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

Meeting date: May 23, 2017

Proposal 21: Binding resolution on setting greenhouse gas ("GHG") reduction targets

Board recommendation: AGAINST

Constructive engagement yields positive results

In our recently published engagement priorities for 2017-18, BlackRock Investment Stewardship explained that, as a long-term investor, we are willing to be patient with companies when our engagement affirms they are working to address our concerns. However, our patience is not infinite - when we do not see progress despite ongoing engagement, or companies are insufficiently responsive to our efforts to protect the long-term economic interests of our clients, we will not hesitate to exercise our right to vote against management recommendations. Climate-related risks and opportunities are issues we have become increasingly focused on at BlackRock as our understanding of the related investment implications evolves. One of our five engagement priorities is encouraging disclosure on climate risk policies and practices, in line with the Task Force on Climate-related Financial Disclosures (TCFD).

Shell is a global oil and gas exploration and production company listed on the London Stock Exchange. For the second consecutive year[1], a group of shareholders coordinated by Follow This have filed a shareholder proposal at the Shell shareholder meeting. This year it is asking the company to improve its greenhouse gas (GHG) reporting to include setting scope 1, 2, and 3 targets and reporting progress towards achieving them.[2] 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).

Methodologies and tools for measuring and reporting scope 3 emissions are still at an early stage of development making it premature, in our view, to mandate such reporting. Scope 3 emissions are largely outside Shell's control. Requiring Shell to set public scope 3 GHG emission reduction targets could create significant material challenges to the company's business, especially if competitors are not held to the same standards.

Additionally, the Investment Stewardship team has engaged extensively with Shell's management and board on a range of governance topics, including the adaptation to a low carbon economy, having multiple meetings this year alone. These engagements afforded us the opportunity to discuss, among other matters,

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[1] The 2016 resolution also put forward by Follow This asked that Shell become a renewable energy company by investing the profits from fossil fuels into renewable energy - 94.4% of shareholders voted with management and a further 2.9% of shareholders abstained.

[2] Royal Dutch Shell; Notice of Annual General Meeting 2017; page 6 located at http://www.shell.com/investors/retail-shareholder-information/annual-general-meeting/_jcr_content/par/textimage_1328904083.stream/1492595235065/09f2af788de91bf1e7a360e95ec7d6455e5c4774fa4ce3e60cab195955e779e9/2017-notice-of-meeting-shell-agm.pdf

the company's climate risk management practices. We found the company demonstrated a strong commitment to making continued improvements to its climate risk reporting and disclosure.

Based on the company's commitment to climate risk disclosure (outlined in more detail below), , conversations with the Board and Follow This, and our analysis of the effects of the proposal, led us to conclude that the proposal was overly prescriptive, difficult to implement and potentially damaging to the long-term value of our clients' assets. **We therefore voted with management and did not support the shareholder resolution at the 2017 AGM.**

Shell's Climate Risk Management and Disclosure

Shell has demonstrated a willingness to work collaboratively with shareholders on the issue of climate risk management and disclosure, which is at the center of our decision to vote with management.

At the 2015 Shell AGM, the board supported a shareholder proposal 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 favor.

Shell has publicly stated its support for the Paris Agreement and transition to a low carbon environment. Strategically, the company's merger with BG Group in early 2016 enabled it to shift the balance of its production between oil and gas. The current integration efforts, which include an asset disposal program, will also transform the shape of the business. We are therefore mindful of the timing of this request and the impact that additional reporting could have on the company whilst this work is underway.

Shell has committed to report on steps taken to reduce its own GHG emissions and its role in the energy transition and we believe the company is making meaningful progress as evidenced by its:

- Disclosure[3] of scope 1 and 2 emissions for key business areas covering refining, chemical plants and flaring in upstream assets. CDP has recently ranked Shell 4th out of a group of 10 peers in its emissions and resource management[4].
- Reporting of its portfolio resilience to a range of long-term scenarios and acknowledged plans to update its energy transition scenarios.
- Statement that Shell's current reporting is already aligned with several recommendations from the TCFD, and its intention to continue to engage with the Taskforce on disclosure matters, recognising the need to increase transparency and to promote investors' understanding of its strategies to address the risks and opportunities presented by climate change.
- Continuing investment in low-carbon technology and related R&D expenditure, such as its investment in carbon capture and storage.
- Creation of the New Energies business, dedicated to find attractive business opportunities for Shell.

[3] Investor Climate Compass: Oil and Gas - Navigating Investor Engagement located at: http://www.iigcc.org/publications/publication/investor-climate-compass-oil-and-gas-navigating-investor-engagement
[4] Investor Climate Compass: Oil and Gas - Navigating Investor Engagement; page 43 located at: http://www.iigcc.org/publications/publication/investor-climate-compass-oil-and-gas-navigating-investor-engagement

- Link to its emission reduction targets and alternate, low-carbon energy solutions within executive performance assessments and pay.
- Participation and present representation in the public debate regarding the energy transition.

Engagement Going Forward

We intend to continue engagement with Shell to ensure its climate change risk disclosure continues to evolve and provides shareholders with sufficient information to be able to assess risk exposure and the effectiveness of management's approach to mitigation and adaptation. We will also encourage alignment with the TCFD guidelines, once finalized.

As a general point, in BlackRock's view, supporting a shareholder proposal is an escalation of engagement, should direct private dialogue not result in a satisfactory response from the company. BlackRock will always review such proposals on a case-by-case basis and may support those where we assess that the outcome will be of benefit to long-term shareholders. We will also continue to engage with companies exposed to climate change risk on improved disclosure in line with the TCFD framework regardless of whether or not the company is the subject of a shareholder proposal.