

Shell Pensioenfond's Newsletter

Funding ratio fluctuating around 80%

End of April/beginning of May 2009, the funding ratio of the Pension Fund, the ratio between the assets and pension liabilities, fluctuated around 80%. Of course, this is still linked to developments in interest rate and financial markets. The funding ratio remains very volatile under these developments.

No conditional indexation of pensions

The Board of the Pension Fund has decided not to grant conditional indexation as of July 1, 2009. This means pensions in payment and deferred pensions will not be adjusted in line with price increases. Adjustments will be made for pension components for which indexation is unconditional. The Pension Fund immediately notified pension beneficiaries and former participants of this decision by means of a personal letter.

Conditional indexation is not permitted while the funding ratio is less than 105%.

Future indexations will be applied on the basis of the indexation policy. Should the financial situation of the Pension Fund afford sufficient latitude, the Board of the Pension Fund may resolve to make catch-up adjustments, doing so up to no more than 5 years later.

Long-term recovery plan

Increase the employer's contribution, a lower-risk investment policy and indexation only if the funding ratio has increased sufficiently. These are the components of Shell Pension Fund's long-term recovery plan in which the Pension Fund sets out how it anticipates restoring the funding ratio within 15 years to the level demanded by De Nederlandsche Bank (DNB). The plan is based on assumptions regarding the future that are as realistic as possible within the parameters set by DNB. The reality may prove different of course. Willem Boeschoten, investment strategist with Shell Asset Management Company BV (SAMCo) and member of the working party that drew up the plan, explains. *Continue on page 2.*

Cautious investment policy

Shell Pension Fund's long-term investment policy will be more cautious. This is an important component of the long-term recovery plan. The Pension Fund will invest somewhat less in shares than in the past, and more in –amongst others- fixed income. Bart van der Steenstraten is Managing Director of SAMCo, the organisation that manages the investments of various Shell pension funds, including the large Shell Pension Fund in the Netherlands. He explains what changes have been made to the Pension Fund's investment policy. 'We remain convinced that a pension fund must set its sights on the long term. You must continue to take a certain level of risk, as you will otherwise not earn enough. Good returns are needed to meet pension commitments and, if possible, to apply indexation in accordance with Pension Fund policy. And all this must also remain affordable.' *Continue on page 3.*

Positive reaction from Members' Council

The Members' Council has issued a positive advice regarding the long-term recovery plan. Dick Swier, member of the Members' Council comments: 'The Pension Fund used a large number of scenarios (potential future outcomes) to plot a path to recovery. In two workshops together with management and the Chairman of the Board with frank and comprehensive discussions, we focused on the current situation and the recovery plan. *Continue on page 4.*



Long and short term recovery plans

The Pension Fund has devised two recovery plans: one for the short term and one for the long term.

The short-term recovery plan was submitted on December 19, 2008 and aims to return the funding ratio of the Pension Fund to the minimum required level of 105% within no more than 3 years. One of the provisions of this plan is that Shell will supplement the Pension Fund's assets by means of additional funding. Moreover, the employer's contribution increased from 5% to 23.6% on January 1, 2009. The employee's contribution on that part of the salary that exceeds the maximum of salary group 5 (currently: EUR 74,881) increased from 2% to 8% on that same date; this is the normal level under the current pension regulations. The investment policy was also adjusted temporarily at the end of October 2008. The Pension Fund currently invests far less in shares.

The long-term recovery plan builds on the short-term recovery plan. The aim of the long-term plan is to realise the required funding ratio of 127% within 15 years, i.e. by the end of 2023.

De Nederlandsche Bank supervises the recovery plans

De Nederlandsche Bank (DNB) is the regulator of Dutch pension funds. In that capacity DNB has already approved the short-term recovery plan and will now assess whether the Shell Pension Fund's long-term recovery plan is realistic and feasible. We anticipate a response before mid-2009. The Pension Fund reports to DNB on a quarterly basis. It will also submit annual progress reports in respect of the recovery plan. In this regard the Pension Fund will report on, among other things, the actions it has taken, the results of these actions and the current financial position of the Pension Fund.



Willem Boeschoten

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The short-term recovery plan sets out how to return the funding ratio to the minimum required level of 105% and makes provision for additional funding by Shell. The long-term recovery plan builds on this and demonstrates how the required level of 127% may then be attained. There are three components to Shell Pension Fund's long-term recovery plan.

- 1) Certain aspects of investment policy have been adjusted. For example, the Pension Fund will invest less in shares and more in fixed income (see article titled '*Cautious investment policy*').
- 2) The employer's contribution will rise. This contribution was increased from 5% to 23.6% as of January 1, 2009 and will increase further to 32.1% as of July 1, 2009. That increase is linked to the development of the funding ratio. The employee's contribution is laid down in Regulations V and remains at 2% on that part of the salary up to the maximum of salary group 5 (currently EUR 74.881), and at 8% on that part of the salary that exceeds this.
- 3) The indexation policy remains unchanged, even in the recovery period: i.e. no indexation will be applied while the funding ratio remains below 105%. If the funding ratio is above this level, but could drop below it again as the result of indexation, no (full) indexation may be applied.

Willem Boeschoten comments: "These are the three buttons you can press to ensure a healthy future for the Pension Fund, and they are interrelated to a great extent. The recovery plan sets out how the Pension Fund may return to the required funding ratio of 127% within 15 years. This funding ratio is codependent on the risk level of the investment policy. The greater the risk, the greater the financial buffer DNB demands of a pension fund. Nobody knows exactly how the financial markets will develop or what will happen to interest rates. That's why we have opted for an average anticipated development in the recovery plan.

The long-term recovery plan must comply with the requirements of our regulator DNB. For example, you must not base your prognoses on returns that are too high, on the other hand you must not underestimate the level of inflation or the wage trend. The results would otherwise be loaded in your favour. It has been laid down that we should take account of a minimum 2% for inflation and 3% for the wage trend. Such figures are quite high under present circumstances, and we do not anticipate such rises in the short term, but things may have changed again in a few years' time. DNB was also consulted while the recovery plan was being drawn up to make sure that we were on the right track.'

Continuation of “Cautious investment policy” from page 1

Temporary adjustments were made to the investment policy at the end of October 2008, when the financial markets went into freefall. Bart van der Steenstraten continues: ‘The plan for 2008-2010 was based on 55% shares, 30% fixed-interest and 15% alternatives. The latter category comprises amongst others hedge funds, private equity and real estate. These alternative investments are less risky than shares. In view of the dramatic developments in the financial markets and their impact on financial institutions and the world economy in general, the Board of the Pension Fund decided to change to a temporary distribution of 30-50-20. This may be considered a defensive mix with far fewer shares, more fixed-interest and slightly more alternatives. The long-term recovery plan is based on a 45-35-20 distribution. A lower risk level than in the past, but clearly more shares than in the current temporary situation. The Board decided first to maintain the defensive mix and not to transition to the new long-term investment policy until global developments justify such a move.’

In the past, the Pension Fund has also invested borrowed capital, particularly in hedge funds. As expected, this gave a positive return in the period between 2001 and 2007, after payment of interest on loans, even in the less favourable investment years at the beginning of that period. In view of the developments in 2008 and within the context of the recovery plan, loans will now be redeemed in full. The regional



Bart van der Steenstraten

distribution of the share investments will also change. In the past, 25% of the shares were invested in emerging markets; this will now be 20%. These 5 percentage points have been transferred to investments in European shares. This reduces the liquidity risk for the Pension Fund, which is linked to hedging currency risks on investments outside the Euro zone.

NO VALUE TRANSFER FOR THE TIME BEING

Value transfer involves the transfer of pension entitlements accrued while working for a former employer to the pension scheme of the new employer. The aim is to minimise any (partial) loss of pension resulting from transfer to a new job wherever possible. Value transfer can be effected either into or out of the Shell Pension Fund.

However, value transfer is not permitted if the funding ratio is less than 100%. This is currently the case for many pension funds, including the Shell Pension Fund. That is why there is currently very little value transfer between pension funds.

PROGNOSIS FOR FUTURE LIABILITIES

When drawing up a long-term recovery plan, the Pension Fund must consider many uncertain factors. Nobody can tell, for example, how share prices and interest rates will develop. That is why the Pension Fund uses a large number of scenarios, which will ultimately yield an average outcome.

Maud Slabbers, Pension Fund actuary explains: ‘We chart how many people have yet to retire and consult Shell about the Company’s prognoses regarding the development of its workforce. Another key aspect is how long people are anticipated to receive pension benefits. Survival charts indicate the life expectancy of the Dutch population. You can drill down for the life expectancy of the working population, and then focus in on Shell. On average Shell employees live longer than the Dutch working population as a whole. That is nice, but it does result in higher pension liabilities.’

Additional funding by the employer

Under the provisions of the Administration Agreement between the Shell member companies and the Pension Fund, if the funding ratio repeatedly falls below 105% over a six-month period, the employers make additional funding available in order to return the assets of the Pension Fund to the minimum required funding ratio.

The employer’s contribution has increased from 5% to 23.6% and will increase further to 32.1% as of July 1, 2009. The additional funding is on top of the substantial increases in the employer’s contribution. By way of comparison: the employee’s contribution amounts to 2% on that part of the salary up to EUR 74,881 and 8% above this.

Questions & Answers

1 Will the pension scheme change as a result of this recovery plan?

No. The pension scheme will not change as a result of this recovery plan. The Pension Fund, which drew up the plan, administers the pension scheme. The pension scheme arises from the pension agreement between Shell employers and their employees.

2 Will there be any catch-up adjustment to compensate for missed indexation?

This is possible, but will not be applied automatically. Under the indexation policy the Board may decide to compensate for missed indexation in whole or in part. Of course, the financial situation of the Pension Fund must permit this; the funding ratio must be high enough. Catch-up adjustment in respect of missed indexation may be applied up to 5 years later.

3 Will the employee's contribution increase further if the situation deteriorates?

The level of the participant's contribution is laid down in the Regulations. Any increase above the level laid down in the Regulations may only be made on the employer's initiative. The pension agreement and subsequently the Regulations would have to be amended to that end. This is currently not up for discussion.

4 Will the Pension Fund be investing at a lower level of risk?

This has been the case since end of October 2008. Shares currently account for 30% of the overall portfolio, while fixed income accounts for 50%, and alternative investments (hedge funds, private equity and real estate) account for 20%. Before October 2008, shares accounted for 55% of the portfolio. This is a temporary adjustment. In the long-term recovery plan, the Pension Fund has decided that the portfolio will comprise 45% shares, 35% fixed-interest and 20% alternatives. The Board is closely monitoring global developments and on this basis will eventually decide when and how to make the transition to the new investment mix.

Disclaimer

The companies in which Royal Dutch Shell plc direct or indirect owns investments are separate entities with an own identity. In this newsletter the expression "Shell" is used where reference is made to Group companies and joint ventures that have joined the Shell Pension Fund.

No rights can be derived from this newsletter. The Regulations contain the official text of the pension scheme.



Dick Swier

Continuation of "Positive reaction from Members' Council" from page 1

Based in part on the workshops and thorough consideration, we issued our advice at the end of March. We clearly benefited from the fact that the Members' Council can call upon the relevant areas of expertise from within our midst: financial, legal and pensions. In our opinion and under current conditions, this is a realistic plan, of course with uncertainties regarding the assumptions on the future results of investment policy and interest rate.'

Dick Swier indicates that the Members' Council has received quite some reactions from across the country regarding the sharp drop in funding ratio. 'These responses are critical and sometimes quite emotional. People are concerned, justifiably so, and are wondering how this could have occurred and what the implications are for the future of their pensions. We try to answer their questions as best we can without assuming the position of the Board of the Pension Fund. We would emphasise that we, participants and pension beneficiaries, find ourselves in a relatively favourable position compared to many other pension funds: Shell is a good sponsor in this regard, as the Pension Fund can fall back on additional payments up to a funding ratio of 105%. And few pension funds can rely on such facilities.'

The English version of this newsletter is only available in digital format.

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