

Royal Dutch Shell plc  
PO Box 162  
2501 AN The Hague  
The Netherlands  
Tel +31(0)70377 4540  
Fax +31(0)70377 3115  
Internet <http://www.shell.com>

The Hague, 15 February 2010

Dear Shareholder,

I am writing to you as an update on Shell's engagements over the past months regarding executive remuneration.

Shell has had extensive consultations with major shareholders on executive remuneration following our 2009 AGM. Let me thank you on behalf of the Board for your feedback to us on remuneration policy, and my thanks to everyone who participated with open and constructive dialogue which was a consistent feature of all engagements.

Your initial feedback to us was that the basic structure of the remuneration policy at Shell is still appropriate going forward, but that there needed to be changes in various elements, in order to better align the remuneration policy with shareholder interests and the company's long-term strategy. We subsequently undertook a wholesale review of remuneration policy and implementation including advice from recognized external experts, and formulated certain proposals for change.

Since I became the Chairman of our Remuneration Committee in September 2009, my colleagues and I have met with a considerable number of our largest shareholders and key shareholder associations. The purpose of those meetings was to discuss the following proposals:

- Base salaries frozen since July 2008, other than on promotion;
- No upward discretion on Long-term incentive vesting for 2010;
- Removal of the free matching share from the Deferred Bonus Plan (DBP);
- Increased shareholding guideline for the CEO;
- New two year holding period for vested Long-term Incentive Plan (LTIP) shares;
- New annual bonus measures to strengthen links to strategy; and
- New Long-term incentive plan (LTIP) measures to strengthen links to strategy.

These proposals are detailed in the attachment to this letter.

In the feedback that I and my colleagues received during our recent roadshows, I believe there was broad support for the direction we are taking. Some specific elements did attract some reservation such as the choice of new metrics for the LTIP and inclusion of the Dow Jones Sustainability Index in the annual scorecard. In both cases, we recognize that, in the absence of perfect metrics, and a broad range of views in the market, we will have to work with these new measures and adapt as necessary as we go forward. However, I do believe these proposals will provide an improvement and sit within more broadly balanced structures.

As we go forward, the presentation of executive remuneration in our Annual Report will cover the executives on the Royal Dutch Shell plc Board, namely the CEO, CFO and Executive Director Upstream International. For the 2009 annual report, there will also be information relating to former executives who have stepped down from the Board in 2009 and other legacy issues. These include Linda Cook's departure arrangements, which were handled consistently with Dutch law (Cantonal Court Formula), former Chief Executive Jeroen van der Veer's retirement, and CFO Simon Henry's transition to local Dutch terms and conditions which has now been completed.

I have found the shareholder engagements extremely valuable in this particularly challenging area, and I am committed to further engagements with you in the future.

Yours Sincerely

A handwritten signature in black ink, appearing to be 'Hans Wijers', with a small dash to its right.

Hans Wijers  
Chairman of the Royal Dutch Shell plc Remuneration Committee

# **SUMMARY OF REMUNERATION PROPOSALS FOR ROYAL DUTCH SHELL**

Our objectives are threefold:

- To demonstrate appropriate restraint in the current economic environment;
- To increase alignment between executive and shareholder interests;
- To continue to strengthen links to company strategy in the choice of performance measures.

The proposals we have made in support of these objectives are:

## **Base salaries are frozen and new appointment salaries are lower**

The next market based review of salary, bonus, and share levels will be 1 January 2011. The last such review was in July 2008. This means that salaries will be frozen from July 2009 to January 2011. There will be appointment increases for both CEO and CFO, reflecting that both Peter Voser and Simon Henry were promoted into these roles in 2009. The new CEO and CFO salaries are c. 20% lower than those paid to the previous CEO and CFO.

## **No upward discretion on long-term incentives for 2010**

This is the area on which we received the most critical feedback and I believe it is appropriate in the current economic environment to state upfront that no upward discretion will be applied to the Long Term Incentive Plan (LTIP) or Deferred Bonus Plan (DBP) vesting in 2010. In future, there will be no use of upward discretion in the vesting of these plans without prior shareholder engagement.

## **Removal of the free matching share from the Deferred Bonus Plan (DBP)**

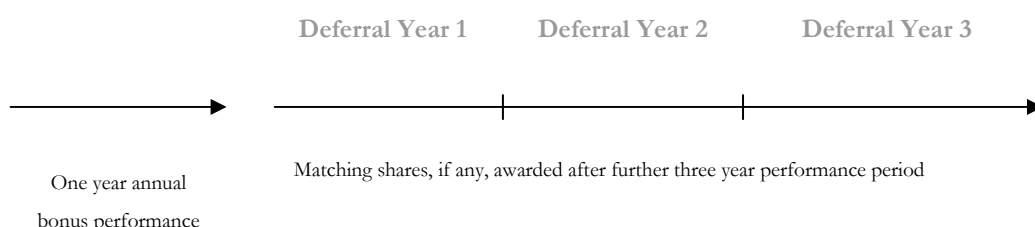
We will require a mandatory deferral of 25% of any annual bonus into the DBP, with a voluntary deferral of up to a further 25%, as previously. However, we have removed the free matching share that was a feature of the Deferred Bonus Plan, so that all matching shares are performance-based in support of Company strategy and shareholder interests.

Half of any deferral is matchable. The percentage of shares that match will be aligned with the LTIP vesting percentage, for simplicity. To remind you, this percentage ranges from

- 0% if performance relative to the other majors is 4<sup>th</sup> or 5<sup>th</sup> ;
- 80% for 3<sup>rd</sup> place;
- 150% for 2<sup>nd</sup> place;
- 200% for 1<sup>st</sup> place.

This percentage will apply to half of the shares deferred. This means that if 50% of any annual bonus is deferred, 25% (or half) will be matchable, by up to 200%. So the maximum match is equal to the initial 50% deferral.

The performance period for determining matching shares remains three years, meaning that deferred bonus shares are released only after a total of three years:



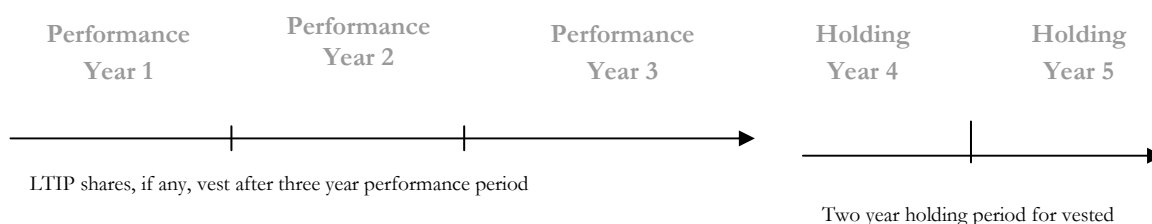
**Increased shareholding guideline for the CEO**

The current shareholding guideline for Executive Directors is two times salary. We will increase this to three times for the Chief Executive, thereby providing greater alignment with shareholders’ interests.

In the oil and gas business, with such long business performance periods, I believe that holding shares probably aligns executive interests with those of shareholders better than any long-term incentive plan. We have increased the shareholding requirement for the CEO to reflect this belief.

**New two year holding period for vested Long-term Incentive Plan (LTIP) shares**

New LTIP awards will include a mandatory two year holding period for any vested shares, post payment of taxes. The LTIP will therefore operate over a total of five years:



This change is also driven by a wish to increase long-term shareholding as the basis for alignment with shareholder interests. This will be supported by a claw-back provision for incentives paid within 12 months of any materially misstated statements.

### **New annual bonus measures to strengthen links to strategy**

The Annual Bonus is currently based on performance over the preceding 12 months, based on the following KPI's: TSR (relative measure), Net cash from operating facilities, Operational Excellence (Oil and gas production, LNG sales, Refinery availability, Chemical plant availability) and Sustainable Development (Total Recordable Case Frequency (TRCF)).

The annual scorecard metrics have been revised to remove Total Shareholder Return (TSR), which is more appropriate for longer-term incentive plans. There will instead be a new measure of Project Delivery, which is a critical factor in our industry, and the weighting for net cash from operating facilities, will be increased. We have also introduced the Dow Jones Sustainability Index (DJSI) into our Sustainable Development measure, which we think will ensure competitiveness in this area as it will compare our performance of others in the Oil and Gas Industry. Overall, the new annual scorecard will therefore be Project Delivery (20%), Operational Cashflow (30%), Operational Excellence (30%) and Sustainable Development (10% each for TRCF and DJSI).

The Project Delivery Measure combines project cost and project delivery on a 50/50 basis for a selected group of projects, consisting of an annually agreed list of major post-Final Investment Decision projects in the “execute phase”, operated by RDS. The score will be based on the percentage of identified projects which stay within a margin of 10% on cost and three months slippage against the on-stream date. Cost and timing references will be based on the business plan for the year.

We are also introducing an individual performance component to increase personal accountability for short-term results. The CEO will assess the Executive Directors based on individual performance contracts. He will then determine an individual performance factor which may increase or decrease the individual's bonus.

### **New Long-term incentive plan (LTIP) measures to strengthen links to strategy**

As we described in our 2008 Annual Report, we have changed the composition of the LTIP measures from 100% TSR to a balance of measures: TSR (30%), EPS (30%), net cash from operating activities (20%) and hydrocarbon production (20%). These metrics will all be judged

on a relative basis against the large-cap oils peer group. Your feedback on the change to this broader range of measures was generally supportive.

Recognizing the importance of share price development for shareholders, the overall payout on LTIPs will be capped at 50% of the maximum potential payout in the scenario where the TSR element does not vest.

Ends