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Company: Royal Dutch Shell ("Shell"), UK and the Netherlands

Meeting date: May 22, 2018

Proposal 19: Binding shareholder resolution on setting and publishing greenhouse gas ("GHG") reduction targets

Board recommendation: AGAINST

BlackRock Vote: AGAINST

Constructive ongoing engagements and enhanced climate risk disclosures by the company

Shell is a global oil and gas exploration and production company listed on the London Stock Exchange. For the third consecutive year[1], a group of shareholders coordinated by Follow This have filed a shareholder proposal at the Shell 2018 shareholder meeting.

The resolution submitted this year would bind Shell "to set and publish targets [relating to Shell's operations and the use of its energy products] that are aligned with the goal of the Paris Climate Agreement to limit global warming to well below 2°C"[2]. These targets need to include long-term (2050) and intermediate objectives, to be quantitative, and to be regularly reviewed. The proponent requests the company base these targets on tangible metrics such as GHG intensity metrics or to use other metrics that the company finds suitable to align its targets with a well-below-2°C pathway. As the resolution is a legally binding commitment on Shell it requires super-majority support for its adoption (i.e. 75% of shareholders must support it for it to pass).

Our "engagement first" approach

For several years, the Investment Stewardship team has engaged extensively with Shell's management and Board on a range of topics, including the adaptation to a low carbon economy. These engagements provided an opportunity to discuss the company's climate risk governance, strategy and management practices. These engagements gave us insight into the substantive progress the company has been taking to manage climate-related risks and opportunities. It practices have over time demonstrated a strong commitment to continued improvements of its climate strategy, targets and disclosures.

Again this year we engaged with both Shell's management and its Board, and the proponent to review the resolution and understand the different perspectives. We also participated in a collaborative investor engagement with ShareAction to consider additional investor perspectives on the matter.

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[1] The 2016 resolution put forward by Follow This asked that Shell become a renewable energy company by investing the profits from fossil fuels into renewable energy – 2.78% of shareholders voted for and 97.22% against. The 2017 resolution also put forward by Follow This asked that the company set and publish targets for reducing greenhouse gas (GHG) emissions that are aligned with the goal of the Paris Climate Agreement – 6.34% of shareholders voted for and 93.66% voted against.

[2] Royal Dutch Shell; Notice of Annual General Meeting 2018; page 6 located at https://www.shell.com/investors/retail-shareholder-information/annual-general-meeting.html

Based on the company's public disclosures, engagements with Shell's management and Board and Follow This, as well as our wider engagement work and analysis (outlined below in more detail) we concluded that, at this stage, the proposal was unnecessarily prescriptive and could lead to potentially unintended consequences impacting the long-term value of our clients' assets. **We therefore voted with management and did not support the shareholder resolution at the 2018 annual general meeting (AGM).**

Shell's commitment to the energy transition

Demonstrating the company's commitment to work collaboratively with shareholders on the issue of climate risk management and disclosure, the Board supported a shareholder proposal at the 2015 Shell AGM from the "Aiming for A" Coalition of investors. The resolution requested that Shell improve its annual reporting from 2016 onwards on the risks and opportunities associated with climate change. With the Board's support the proposal received 95.7% votes in favour. Since this time, the company has made continued progress in responding to the energy transition as evidenced, for example, by the challenging goal of reducing its net carbon footprint, including the use of its energy products sold to align with "society-wide Paris ambitions" (around 50% reduction of net carbon footprint of energy products by 2050, around 20% by 2035 (gCO_2e/MJ)).

We are concerned with the binding nature of this resolution to set and publish targets that are aligned with the goal of the Paris Climate Agreement to limit global warming to well below 2°C when uncertainties remain around public policies, societal trends and the energy landscape. We find the alignment of the company's stated net carbon footprint ambition with society's progress and Shell's choice of measurement and reporting to be both reasonable and appropriate at this stage whilst providing the company flexibility to adapt its business strategy appropriately.

BlackRock's perspective on climate risk disclosure

As we seek to better understand how companies across all sectors are managing climate risks we also share our view that the Financial Stability Board's Task Force on Climate Related Financial Disclosure provides a useful framework in these regards. We encourage companies to consider using the framework in their reporting in due course.

During the course of our engagements, we have asked management and corporate boards to speak to, among other topics, its board oversight of climate-related risks, how the company assesses potential opportunities that the changing market may present, how climate risk might influence future long-term capital expenditure plans, and whether the company has done any scenario analysis in relation to its climate risks and business strategy. Our aim is not to micromanage companies, but to assess management effectiveness and thus, a company's prospects for future growth and financial performance.

We will continue engagement with Shell to ensure its climate risk disclosure continues to evolve and provides shareholders with sufficient information to assess risk exposure and the effectiveness of the Board and management's approach to mitigation and adaptation.