenarios to 2050, p.37 . Available at http://www-static.shell.com/static/public/downloads/brochures/corporate_pkg/scenarios/shell_energy_scenarios_2050.pdf

⁶ Climate change – a business revolution? How tackling climate change could create or destroy company value, p.7. Available at http://www.carbontrust.com/publications/CTC740_business_rev%20v5.pdf

⁷ Op. cited No. 5, p. 4

⁸ Op. Cited No. 5, p.20

which sets out what it regards as the key steps companies involved in oil sands need to take to protect their licences to operate.

Addressing the questions and gaps we have identified, along with a commitment to meet the asks contained in the UN-PRI letter in the form of a report would substantially address the spirit and the letter of the Resolution.

We are pleased that the Resolution process has contributed to increased investor engagement and disclosures. We hope that our company continues these efforts by providing information concerning future expansion projects and by adopting a leadership role in working with investors and other stakeholders to ensure the continued success of our company as the world transitions to a low carbon economy.

cc Alger Steenhuis

Ken Lawrence