

Stichting Shell Pensioenfonds

Your pension at Shell



Indexation of pensions



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This brochure describes the indexation of pensions in payment and deferred pensions, both in a general sense and for Shell Pension Fund in particular.

The brochure is intended for participants, former participants and beneficiaries of Shell Pension Fund. No rights may be derived from the information contained in this brochure.

We would like to express our thanks to the Members' Council for its contribution to the realization of this brochure.



Indexation in brief

Indexation is the adjustment of pensions that are in payment and/or have been deferred (non-contributory pension entitlements) with a supplement. Indexation is unconditional for certain pension elements, for the rest the Board decides each year whether indexation will be effected.

Unconditional indexation

Indexation is unconditional for certain pension elements. These are adjusted automatically on 1st July of each year without the Board being required to pass any resolution in this respect. Unconditional indexation is effected for:

- compensation for uninsured years accrued before 1st January 2006: this is adjusted in line with the development of AOW benefits;
- compensation for forfeited AWW benefits that were granted to the surviving partner of a participant who died before 1st July 1996: this is adjusted in line with the development of Anw benefits;
- transitional pension, widow's transitional pension, the under-65 allowance and partner's and orphan's pensions in payment prior to the retirement date of the deceased participant: these are adjusted in line with the development of the normal maximum of salary group 15 of Shell;
- disability pensions in payment: these are recalculated annually in line with the salary group maximums at Shell.

Conditional indexation

Indexation is conditional for all other pensions in payment and non-contributory pension entitlements. Each year the Board decides whether such an adjustment will be effected. The Pension Fund's aim is to keep the pension rights

and pension entitlements inflation-proof and to adjust them on 1st July of each year in line with the derived consumer price index as determined by Statistics Netherlands (CBS) for the reference period from March of the previous year until March of the current year. Once indexation has been granted, it becomes unconditional.

Other factors and Five-yearly evaluation

The Board may decide, as a result of, among other things, developments in social security, healthcare or Shell salaries in the Netherlands, to grant a supplement in addition to the conditional indexation described above. Any decision to grant such a supplement is at the discretion of the Board. The execution of the Indexation policy will be evaluated every five years.



What the indexation of pensions entails

Indexation refers to the adjustment of pensions by the payment of a supplement. If a granted pension is never adjusted, its purchasing power would be eroded by inflation. Pensions can be adjusted in different ways, for example on the basis of price movements (inflation-proof) or on the basis of salary developments (prosperity-linked). Other forms of adjustment are also possible.

For whom is indexation important?

Shell Pension Fund operates a final pay scheme: the pension is based on the last earned salary. In such a scheme, indexation only has a role to play when the pension has been granted. This is the case for a pension beneficiary receiving a pension, as well as for a former participant. A former participant is a person who has left Shell service and who has been granted a deferred pension, but who is not yet receiving this pension. Indexation for former participants is the same as for pension beneficiaries. This is stipulated by the Pension and Savings Funds Act.

Types of indexation

Unconditional indexation

Pension funds may only guarantee future indexation with absolute certainty if they reserve funds to that end. This is referred to as unconditional indexation: indexation is granted automatically. However, guaranteeing indexation with absolute certainty is so expensive, that practically no pension fund does so.

Conditional indexation

It is the aim of most pension funds to maximize the probability of granting indexation, but they can never give cast-iron certainties about this. This is referred to as conditional indexation. A characteristic of conditional indexation is that it is not granted automatically. The board of administrators of the pension fund will decide on this each year. The decision may be based on a clearly defined indexation policy. On the other hand, a pension fund may not have formulated

an indexation policy and is entirely free to decide whether or not to grant indexation.

Tighter regulation

Over recent years it has emerged that the indexation of pensions has not always been done as a matter of course in the Netherlands. A period in which pension funds realized high returns on their investments was followed by a period of economic decline. This made it impossible for many pension funds to adjust their pensions in line with price movements and much discussion was devoted to the 'right' to indexation. Government considers it important that clear communications exist about indexation and about the conditions under which indexation is granted. This is why certain aspects of the regulations have been tightened up.

Financial Assessment Framework

Government has established new rules for pension-fund supervision. These rules are set out





in the Financial Assessment Framework (Financieel Toetsingskader) that will apply to pension funds as of 1st January 2007. There is a transitional regime under which these supervision rules can be implemented in advance. Shell Pension Fund decided to adopt the regime as of 1st January 2006. The Financial Assessment Framework and the transitional regime also contain rules for indexation. The purpose of these rules is that participants, former participants and pension beneficiaries receive adequate information about what applies to them.

Indexation matrix

Consultations involving the Ministries of Social Affairs and Finance, the social partners, the pension fund industry organizations and De Nederlandsche Bank in its role as supervising authority (see section titled 'Supervision' on the bottom of this page), led to the publication of the Indexation matrix in April 2005.

The Indexation matrix contains rules for defining the indexation policy, financing the indexation, the precise wording to be included in the pension regulations and the communication about indexation to all stakeholders. All these aspects are intended to form a rational and coherent framework.

All pension funds must comply with these rules. The Indexation matrix also applies to those pension funds that have adopted the transitional regime of the Financial Assessment Framework, as is the case for Shell Pension Fund as of 1st January 2006.

New Pensions Act

A new Pensions Act currently being discussed by the Lower House of the Dutch Parliament is anticipated to enter into effect on 1st January 2007. The Financial Assessment Framework and the Indexation matrix will be incorporated into this.

SUPERVISION

De Nederlandsche Bank (DNB) supervises the operations of pension funds in line with the provisions of the Pension and Savings Funds Act (Pensioen- en spaarfondsenwet, PSW). These provisions apply to, among other things, the Constitution, the Regulations, the finance agreements of pension funds with employing companies and the financial and actuarial principles of pension funds. DNB also

assesses the expertise of the members of the board of administrators and the other policy-makers of pension funds. Furthermore, DNB assesses whether the indexation policy, the financing of the indexation, the relevant wording of the pension regulations and the communication about indexation to all stakeholders form a well-aligned and rational framework.

Indexation and Shell Pension Fund

Shell Pension Fund applies conditional indexation to elements of the pension with the exception of those subject to automatic adjustment. This applies to the entitlements of all pension beneficiaries and former participants. No distinction is made between regulations that may apply to them.

Indexation policy

The Board applies a particular policy for this and on the advice of the Members' Council in 2001, this was set out in a document known as the 'Policy on cost of living increases'.

The Indexation matrix demands the provision of clearer information than provided by the existing Policy on cost of living increases. As of 1st January 2006, the wording of Shell Pension Fund's Indexation policy complies with the rules in the Indexation matrix. As of that date the 'Policy on cost of living increases' is referred to as 'Indexation policy'. The term 'indexation' is a frequently used concept in the Dutch pensions industry and occurs in all kinds of publications and official documents. Shell Pension Fund

conforms to this. Its policy has not been amended, however. Two aspects of the policy have been improved: funds are now set aside for unconditional indexation and a catch-up adjustment facility has been added to conditional indexation (see page 10).

Unconditional indexation

Certain elements of the pension are adjusted automatically on 1st July of each year. This is independent of the date on which the pension was granted. The Board of the Pension Fund is not required to pass any resolutions in this regard. The adjustment is made on the basis of the developments in social security or the salaries at Shell in the Netherlands.

The following elements are adjusted automatically:

- Compensation for uninsured years, accrued before 1st January 2006, is adjusted in line with the development of AOW benefits for a married couple whose sole income comprises these benefits, who have always lived in the Netherlands and of which both partners have reached the age at which they are eligible for AOW benefits.
- Compensation for forfeited AWW benefits made to the surviving partner of a participant who died before 1st July 1996, follows the trend of the Anw benefits, if a period of service abroad means that no rights to AWW benefits have been accrued.



- The transitional pension and the widow's transitional pension (to bridge the gap until AOW benefits are payable), the under-65 allowance (to compensate for the higher rate of tax up to the age of 65) and partner's and orphan's pensions in payment for which the original retirement date of the deceased participant has not yet been reached are adjusted in line with the normal maximum of salary group 15, as applied in the remuneration system of Shell Nederland B.V.
- The disability pension is recalculated annually as of 1st July on the basis of the salary maximums as applied in the remuneration system of Shell Nederland B.V.

Conditional indexation

For all other pensions in payment and deferred pensions, indexation is conditional.

Pensions in payment to pension beneficiaries and deferred pensions are eligible for indexation if these pensions were granted to former participants before 1st March of the year in which indexation is effected.

Inflation-proof pension is the goal

Every year, the Board decides whether indexation is to be effected. The goal of Shell Pension Fund is to maintain inflation-proof pensions. As a basic criterion, Shell Pension Fund endeavours to adjust the pensions to the rise or fall of the 'derived price index for all households' over the reference period from March of the previous year until March of the current year, as published by Statistics Netherlands (see section titled 'Derived price index').

Once indexation has been granted, it becomes unconditional.



DERIVED PRICE INDEX

The goal of Shell Pension Fund is to maintain inflation-proof pensions, i.e. to adjust them in line with price movements (inflation). To determine the price movement, we use the index published by Statistics Netherlands (CBS). CBS publishes different indices. Shell Pension Fund uses the 'derived price index for all households'. This is derived from the consumer price index.

The consumer price index reflects the price development of a package of goods and services, as they are generally purchased by households in the Netherlands. Not all cost components are included in the package, e.g. income tax, social security contributions and healthcare expenses.

The derived price index reflects the consumer price index without the developments in indirect taxation (e.g. VAT) and subsidies. Shell Pension Fund has deliberately chosen to adopt the derived price index as its yardstick so that price movements resulting from Government incomes policy are not taken into account. In practice, the development of both index figures varies from year to year.

Price index rises and indexation (as percentage)

	2005	2004	2003	2002	2001
Rise of CBS derived consumer price index for all households (period March/March)	1.4	0.8	2.3*	3.7	3.5
Indexation	1.4	0.6	2.5	3.7	6**

* originally 2.5%, later adjusted by Statistics Netherlands (CBS) to 2.3%

** incl. 2.5% supplement

Catch-up adjustment

It is possible that partial or no indexation is effected in a particular year. The Board may decide after all to grant all or some indexations that were not granted or only partially granted in the past. This is referred to as catch-up adjustment.

Shell Pension Fund has decided to make catch-up adjustments possible as of 1st January 2006. This is an improvement of the Indexation policy: the likelihood of full indexation actually being effected is therefore increased.

Guidelines for catch-up adjustments

The key guidelines for granting catch-up adjustments are:

- The Board may decide to grant a catch-up adjustment if the Pension Fund's financial resources permit this.
- A catch-up adjustment relates only to future payments and is not applied with retroactive effect.

- The maximum period for which catch-up adjustments may be granted is five years, where catch-up adjustments are granted only in so far as indexation has actually been omitted in the past.
- In the case of partial catch-up adjustments, the earliest indexation not granted will be the first to be granted.

EXAMPLE OF CATCH-UP ADJUSTMENTS

Ms Wester receives a pension to the amount of € 10,000 p.a. The increase in the derived price index for all households is 2% in year x. The Board decides to grant an indexation of only 1% in that year. Ms Wester's new pension then amounts to € 10,100.

In the following year, the increase in the derived price index for all households is again 2%. The Board decides to grant an indexation in full for that year and to grant a catch-up adjustment for the 1% it omitted in the previous year. Ms Wester's pension is first increased by 2%:

$$€ 10,100 \times 102\% = € 10,302.$$

The catch-up adjustment is then effected:

$$€ 10,302 \times 102\% / 101\% = € 10,404.$$





- In a given year, the first decision is whether to grant indexation, after which it is decided whether any catch-up adjustments are to be granted in respect of past years.

Other factors

In addition to conditional indexation discussed above, the Board may decide to grant a

supplement based on other factors such as developments in social security, healthcare or salaries at Shell in the Netherlands. No further criteria have been agreed; such a decision is and remains at the discretion of the Board. If there are grounds for a supplement, it may only be granted if the financial position of Shell Pension Fund permits this.

Five-yearly evaluation

Indexation as effected in practice will be evaluated at five-year intervals. This will investigate, among other things, the indexation that has been granted and how this was determined. The evaluation may also focus on other factors discussed above. No rights to a supplement to the adjustments already granted by the Board may be derived from the fact that an evaluation will be held or from the results of such an evaluation. Evaluations were held in 2000 and 2005.





Financing indexation

A reserve has been set aside for unconditional indexation. The reserve for this indexation was included in Shell Pension Fund's liabilities.

No reserve has been set aside for conditional indexation, nor are contributions paid for such indexation. Conditional indexation is financed from any returns on investments that exceed those necessary to finance long-term pension liabilities. There is room for indexation when the actual returns on investments are higher. The Board decides whether that will actually take place.

At the end of the last century and the beginning of this one, many pension funds granted contribution discounts or even contribution holidays. These are periods during which participants or the employing company pay lower or no pension contributions. Under the Financial Assessment Framework and the New Pensions Act, pension funds are required to exercise restraint in reducing pension contributions. This is certainly the case for pension funds with the stated aim of providing inflation-proof pensions. Reduced pension contributions may only be granted if a pension fund anticipates being able to meet the expectations regarding indexation,

both at the time the reduction is granted and in the future. The funding policy of Shell Pension Fund is geared to this.

Text in the Pension Regulations

To make the prospect of indexation as clear as possible, the Indexation matrix contains prescribed text that must be included in the pension regulations. This prescribed text has been incorporated into the new pension regulations, Regulations V (see section titled 'Indexation in Regulations V' on page 13).

The old pension regulations also included provisions for indexation. The wording of the old pension regulations has not been amended however, as it is not customary to do so. It is also unnecessary because the Indexation policy is the same for all participants, former participants and pension beneficiaries. This was already the case and has not changed. The wording of Regulations V is more explicit. The *unconditional indexation*, that the pension regulations had not provided for to date, has now been defined in Article 19.1. The aim and the yardstick for *conditional indexation* are formulated with greater clarity in Article 19.2 of Regulations V.



INDEXATION IN REGULATIONS V

19 Supplements to deferred pensions and pensions that have taken effect

19.1 Unconditional supplements

On 1st July of each year, an adjustment shall be made to a partner's lifelong pension or orphan's pension that has been granted and has entered into effect, in so far as the Retirement Date of the deceased Participant or Former Participant has not yet been reached, and to a supplementary pension that has been granted and has entered into effect, in line with the development of the normal maximum salary of salary group 15 as employed in the remuneration system of Shell Nederland B.V. A granted disability pension is adjusted as described in Article 12.5.

19.2 Conditional supplements

Pension entitlements that have entered into effect and non-contributory pension entitlements, other than the pensions referred to in Article 19.1 and transitional provisions 6 and 8, may be adjusted for cost of living as of 1st July each year by no more than the increase or decrease in the 'derived price index for all households' as published by Statistics Netherlands (CBS) over the reference period from March of the previous year to March of the current year.

Eligible for adjustment as aforesaid are pension entitlements granted before 1st March of the year in question. Each year, the Pension Fund determines the extent to which such pension rights and pension entitlements are to be adjusted. If financial resources so permit, the Fund may decide to fully or partly catch up cost-of-living increments not granted or only partially granted in the past. Catch-up adjustments relate only to future payments. No specific reserves have been formed for this conditional adjustment promise and no contributions are paid to cover this.



Communication about indexation

Besides mandatory wording in the regulations (see section titled 'Indexation in Regulations V' on page 13), the Indexation matrix imposes requirements on communications about indexation to pension beneficiaries, former participants and participants. Distinction is made between communication about the Indexation policy and communications when indexation is actually granted.

Communications about the Indexation policy include, for example, brochures or general information published on the website of Shell Pension Fund. Communications when indexation is granted relates, for example, to the text that appears in the Pension Overview sent to all pension beneficiaries and former participants in June of each year and which provides details about the pensions and the adjustments.

Communication about the Indexation policy

Shell Pension Fund is required to provide clear information about its indexation policy in its communications about the contents of the Pension Scheme. Information regarding conditional indexation, must, for example, state that it is the aim to keep the pensions in payment and granted pension entitlements inflation-proof. It is also stated that this is realized on the basis of the derived price index for all households as published by the CBS.

Finally, an indication must be given of the likelihood that Shell Pension Fund will grant full indexation, i.e. matching the derived price index, in the long term. This likelihood is calculated by means of a continuity analysis. Such an analysis is conducted by means of an Asset Liability Management study (ALM study). This is a long-term study carried out once every three years. The objective of Shell Pension Fund to meet its pension liabilities

forms the baseline for the arithmetical model. Shell Pension Fund therefore aims to keep pensions in payment and deferred pension entitlements inflation-proof and to realize this by means of low and stable pension contributions wherever possible.

The ALM study employs an advanced arithmetical model to elaborate a large number of different scenarios. These are scenarios linked to the development of Shell Pension Fund's assets and liabilities. The arithmetical model is based on various situations for the development of inflation, interest and returns on investments, for example.

Based on this ALM study, it is anticipated that Shell Pension Fund will grant approx. 92% of the maximum indexation in the long term. This does not mean that only 92% of the derived price index trend will be granted each year. Taken over a large number of years, it is anticipated that 92% of the total annual developments in the derived price index will be granted.

This is the expectation; in reality, however, the percentage may be higher or lower.

Communication when indexation is granted

Besides the mandatory text that Shell Pension Fund must use in its communications about the Indexation policy, the Indexation matrix also contains mandatory text that the Pension Fund must use if it decides to grant indexation. It must be stated that such indexation is conditional and



MANDATORY TEXT ABOUT THE INDEXATION POLICY

This is the mandatory text that, according to the Indexation matrix, Shell Pension Fund must use in its communications regarding the Indexation policy:

'The general principle is that the Pension Fund endeavours to align pension entitlements with the rise or fall of the derived consumer price index as of 1st July of each year, as determined by Statistics Netherlands

(CBS), over the reference period of March of the preceding year to March of the current year.

On the basis of a continuity analysis, in accordance with the instructions of the supervising authority, it may be expected that approx. xx% of the maximum indexation can be granted in the long term.'



that it is Shell Pension Fund's aim to maintain pensions in payment and granted pension entitlements inflation-proof and to adjust them in line with the derived price index for all households. The Pension Fund is also obliged to state that the Board decides each year whether indexation is to be granted, that there is no right to future indexation and that no reserves have been set aside for future indexation.

The Indexation matrix also stipulates that the degree to which indexation has been effected in the year in question must be indicated. This is calculated with the aid of the agreed criterion. In the case of Shell Pension Fund, this is the derived

price index for all households. If, for example, the development of the derived price index is 1% and the Board decides to grant 1% indexation, this is deemed to be full indexation according to that yardstick. However, if the Board decides to grant 0.8% indexation, this is not considered as full indexation. In that year, indexation is not 100% but 80% of the full indexation according to the aforementioned yardstick. Furthermore, the Board may decide to grant a supplement on the basis of the other factors described on page 5. A separate indication will be given of this. This is also the case if the Board decides to grant a catch-up adjustment.

Once indexation has been granted, it becomes unconditional. The reserve set aside for this granted indexation is included in Shell Pension Fund's liabilities.

In accordance with the Indexation matrix, the following text must be included in communications about the granting of indexation:

'There is no right to future indexation. The indexation of your pension right/pension entitlement is conditional. The general principle is that the Pension Fund endeavours to align pension entitlements with the rise or fall of the

derived consumer price index as of 1st July of each year, as determined by Statistics Netherlands (CBS), over the reference period of March of the preceding year to March of the current year. The Board of the Pension Fund determines the indexation in any given year.

Your pension right/pension entitlement has been fully indexed (or indexed at x%) this year. It is uncertain whether and to what extent indexation will be possible in the future.

No funds have been reserved for future indexation.'

INDEXATION IN PRACTICE

Unconditional indexation is effected automatically on 1st July of each year without the Board being required to pass any resolution in this regard. The Board makes a new decision every year regarding conditional indexation. The decision-making process is described in the following. The Board first makes an intended decision on the basis of the considerations set out on pages 9-11. This usually takes place in April. This decision is clearly influenced by the financial position of Shell Pension Fund. The intended decision is then submitted to the Members' Council for its advice. On receipt of the advice, the Board makes a final decision. This usually takes place in May. Shell Pension Fund submits its final decision to Shell Petroleum N.V. for its approval. When the entire procedure is complete, Shell Pension Fund carries out the calculations for all pension beneficiaries and former participants. The letters are then prepared to notify them about any indexation. This usually takes place in June. Shell Pension Fund then sends approx. 28,000 letters. Information about the granted indexation is also published in Voeksnieuws and on Shell Pension Fund's website.



Key terms

Compensation for uninsured years

Compensation granted by the Pension Fund until 1st January 2006 to participants who had worked for Shell abroad and have a shortfall in their AOW accrual on that account.

Consumer price index, CPI

Also referred to as the price index for all households. Figure that represents the average price movement of a package of goods and services purchased by households for consumption. Expenditure relating to healthcare insurance, income tax or social security contributions does not form part of this package.

Derived price index

The Derived price index reflects the regular consumer price index, but excludes the effects of changes in the rates of product-related taxes (e.g. VAT and excise on alcohol and tobacco) and subsidies.

Disability pension

Referred to in the past as the invalidity pension. This is the pension that a participant receives if he becomes disabled in accordance with the criteria of the pension regulations.

Final pay system

A pension scheme in which pension is calculated on the basis of the last earned salary .

Financial Assessment Framework

A set of rules relating to the financial supervision of pension funds as applied by De Nederlandsche Bank.

Five-yearly evaluation

A study is conducted every five years to establish how indexation has been effected in practice.

Former Participant

A former employee of Shell, who is no longer accruing pension rights and to whom deferred pension entitlements have been granted which are not yet in payment.

Indexation matrix

Rules for defining the indexation policy, financing the indexation, the wording to be included in the pension regulations and communications about indexation to all stakeholders.

Other factors

Factors on the basis of which the Board may decide to grant a supplement in addition to conditional indexation. These other factors refer, for example, to developments in social security, healthcare or the development of salaries at Shell in the Netherlands.

Participant

A person in the service of a Shell company accruing pension entitlements with the Pension Fund.

Regulations V

Regulations that apply to those people who were Pension Fund participants both on 31st December 2005 and on 1st January 2006 and to those who become participants from 1st January 2006 onwards.

The Pension Fund, Shell Pension Fund

Both names refer to SSPF, Stichting Shell Pensioenfond (Shell Pension Fund Foundation).

More information

If you have any questions about this brochure or if you require more information, please contact Shell Pension Fund.

The pension administration staff can access your pension records and would be glad to give you personal information.

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