

USS Comment on Oil Sands Shareholder Proposal at Royal Dutch Shell May 2010

Resolution 23 Shareholder Proposal Regarding Report on Oil Sands :

That in order to address our concerns for the long term success of the Company arising from the risks associated with oil sands, we as shareholders of the Company direct that the Audit Committee or a Risk Committee of the Board commissions and reviews a report setting out the assumptions made by the Company in deciding to proceed with oil sands projects regarding future carbon prices, oil price volatility, demand for oil, anticipated regulation of greenhouse gas emissions and legal and reputational risks arising from local environmental damage and impairment of traditional livelihoods. The findings of the report and review should be reported to investors in the Business Review section of the Company's Annual Report presented to the Annual General Meeting in 2011.

Source: Shell Notice of AGM, 2010

This shareholder proposal resolves that the audit or a risk committee commission and review a report outlining the assumptions made by the Company in deciding to proceed with oil sands projects. Specific topics that should be covered are future carbon prices, oil price volatility, demand for oil, anticipated regulation of greenhouse gas ("GHG") emissions and legal and reputational risks arising from local environmental damage and impairment of traditional livelihoods. The findings should be reported to investors in the Business Review section of the Annual Report and presented at the 2011 annual meeting.

Source: Glass Lewis

USS and Oil Sands

As a responsible and active investor, Universities Superannuation Scheme (USS) has been assessing the implications of oil sands for a number of years. Indeed, in 2009, USS and another European pension fund coordinated a fact finding visit for investors to an oil sands site (operated by Shell), and met with representatives of companies, an NGO, and the Government of Alberta (including the Premier of Alberta) to discuss the issues associated with oil sands.

The issues associated with the extraction and use of oils sands are complex, and factor in the need to provide for global energy requirements, and address local environmental and social impacts, and global climate policy. All these issues are interrelated. USS therefore views oil sands as the interplay between three issues – operational / site management (within the control of the companies involved), climate policy (outside the control of the company but nonetheless inextricably linked to oil sands), and energy policy (again, outside the control of the companies, but an area where they have influence). All three areas are of interest to long term investors like USS and require attention.

The Shell Shareholder Resolution

The key focus of the shareholder resolution facing Royal Dutch Shell (Shell) was the production of a report, and provision of information to shareholders on the company's decision making processes, and the data used to reach those decisions.

In order to assess the merits of the proposal and understand Shell's position regarding the resolution and the information it requested, USS has undertaken the following:

- USS helped arrange and participated in a full day meeting with Shell in Alberta, Canada. This meeting included a site visit to Shells' Athabasca Oils Sands Project mining operation, and presentations on the economics and environmental issues associated with the company's oil sands operations.
- USS has met with representatives of both representatives of Shell's Board and Executive and discussed issues associated with the company's oil sands operations. This has included board members and the company's Executive Vice President – Oil Sands.

USS has also reviewed the information provided on Shell's internet site (<http://www.shell.com/>) including:

- General information regarding the company's operation in Alberta:
http://www.shell.com/home/content/aboutshell/our_strategy/major_projects_2/athabasca/
- additional and more detailed information also supplied by the company in response to the data request in the resolution: http://www.shell.ca/home/content/can-en/aboutshell/our_business/business_in_canada/oil_sands/unique_resource/

USS has also sought the proponent's views to better understand the rationale for submitting the resolution and participated in conference calls with other investors discussing the item. USS spoke with FairPensions (the UK campaign group for ethical investment of pension funds which is backing the resolution).

USS Voting Action

Taking into account the long-standing work that USS has undertaken on oil sands, climate change and engagement with the company; and given the information that USS received in relation to the resolution from the company (both in terms of written comment and in direct discussion), the proponents, and from independent research providers, USS is of the view that whilst there are still outstanding issues associated with the exploitation of oil sands, Shell has substantially fulfilled the requests made in the shareholder resolution. Accordingly, USS voted in support of management, and cast its vote against Resolution 23.

USS RI Team
20.5.10