

# Analysis of Shell's 2017 remuneration policy

Ahead of Shell's AGM, this paper analyses the firm's proposed remuneration policy. It recommends voting against the policy, due to its misalignment with the interests of shareholders in the context of the low carbon transition.

## Executive summary

This paper analyses the remuneration policy up for binding vote at the Royal Dutch Shell 2017 AGM.<sup>1</sup> It presents three reasons why investors should not support its approval, and engage with the company on the need to make a clearer commitment to transition for low-carbon resilience. First, the policy is underpinned by a corporate strategy that appears inconsistent with the goal of the Paris Agreement to limit temperature rises to well below 2°C, with an ambition for 1.5 (hereafter, <2°C). Second, the policy contains features that could stall progress towards the adoption of a low-carbon business model. Finally, while some progress has been made to include indicators that focus executive attention on greenhouse gas (GHG) emissions, these fall short of the long-term strategic changes required in the context of the transition to a low-carbon economy, as requested by shareholders in the 2015 Aiming for A resolution.

## Key points

ShareAction encourages investors to engage with Shell on the need to transition for <2°C resilience, with remuneration metrics that reward the delivery of a low carbon strategy. If by the AGM the company has not shown considerable progress, we recommend that investors vote against the remuneration policy, communicating that this is due to a lack of proper consideration of the strategic changes required as part of the company's transition to a low-carbon business model.

- Shell's demand forecasts, capital expenditure and strategic priorities suggest the company is aligning for scenarios consistent with over 3°C of warming – more than double the Paris Agreement's ambition of 1.5°C.
- While the 'New Energies' low-carbon portfolio is a positive step, this is only likely to represent 3% of Shell's capital expenditure by 2020. This does not indicate commitment to a business-wide transition.
- The remuneration policy remains heavily weighted towards hydrocarbon project delivery, with the annual bonus containing a 12.5% weighting for LNG liquefaction volumes, a 12.5% weighting for maximising oil and gas production, and a 12.5% weighting for project delivery. It also contains cash flow targets that could encourage executives to focus on maintaining hydrocarbon volumes.
- The policy could incentivise executive behaviour that is misaligned with the long-term interests of shareholders, due to performance and vesting timelines that do not reflect the long-term risk horizons associated with hydrocarbon projects.
- Shell fails to include indicators that meaningfully focus executive attention on transitioning the firm's business model for <2°C resilience. The 10% weighted GHG metric focuses on operational emissions, rather than long-term strategic changes required in the context of the transition.

# Introduction & background

A combination of market, policy and technology-driven factors are transforming the energy sector. As the world embarks on a pathway of low-carbon economic development, shareholders need confidence that the leaders of major oil companies are focussed on adapting their business models for resilience against the backdrop of long-term trends.

At Shell's AGM this May, the company faces a binding vote on its remuneration policy. By indicating and rewarding the delivery of the firm's strategic priorities, incentive structures have an important role to play in the low-carbon transition, and aligning the interests of executives with those of long-term shareholders. This vote provides investors with an opportunity to signal that they expect pay to be linked to sustainable performance.

If supported by 50% of shareholders, the policy will remain in place until 2020. This timeline is critical for addressing climate change. 2020 is the latest year by which emissions must peak to maintain a high probability of remaining below 2°C.<sup>2</sup> It is also important from a legislative perspective. The Paris Agreement requires nations to convene a facilitative dialogue to increase the ambition of their Nationally Determined Contributions (NDCs) emissions pledges in 2018, for enactment in 2020. It is critical that the executives of high-carbon companies are focussed on taking decisive steps over the next three years to prepare for a rapidly decarbonising world.

In 2015, special shareholder resolutions on climate change were filed and passed at BP and Shell, providing a mandate to link KPIs and executive incentives to long-term strategic changes required in the context of the transition to a low-carbon economy.<sup>3</sup> Having signalled this expectation by voting in favour of this Aiming for A resolution, investors must hold the firms to account.

Despite the importance of linking remuneration to the low carbon transition, there is a lack of clarity around what this might look like in practice. In 2016, ShareAction established a framework for investors to help assess whether remuneration policies are aligned with the changes required for oil majors to transition for resilience under <2°C pathways.<sup>4</sup> Following a comprehensive literature review and a series of interviews with industry experts, three criteria were developed. These included:

## 1. Strategic alignment with the transition for low-carbon resilience

Remuneration structures are designed to support the delivery of a company's strategic priorities. If the underpinning strategy is misaligned with low-carbon pathways, the remuneration policy is unlikely to be able to help incentivise <2°C resilience. The starting point for engagement is therefore an assessment of the firm's corporate strategy.

## 2. Removal of remuneration features uncondusive to low-carbon resilience

Metrics that could actively discourage a timely transition to a low-carbon business model must be removed. These include volume-based production incentives and targets that could encourage short-sighted decisions, based on performance timelines insensitive to the risk horizons that long-term investors face.

## 3. Inclusion of measures that signal and reward delivery of a low-carbon strategy

Once companies have identified steps for transitioning for alignment with <2°C pathways, these can be integrated into their remuneration policies; actively acknowledging and rewarding the necessary strategic decisions required.

ShareAction has used this framework to analyse Shell's remuneration updates. We find limited evidence that the company is committed to the long-term strategic changes required for alignment with <2°C pathways, and that the remuneration policy instead overwhelmingly focuses executives on 'business as usual'. In a time of rapid transformation of the energy mix, this puts shareholder value at risk. We conclude that this policy is not in the interests of long-term shareholders, and recommend voting against it at the 2017 AGM.

# Overview of the proposed remuneration policy

Shell's Executive Directors' remuneration structure is made up of a fixed element of basic pay, with the majority of the package tied to two variable elements: the annual bonus (50% delivered in shares) and the Long-Term Incentive Plan (LTIP). An overview of the key measures and weightings is provided in the table below:

Element	Purpose and link to strategy
Base salary and benefits	Provides a fixed level of earnings to attract and retain Executive Directors. Benefits typically cover travel and transport allowances.
Annual bonus	<p>Rewards the delivery of short-term operational targets as derived from the operating plan, and executives' individual contribution to Shell. 50% is delivered in cash, and 50% in shares that are subject to a three-year holding period that apply beyond a director's tenure. REMCO sets scorecard targets that support the delivery of Shell's strategy. Measures are related to 'financial performance', 'operational excellence' and 'sustainable development', weighted at 30%, 50% and 20%. Scorecard targets are disclosed once no longer deemed commercially sensitive.</p> <p>For 2017, operational excellence is measured using LNG liquefaction volumes (weighted at 12.5%), maximising oil and gas production (12.5%), availability of refineries and chemical plants (12.5%) and project delivery (12.5%). Financial performance is measured using cash flow from operations (30%). Sustainable development is measured using operational GHG emissions (10%), process safety (5%) and personal safety (5%).</p>
LTIP	Rewards longer term value creation linked to Shell's strategy, measured over a three year performance period. Shares are subject to a three year holding period, applied beyond an Executive Director's tenure. The measures focus on financial growth and increases in value compared to other oil majors. For 2017, performance is based on absolute free cash flow (25%), total shareholder return (25%), return on average capital employed (25%), and cash flow from operating activities growth (25%). Free cash flows replaces the previous earnings per share (EPS) target.
Pension	Provides a competitive retirement provision in line with the base country benefits policy to attract and retain Executive Directors.
Shareholding	As a percentage of the base salary, the CEO is expected to hold a shareholding of 700%, and other Executive Directors 400%. This should be built over five years, and maintained for their full appointment.

# 1. Strategic alignment with the transition for low-carbon resilience

The first step for investors deciding whether to support Shell's remuneration policy is to examine the strategy that it rewards executives for delivering. While a number of low carbon pathways have been identified for oil majors,<sup>5</sup> central to any credible strategy is the requirement that capital is not allocated to explore, develop and produce reserves inconsistent with the remaining <2°C carbon budget. This capital could be returned to shareholders through increased dividend payments or share buybacks - as part of a managed decline strategy - or reinvested by the company in low-carbon products and services, such as renewables.

This section highlights evidence to suggest Shell is not committed to a credible <2°C strategy. While the company speaks of supporting the low-carbon transition, this is not reflected in its demand forecast predictions, strategic priorities or capital expenditure plans.

## Demand forecasts

The demand projections Shell considers 'most likely' are inconsistent with the goals of the Paris Agreement. Recent analysis highlights the discrepancy between Shell's 'Mountains' and 'Oceans' scenarios, and 1.5°C and 2°C pathways (see graph below).<sup>6</sup> If these forecasts are used to

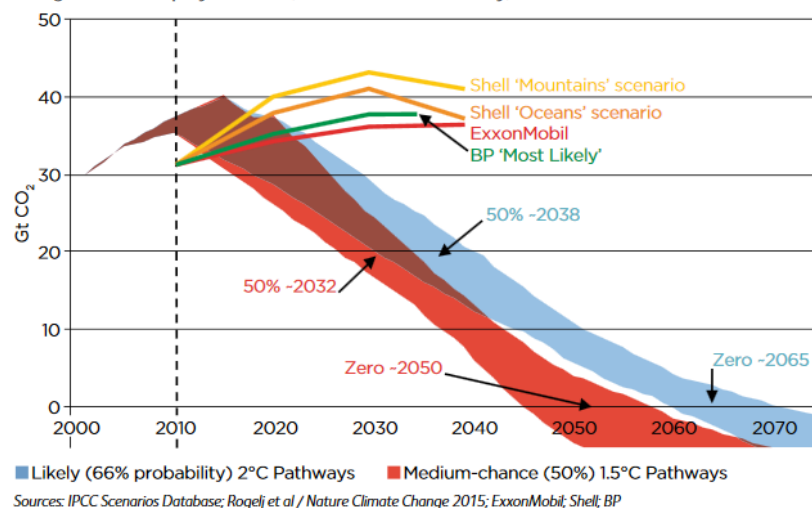
inform strategy and capital allocation decisions, shareholder value could be put at risk. In the case that emission cuts are successful, capital allocated to develop hydrocarbon projects unneeded under low-carbon scenarios will be wasted if these assets are unable to earn returns prior to the end of their economic life (the 'stranded asset' argument).<sup>7</sup> Conversely, if Shell's predications are correct, investors will face portfolio-wide value losses through the systemic risks that unmitigated temperature rises pose to the global economy.<sup>8</sup> A recent study found that continuing to emit emissions on a 'business as usual' trajectory could entail a value at risk of up to 16.9% of the world's manageable assets by 2050.<sup>9</sup>

## Strategic priorities and capital allocation

In 2016, Shell made explicit that it has "no immediate plans to move to a net-zero emissions portfolio over [its] investment horizon of 10- 20 years".<sup>10</sup> Shell's current strategy is based on the expectation of "robust demand for oil and gas for decades to come",<sup>11</sup> with three strategic priorities: cash engines (conventional oil and gas, integrated gas, tar sands, oil products), growth priorities (deepwater and chemicals) and future opportunities (shales and new energies). The table on page five sets out potential challenges to each of these. While Shell has made changes to its strategy, it is unclear if these are consistent with low-carbon scenarios - and highly questionable if they are aligned for resilience under <2°C pathways.

## The Oil Companies Forecast Emissions Going Well Beyond the Paris Goals<sup>18</sup>

Range of IPCC global CO<sub>2</sub> emissions scenarios (from all sources) consistent with Paris goals vs oil company forecasts (from fossil fuel sources only)



Source: Oil Change International and Greenpeace UK (2017)

Strategic priority	Challenges to low carbon resilience
<p><b>Cash engines:</b> Conventional oil and gas, integrated gas, tar sands, oil products</p>	<p>Natural gas makes up over half of Shell's portfolio. With lower emissions than coal and oil, gas is often described as a 'transitional fuel'. Research from the Stockholm Environmental Institute finds that gas can only be considered a transitional fuel if robust guardrails are applied, including: eliminating methane leakages, strategically yielding the greatest substitution effect by displacing coal, and preventing low-carbon technology lock-out (i.e., developments in gas made at the expense of progress in renewables).<sup>12</sup> Investors can question how Shell performs against these criteria.</p> <p>Liquefied natural gas (LNG) is a key cash engine for Shell. Many LNG assets have high-cost operations, putting them at risk under low-demand scenarios. Two years ago, analysts predicted the unviability of projects including Shell's Prince Albert LNG project in British Columbia, given their reliance on high-demand scenarios.<sup>13</sup> Shell has recently announced its intention to shelve this project.<sup>14</sup> With such precedents, investors might question the resilience of Shell's LNG portfolio under low-demand, &lt;2°C scenarios.</p> <p>Tar sands are among the most carbon-intensive forms of oil extraction. With high break-even prices, Carbon Tracker estimates that 92% of potential capex on discovery stage tar sands in the next decade is surplus to requirement under the IEA 450 scenario.<sup>15</sup> Shell recently announced plans to divest \$8.5bn in Canadian tar sands assets. While noteworthy, this does not represent a full departure from the industry. The deal included a transfer of \$3.1bn shares in Canadian Natural Resources – a firm specialising in heavy oil production in the West Canadian Sedimentary Basin. Shell will also jointly acquire Marathon Oil Canada for \$1.25bn, which specialises in oil sands mining. Investors can challenge the resilience of these assets under &lt;2°C scenarios.</p>
<p><b>Growth priorities:</b> Deep water and chemicals</p>	<p>Deepwater is Shell's core growth priority. Shell currently produces 600,000 boe/d in deepwater projects, expecting to expand this to 900,000 boe/d in the early 2020s. With high break-even prices,<sup>16</sup> some of these projects are at risk of being left economically stranded under low-carbon scenarios. Shell has invested billions of dollars in costly deepwater projects like Stones, the world's deepest at 9,500 feet.<sup>17</sup> Commodity researchers suggest that many of Shell's deepwater projects were initiated when oil prices were \$100 a barrel.<sup>18</sup></p> <p>Shell is currently finding ways to reduce costs, with a "budget" strategy in place to reduce break-even prices of projects.<sup>19</sup> These budget cuts have raised questions about Shell's ability to ensure safety and sustainability standards in high-risk environments. Offshore supervisors have warned against "squeezing" crude oil from aging platforms, and annual cuts of \$300 million from marine logistics have prolonged equipment replacement times.<sup>20</sup></p> <p>Shell states that some of its deepwater projects have production lifespans of 50 years.<sup>21</sup> While this can seem attractive from an economy of scale perspective, the lack of capital flexibility it can entail might undermine Shell's resilience to low carbon scenarios. By making major upfront investments that rely on strong multi-decade demand forecasts, capital is put at risk from rapid changes to the energy mix, or policy changes to limit emissions to &lt;2°C.</p>

<p><b>Future opportunities:</b> Shales and new energies</p>	<p>Without adequate guardrails in place, shale gas production can lead to significant methane leakages. Analysis suggests that when these emissions are included, the total GHG footprint of shale gas can be higher than oil and coal.<sup>22</sup> Methane leakages are often higher than companies report. A recent study found that natural gas power plants release up to 120 times more methane than earlier estimates suggested.<sup>23</sup> In light of these challenges, investors might query if future investments - particularly in higher-cost shale oil and gas - represent the most prudent 'future' option, as the company aligns for a rapidly decarbonising economy. Shales currently receive more than three times the investment of Shell's renewable energy portfolio.</p> <p>In 2016, Shell formed its 'New Energies' portfolio to pursue three new areas: new fuels for transport (biofuels, hydrogen); integrated energy solutions; and digitalisation of energy systems. The capital allocated to the division represents a small proportion of the firm's overall expenditure. Shell plans to increase investment in New Energies to \$1bn a year by 2020; while the company's total capital investment in 2016 was nearly \$80bn, and is expected to be between \$25 and \$30 billion a year until 2020.<sup>24</sup> This does not point to a transformation of Shell's wider portfolio on a scale required for &lt;2°C alignment.</p>
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In the 2017 Annual Report, Shell states "We believe our business strategy is resilient to the envisioned implementation of the Paris Agreement, which is now progressing through the NDCs".<sup>25</sup> The envisioned implementation of the NDCs would lead to average global temperature rises of around 3.5°C, with the outcome depending on uncertainties of climate sensitivity, and on future deep emissions reductions through developments and deployments of innovative technologies.<sup>26</sup> The burden of proof falls on Shell to demonstrate to investors that it is developing a strategy that is resilient to <2°C pathways.

## Summary and key recommendations for investors

- The first step when considering Shell's remuneration policy is to assess the strategy that it rewards executives for delivering. The firm's demand forecasts, strategic priorities and capital allocations suggest Shell could be aligning for scenarios consistent with over 3°C of warming – more than double the Paris Agreement's ambition of 1.5°C.
- While progress has been made with the development of 'New Energies', the capital allocated to this division represents a small proportion of the firm's total expenditure – only reaching 3% by 2020. This does not indicate a commitment to portfolio-wide transformation.
- We recommend that investors engage with Shell on the need to signal a clear commitment to transition for <2°C alignment.

Over time, Shell should provide evidence to investors to prove this commitment is being operationalised in its strategy and capital allocation decisions.

## 2. Removal of remuneration features uncondusive for low-carbon resilience

While strategy will be the key indicator of Shell's commitment to the low-carbon transition, there are certain remuneration features that could actively discourage executives from making the decisions required for a successful transition. Metrics that could actively discourage low-carbon resilience must be altered, including volume-based production measures, and performance timelines that do not reflect long-term risk horizons.<sup>27</sup>

### Volume-related and project delivery metrics

Shell's remuneration policy contains features that reward hydrocarbon production at all costs. The annual bonus contains a 12.5% weighting for LNG liquefaction volumes, a 12.5% weighting for maximising oil and gas production, and a 12.5% weighting for project delivery. Volume-related remuneration metrics and project delivery targets reward executives for actions that do not reflect the short-term economic performance of assets,

nor whether they contribute to the company's future resilience. It is not in the best interest of shareholders for oil companies to reward the delivery of projects with untenable break-even costs, nor those surplus to low-demand scenarios.

Cost curves can help assess if hydrocarbon projects are at risk of being stranded. For example, Carbon Tracker uses break-even prices to warn against the development of higher-cost projects unneeded under low carbon scenarios. Their analysis suggests that \$283bn of potential LNG projects would be at risk, as well as numerous Arctic, deepwater, tar sands and oil shale investments.<sup>28</sup> Another means of assessment has been developed by the World Resources Institute, which calculates potential GHG emissions from fossil fuel reserves.<sup>29</sup> High risk assets include large-scale projects with long lifespans (10+ years).

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Where large upfront investments have been made in major projects, it can be hard for companies to walk away; yet in the long-term the development of these assets may not be the most prudent use of capital. A low-carbon transition strategy should instead encourage executives to identify the projects that should or should not be delivered, and incentivise far-sighted decision-making around their execution.

While not all metrics linked to operational excellence necessarily have to be removed, there is a need for an explicit recognition of a profound transition away from these energy sources in order to counter-balance production targets that focus attention on 'business as normal'. For Shell's current remuneration policy, this is not the case.

Another 30% of the annual bonus is calculated using 'cash flows from operations'. 'Cash flow

from operating activities growth' accounts for 25% of the LTIP, encouraging "capital expenditure commitments" that support growth. Carbon Tracker warns against these 'stealth' volume measures, for while operational costs feed into these, so too do production volumes.<sup>30</sup> To achieve group cash flow targets often requires executives to maintain – and in the case of Shell's LTIP, even increase – production volumes. Again, these incentives do not necessarily reflect the short-term economic performance of assets, nor whether they contribute to the company's future resilience.

While investors have an interest in free cash flows to ensure firms can maintain debt and dividend payments, Shell must be challenged to decouple these measures from hydrocarbon volumes. Depending on the proposed low-carbon transition strategy, different alternative indicators might be appropriate for oil companies. Negative free cash flows are not bad in themselves, if investments are being made in low-carbon assets with good returns. On the other hand, if the firm seeks to return capital to shareholders as part of a wind-down strategy, cash from divestments could be used to make debt and dividend payments.

## Performance timelines that do not reflect risk horizons

For hydrocarbon projects that span decades from initial exploration to production and sale, decisions about capital expenditure made by executives today will have consequences for shareholder value far into the future. For example, Shell states it has an investment horizon of 10-20 years.<sup>31</sup> Executives should not be rewarded for conduct that could pose liabilities to long-term shareholders. Currently, Shell's LTIP includes a three-year performance measurement and additional three-year vesting period. 50% of the annual bonus is delivered in shares rewarded after a three-year vesting period. These timeframes do not reflect the risk horizons associated with the projects that executives are making investment decisions upon.

There are concerns associated with extending performance measurements far beyond the likely tenure of executives - i.e., the idea of a 10-year LTIP. A potential way around this could be for companies to identify steps needed to protect shareholder value over 20+ years, then to translate these factors into measures that support the delivery of a long-term strategy on a year-by-year basis.<sup>32</sup> This means executives are not tied to inflexible 10-year plans, but can still be rewarded for pursuing strategies consistent with the long-term interests of

shareholders. What this would look like in practice for Shell would depend on the chosen transition strategy.

In the Annual Report, Shell recognises the limitations of the LTIP's time horizons, but suggests that by requiring executives to hold large shareholdings, executives' interests are aligned with those of investors. While there is a good case for using equity-based rewards, this is only true if the holding periods are meaningfully extended. For example, before filing for Chapter 11 bankruptcy, Peabody Energy executives cashed in stock options worth a combined \$47 million between 2008 and 2011. In July 2015, Peabody stock closed at \$1.20 per share, compared to \$63.98 at the end of 2010.<sup>33</sup>

Furthermore, institutional investors with portfolios containing stock that will be adversely affected by high-carbon scenarios – such as agriculture, forestry and infrastructure – have considerably different interests from those of Shell's executives. While Shell might be able to profit under scenarios consistent with 3°C of warming, most institutional investors will suffer losses at a portfolio-wide level.

## Summary and key recommendations for investors

- Shell's remuneration policy is heavily weighted towards hydrocarbon project delivery, with the annual bonus containing a 12.5% weighting for LNG liquefaction volumes, a 12.5% weighting for maximising oil and gas production, and a 12.5% weighting for project delivery. It also contains cash flow targets that could encourage executives to focus on maintaining hydrocarbon volumes.
- The policy could incentivise behaviour that is misaligned with the long-term interests of shareholders, due to performance and vesting timelines that do not reflect the risk horizons associated with hydrocarbon projects.
- Investors should encourage Shell to take firmer steps to focus executives on delivering a resilient and sustainable long-term strategy. This might involve:
  - reducing the weighting of targets linked to hydrocarbon production and delivery
  - decoupling free cash flow targets from volume-based measures
  - aligning Shell's strategy with the long-term interests of investors

## 3. Include measures that signal and reward the successful delivery of a <2°C strategy

A carefully considered remuneration policy could play a helpful role in rewarding executives for overseeing a successful low-carbon transition. Shell has included two new factors: a 10% weighted reward in the annual bonus for reducing operational emissions, and an undisclosed target in the CEO's scorecard linked to 'New Energies'. The analysis below shows that these fail to signal the long-term strategic changes required in the context of the transition to a low-carbon economy, as requested by the Aiming for A resolution.

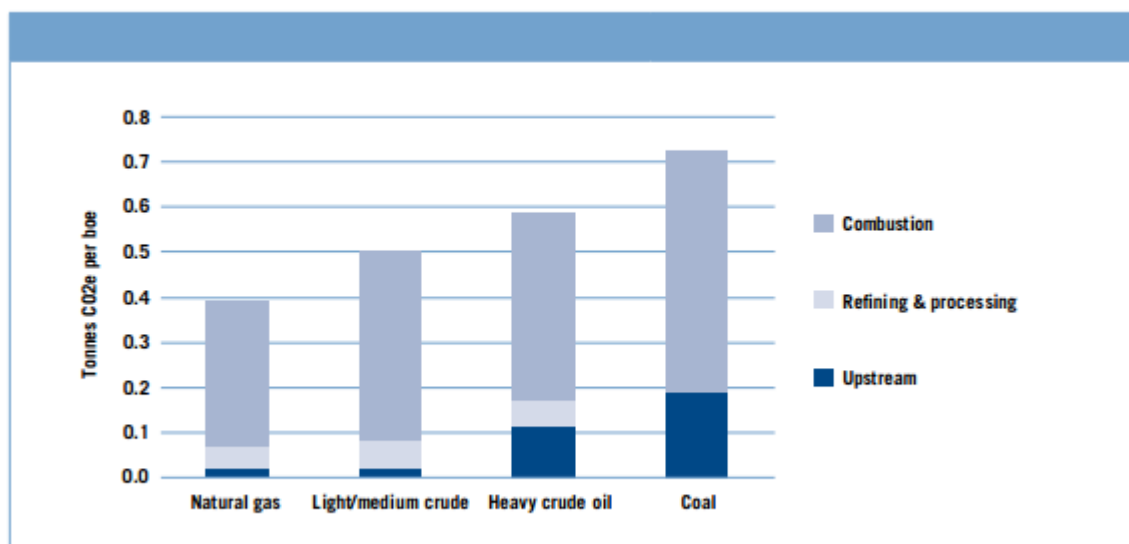
### GHG target and CEO scorecard

Shell's annual bonus has a 20% weighting for 'sustainable development'. This is split between process safety (5%), personal safety (5%), and environmental targets (10%). The previous year's environmental targets (water use, oil spill volumes and Refinery Energy Intensity Index) have been replaced by a 10% weighted metric for GHG emissions management. The removal of emphasis on water use and oil spills is not a welcome move. These should be a focus for all fossil fuel companies, with water use being a major environmental issue for shale oil/gas operations. It would have been preferable for the 10% GHG weighting to have been taken from elsewhere - for example, from the 50% weighting for 'operational excellence'.

The new metric for GHG management focuses on reducing operational emissions from refining, chemical plants and upstream flaring. As the graph on page nine illustrates, operational emissions make up a small proportion of the company's total emissions - the majority of which are expended by consumers on combustion. Reducing operational emissions plays a limited role in ensuring portfolio resilience under low-carbon, low demand scenarios; and does not address the risk of stranded assets. For example, running an oil refinery on renewable electricity does not address the fact that for high-probability <2°C pathways, over 80% of known fossil fuel reserves must be kept in the ground. This requires a wholesale change in strategy, and not just a reduction of operational emissions. While it is not unwelcome that Shell seeks to reduce its operational emissions, a holistic approach that accounts for likely demand-side changes would



## Lifecycle emissions by stage in production



Source: Goldman Sachs, Dexia Asset Management; Industry sources

much better prepare the company for resilience under a <2°C scenario.

In the 2017 Annual Report, Shell recognises that there is more to the energy transition than managing operational emissions, and states “We will embed progress in New Energies into the personal performance agreement with the CEO. The energy transition, however, still is in an early phase and for the coming decade(s) energy supply will still continue to depend for a significant proportion on fossil fuels”.<sup>34</sup> As previously noted, the ‘New Energies’ division – while a welcome step – does not represent a portfolio-wide transformation, and accounts only for a small proportion of the firm’s planned annual expenditure. As such, this inclusion continues to fall short of the spirit of the Aiming for A resolution, which asked the company to link KPIs and executive incentives to the long-term strategic changes required in the context of the transition to a low-carbon economy.

## Summary and key recommendations for investors

- Shell fails to include indicators that meaningfully focus executive attention on aligning the firm’s business model for <2°C resilience. The 10% weighted GHG metric is focussed on reducing operational emissions, rather than the long-term strategic changes required in the context of the transition to a low-carbon economy.
- On recognising that the GHG metric is insufficient alone, Shell has also linked progress in ‘New Energies’ to its personal performance agreement with the CEO. While

this is not currently linked to a portfolio-wide transformation, it presents more potential than a focus on operational emission reductions. As such, investors might encourage Shell to go further in linking remuneration to the commercial success of ‘New Energies’.

## Conclusion and next steps

This paper has considered whether shareholders should vote to approve the remuneration policy that Shell has put up for a binding vote at the 2017 AGM. Based on three criteria, it demonstrated that Shell has failed to assure investors that this policy will reward executives for delivering a sustainable and resilient strategy that is aligned with <2°C pathways. As such, ShareAction encourages investors to engage with Shell on the need to signal a stronger commitment to making the transition for <2°C resilience. If by the time of the AGM insufficient progress towards this goal has been made, we encourage investors to vote against the remuneration policy, communicating to Shell that this is due to a lack of proper consideration to the strategic changes required in the transition to a low-carbon business model.

The following conditions or adjustments would merit an endorsement of the policy:

- Shell’s underpinning corporate strategy explicitly indicates the firm’s intent to transition for a <2°C resilient business model, signposting short-, medium- and long-term changes this will entail for the company.
- The final remuneration policy acknowledges and focuses executive attention on the long-term strategic changes required to ensure

resilience under <2°C scenarios, reflecting the need to reallocate capital away from the development and production of hydrocarbon projects and operations.

A vote against management would send Shell a clear signal that investors will not support 'business as usual' going forward. By clearly signalling their expectation for the company to commit for a <2°C transition plan, investors can provide Shell with a mandate to play a stronger leadership role in the low-carbon transition. On the other hand, supporting a remuneration package that incentivises risky behaviour is a vote against the interests of long-term shareholders in the company.

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ShareAction (Fairshare Educational Foundation) is a registered charity that promotes responsible investment practices by pension providers and fund managers. ShareAction believes that responsible investment helps to safeguard investments as well as securing environmental and social benefits.

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