



INDEPENDENT COMPENSATION OPINION

ROYAL DUTCH SHELL PLC

The Obermatt Compensation Opinion provides bonus recommendations based on relative performance.

Indexed compensation is free of economic cycle impact. It is standardized and thus can be applied to any kind of business. Indexed remuneration is fairer than the traditional, negotiated compensation approach. It measures company performance relative to peers, thus measuring operating performance only – not the economy's performance. Indexing acts like insurance to managers and investors: it avoids excessively high bonuses in up-turns and too low bonuses in downturns, increasing retention risk. It also has the advantage to reward management for what it has entirely under its control: the operation.

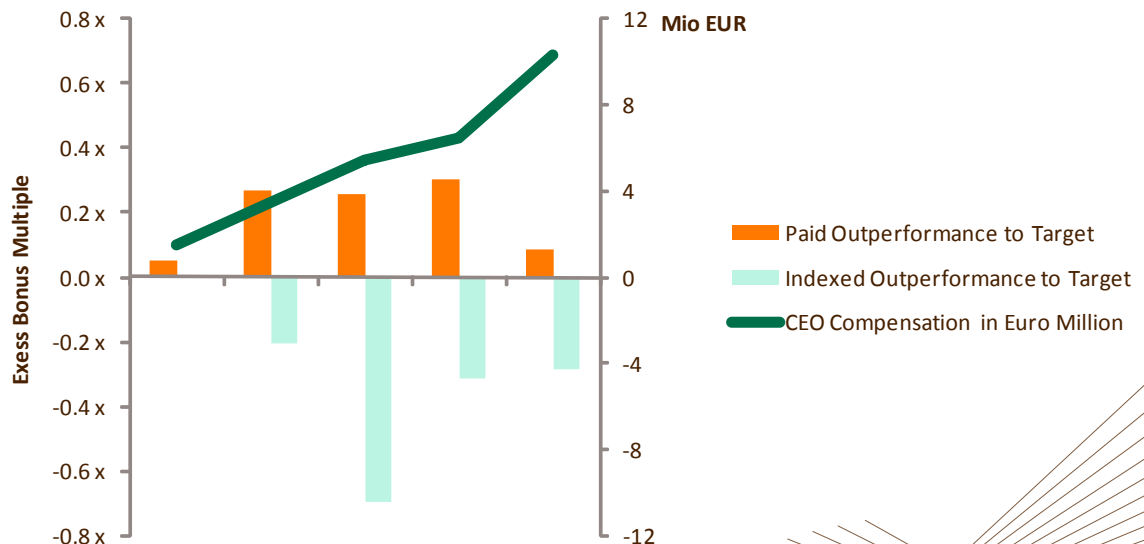
Contrary to traditional compensation plans, there is no subjective component in indexed compensation assessments. Additionally, indexed remuneration plans require only information that is publicly available from existing company reporting. Obermatt uses Thomson Reuters and Bureau van Dijk as primary financial data providers and individual company financial reports as secondary data source.

From a policy point of view, indexed compensation plans have the advantage of avoiding current market failure that leads to ever increasing levels of management pay: Non-indexed remuneration plans constantly increase management pay levels in up-turns because the level of compensation for an outperformance year is the new median compensation level for the following period. With indexing compensation, this cause of spiraling executive pay is avoided. For more information, see Hermann J. Stern's white paper on the Social Science Research Network: <http://ssrn.com/abstract=1357723>

Independent Opinion on Compensation

Historically, Royal Dutch Shell has paid compensation over target in all previous five years. Measuring EBITDA performance relative to peers, so called indexed EBITDA performance, reveals underperformance in all years.

Neither operating outperformance, nor the high increase in salary levels can be justified by the relative performance of Royal Dutch Shell. This result is derived by using the method of indexing operating performance.



METHOD

1 Purpose

The purpose of the Compensation Opinion is to calculate properly merited bonuses based on indexed operating performance for public companies and their significant divisions (business segments). Indexed bonuses have the advantage of paying appropriate bonuses that are neither too high nor too low. Traditional non-indexed remuneration plans typically pay excessively high bonuses in up-cycles and bonuses that are too low in downturns. Indexed bonuses avoid this by assessing performance relative to peers, thereby measuring true operating performance only, not the economy's performance (external factors such as business cycles, resource price changes, customer demand, etc. are omitted). Indexed compensation plans pay the same average bonus levels, but smarter allocated to operating outperformers.

This is why indexed bonuses stay fairer even in strong up or down-cycles. Indexed bonuses do not need pre-negotiated financial targets. Therefore, they can be assessed outside-in by the objectively derived Obermatt Bonus Index. Indexed bonuses for companies or divisions are determined in a three stage process:

1. Obermatt creates a peer universe of comparable companies which defines the relevant market (so called [Peer Universe](#)).
2. Obermatt determines the actual performance of the company in question as [Operating Rank](#).
3. Based on the achieved Operating Rank, Obermatt calculates the deserved bonus as a Bonus Multiple compared to individually agreed expected or average bonus levels.

2 Market Definition

Defining the industry sector and selecting an appropriate peer universe is paramount to the Compensation Opinions results. Peer selection involves selecting companies which are in the same line of business as the company or division being ranked. For this purpose, Obermatt uses the Standard Industrial Classification (SIC) and the Global Industry Classification Standard (GICS) to categorize the selected companies to their particular industry sector. Additionally, Obermatt performs a keyword and a manual search to narrow the peer universe to represent the company to be ranked as accurately as possible. Each peer universe ideally comprises around 50-200 companies. However, in some cases the peer universe can be smaller than 50 or even larger than 200 companies. More information on www.obermatt.com/peer-universe.

2.1 Royal Dutch Shell Peers categorized according to region and size

Exploration & Production	Very Large	Large	Medium	Small	Total
Americas	20	32	70	126	248
Asia Pacific	13	9	18	37	77
Europe & Africa	24	8	15	34	81
Total	57	49	103	197	406

Gas and Power	Very Large	Large	Medium	Small	Total
Americas	27	71	86	116	300
Asia Pacific	9	14	14	9	46
Europe & Africa	18	3	11	6	38
Total	54	88	111	131	384

Chemicals	Very Large	Large	Medium	Small	Total
Americas	12	8	8	1	29
Asia Pacific	20	31	25	13	89
Europe & Africa	14	4	4	1	23
Total	46	43	37	15	141

Oil Products	Very Large	Large	Medium	Small	Total
Americas	27	27	24	22	100
Asia Pacific	16	26	24	15	81
Europe & Africa	18	15	16	6	55
Total	61	68	64	43	236

Oil Sands	Very Large	Large	Medium	Small	Total
Americas	3	4	4	2	13
Asia Pacific	0	0	0	0	0
Europe & Africa	2	0	0	0	2
Total	5	4	4	2	15

* Except for the division Oil Sands only very large peers weretaken. Very Large = Sales USD > 10 Bn

3 Operating Rank

The Operating Rank converts the absolute values of performance measures to percentile rank values. Operating Rank shows the operating performance on any value driver of a company against the performance of all peer companies for that same metric. The market performance is provided by showing the percentile ranks on a percentile rank chart called Operating Rank. Operating Rank is calculated using actual historic data or deltas of that data from one period to the next. Operating Rank is part of Obermatt's indexed operating performance approach to indexed performance management and investing. In particular, with Operating Rank, one sees a company's performance relative to its competitors at a glance, enabling goal setting in line with industry developments, not just historic company performance.

More at www.obermatt.com/operating-rank.

4 Performance Metric

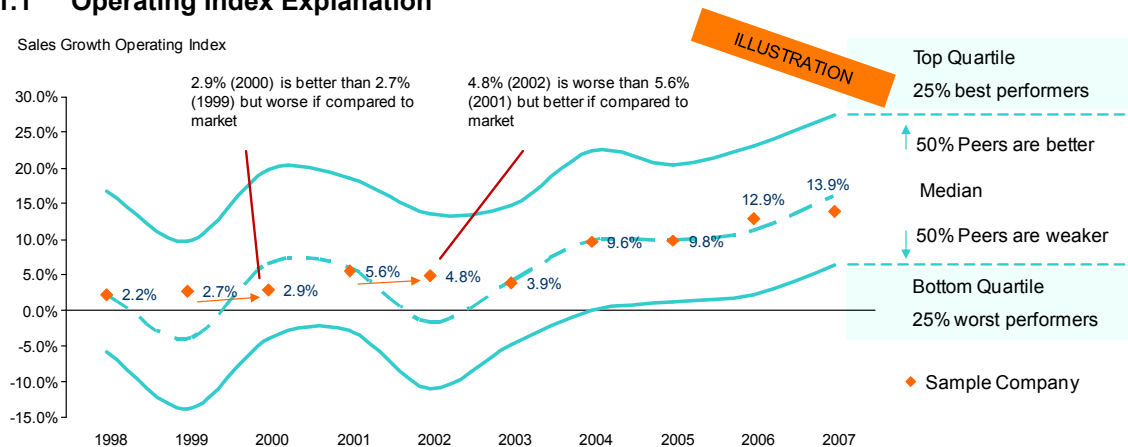
For the Compensation Opinion, actual performance is based on organic EBITDA. Organic EBITDA is free from extraordinary effects, such as effects from mergers and acquisitions activity and restructuring. Obermatt uses organic EBITDA as reported by the Thomson Reuters Worldscope database. This database adjusts for non-operational activities such as divestitures of divisions, one-off depreciation, restructuring costs and other special items.

Obermatt usually indexes EBITDA by calculating the Operating Rank of *Delta EBITDA in percent of Sales*. Due to particularities in the oil business for this report, Obermatt calculated the Operating rank of *Delta EBITDA in percent of Assets* (Δ EBITDA % Assets). Analogue to Δ EBITDA % Sales this figure is robust against influences by accounting decisions and not affected by base level effects of EBITDA and thus works for negative EBITDA levels as well.

RESULTS

1 Indexed Operating Performance

1.1 Operating Index Explanation



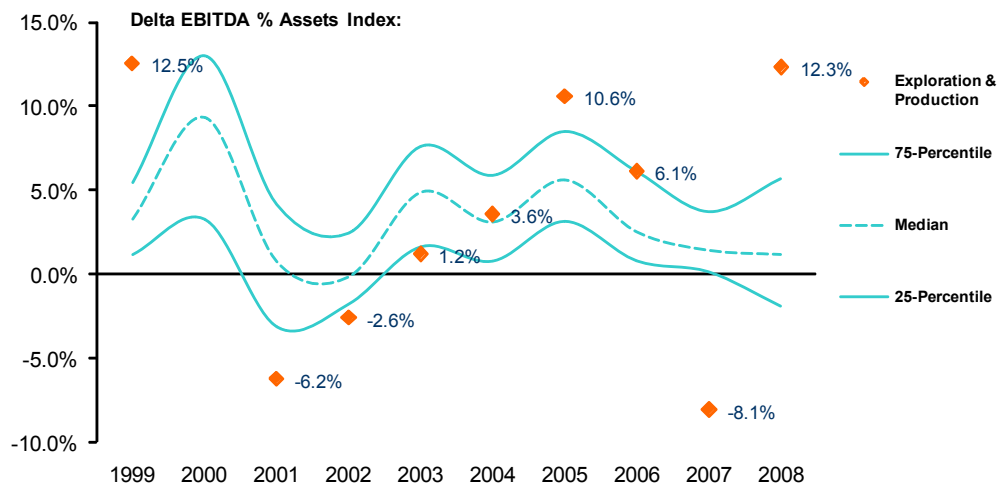
The Operating Index shows a financial metric against median and quartile values of the same metric in a peer universe (PU) of comparable companies.

Above 75-Percentile: The 25% of companies with highest performance compared to PU.

Median: Average of the 50% of companies with median performance compared to PU.

Below 25-Percentile: The 25% of companies with lowest performance compared to PU.

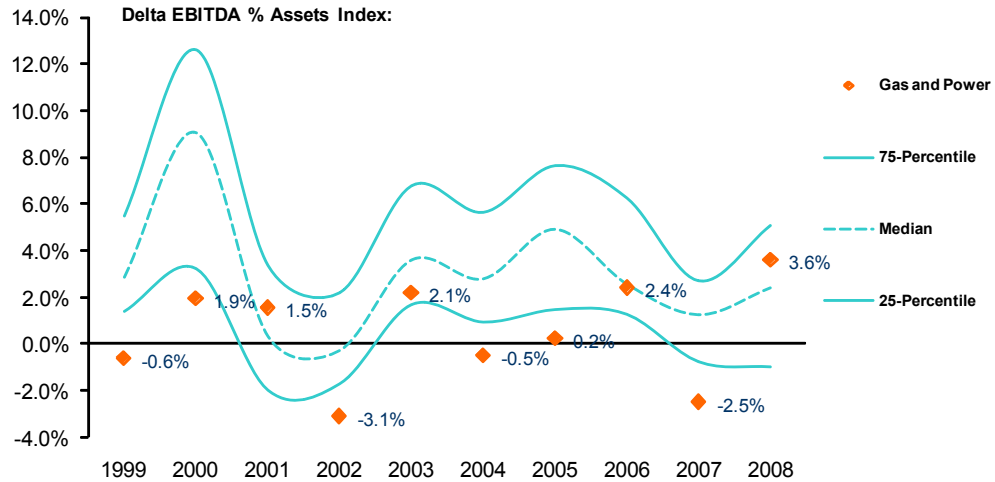
1.2 Operating Index Exploration & Production



Delta EBITDA % Assets	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
10-Percentile	-0.8%	-0.6%	-6.3%	-5.4%	-1.4%	-0.3%	0.5%	-2.0%	-2.1%	-6.5%
25-Percentile	1.2%	3.3%	-3.1%	-1.8%	1.7%	0.8%	3.2%	0.8%	0.2%	-1.9%
Median	3.3%	9.4%	0.7%	-0.2%	4.9%	3.1%	5.6%	2.5%	1.4%	1.2%
75-Percentile	5.4%	13.0%	4.1%	2.4%	7.6%	5.9%	8.5%	6.1%	3.7%	5.7%
90-Percentile	10.4%	17.0%	8.7%	7.2%	10.0%	8.2%	10.0%	8.4%	5.0%	9.9%
Exploration & Production	12.5%	-6.2%	-2.6%	1.2%	3.6%	10.6%	6.1%	-8.1%	12.3%	
Count	44	47	49	50	52	52	53	54	54	51

Peer Group: Exploration & Production

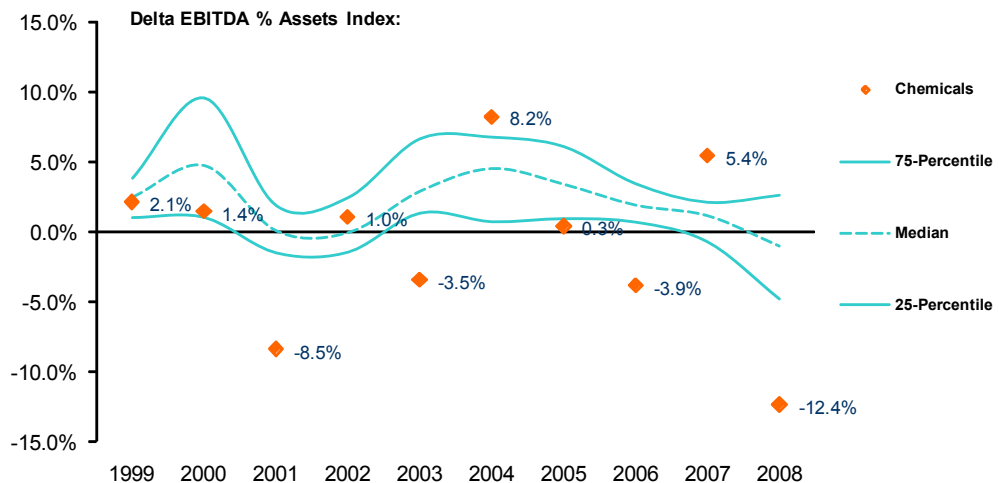
1.3 Operating Index Gas & Power



Delta EBITDA % Assets	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
10-Percentile	-0.8%	-0.7%	-5.0%	-5.6%	-0.1%	-0.2%	0.6%	0.1%	-2.7%	-5.1%
25-Percentile	1.4%	3.2%	-2.1%	-1.8%	1.7%	0.9%	1.4%	1.2%	-0.8%	-1.0%
Median	2.8%	9.0%	0.3%	-0.3%	3.6%	2.8%	4.9%	2.5%	1.2%	2.4%
75-Percentile	5.4%	12.6%	3.3%	2.1%	6.7%	5.6%	7.6%	6.2%	2.6%	5.0%
90-Percentile	9.1%	16.6%	7.8%	5.7%	9.6%	7.5%	9.4%	8.5%	4.2%	8.3%
Gas and Power	-0.6%	1.9%	1.5%	-3.1%	2.1%	-0.5%	0.2%	2.4%	-2.5%	3.6%
Count	44	47	49	49	51	50	50	51	51	49

Peer Group: Gas and Power

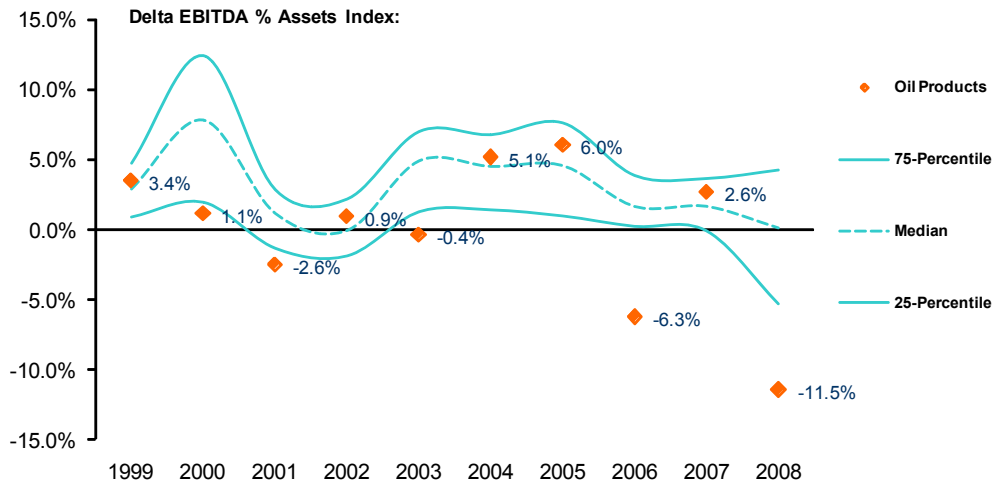
1.4 Operating Index Chemicals



Delta EBITDA % Assets	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
10-Percentile	-1.0%	-0.2%	-4.2%	-4.1%	-0.5%	-0.5%	-0.5%	-1.6%	-2.7%	-10.7%
25-Percentile	0.9%	0.9%	-1.6%	-1.5%	1.2%	0.6%	0.8%	0.6%	-0.8%	-4.8%
Median	2.4%	4.7%	0.0%	-0.1%	2.8%	4.5%	3.3%	1.8%	1.1%	-1.1%
75-Percentile	3.7%	9.5%	1.7%	2.3%	6.6%	6.7%	6.0%	3.3%	2.0%	2.5%
90-Percentile	5.2%	12.8%	3.9%	3.9%	8.1%	9.5%	7.3%	6.3%	4.5%	4.8%
Chemicals	2.1%	1.4%	-8.5%	1.0%	-3.5%	8.2%	0.3%	-3.9%	5.4%	-12.4%
Count	33	35	36	36	39	38	39	41	42	40

Peer Group: Chemicals

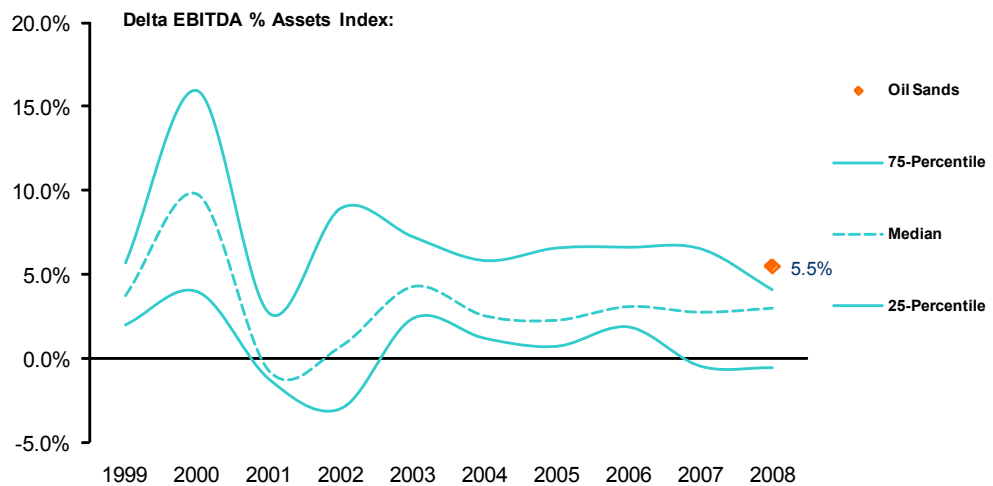
1.5 Operating Index Oil Products



Delta EBITDA % Assets	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
10-Percentile	-2.8%	0.3%	-3.9%	-7.2%	-1.6%	-0.8%	-1.2%	-2.9%	-2.2%	-12.0%
25-Percentile	0.8%	1.9%	-1.4%	-1.9%	1.2%	1.3%	0.9%	0.2%	-0.1%	-5.3%
Median	2.8%	7.8%	1.1%	-0.2%	4.8%	4.4%	4.5%	1.6%	1.6%	0.0%
75-Percentile	4.7%	12.4%	2.8%	2.1%	6.9%	6.7%	7.6%	3.8%	3.6%	4.2%
90-Percentile	8.8%	17.7%	7.8%	4.2%	10.1%	9.2%	9.7%	8.6%	5.8%	6.6%
Oil Products	3.4%	1.1%	-2.6%	0.9%	-0.4%	5.1%	6.0%	-6.3%	2.6%	-11.5%
Count	44	48	51	54	57	57	58	59	59	56

Peer Group: Oil Products

1.6 Operating Index Oil Sands

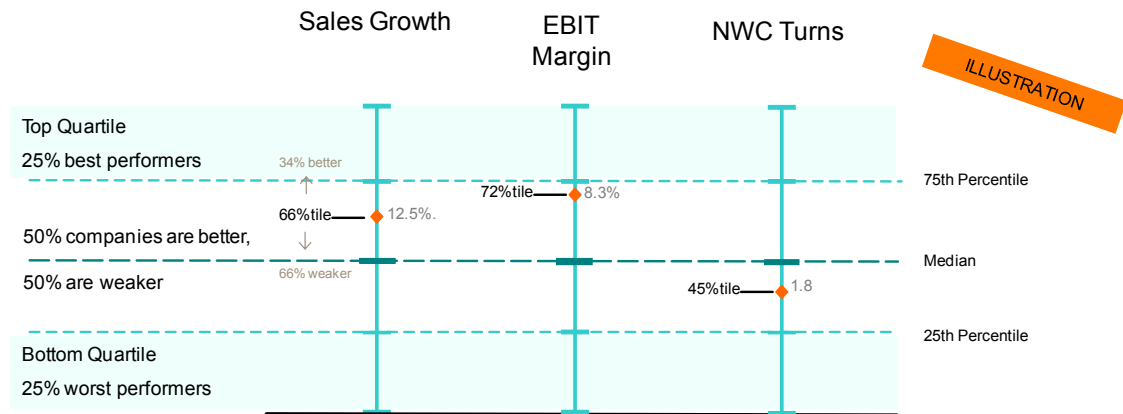


Delta EBITDA % Assets	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
10-Percentile	1.1%	1.7%	-9.4%	-9.1%	0.7%	-0.1%	0.1%	1.2%	-4.8%	-38.1%
25-Percentile	2.0%	4.0%	-1.3%	-3.1%	2.4%	1.2%	0.7%	1.9%	-0.5%	-0.6%
Median	3.7%	9.8%	-0.8%	0.7%	4.3%	2.5%	2.2%	3.1%	2.7%	3.0%
75-Percentile	5.6%	15.9%	2.6%	8.9%	7.2%	5.7%	6.5%	6.5%	6.5%	4.0%
90-Percentile	57.9%	17.7%	3.9%	14.4%	10.3%	9.8%	9.1%	12.1%	7.5%	11.7%
Oil Sands										5.5%
Count	8	8	9	11	12	12	12	12	12	12

Peer Group: Oil Sands

2 Ranked Operating Performance

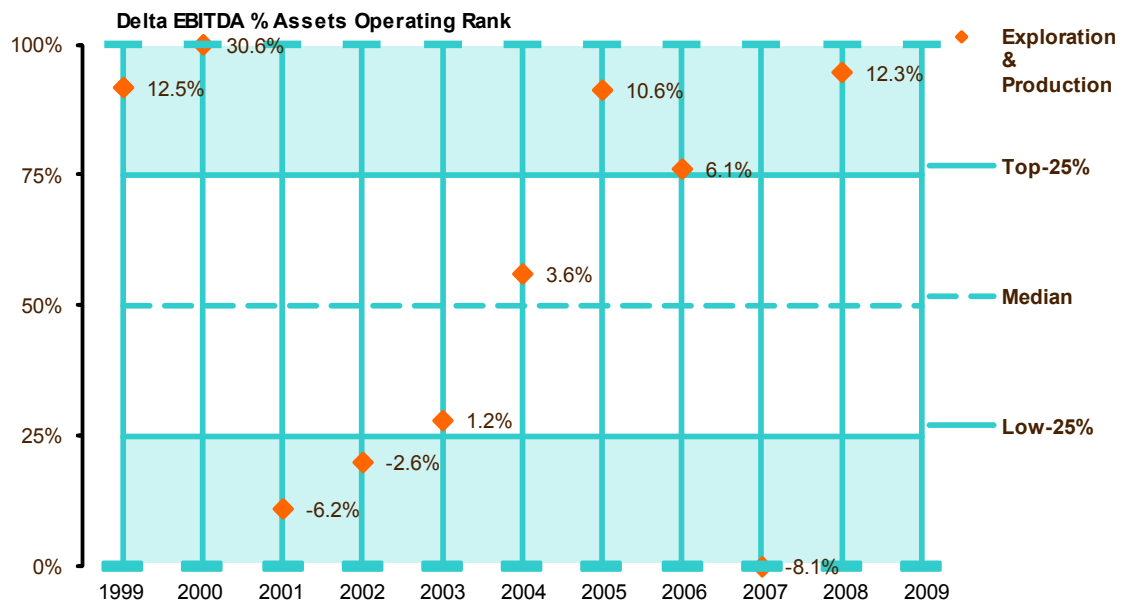
2.1 Operating Rank Explanation



The Operating Rank shows a financial metric as a percentile rank of the values of the same metrics in a peer universe (PU) of comparable companies.

The Operating Rank of any metric in any business for any time period can be directly compared because it is a standardized measure of performance. It is always “as good” to reach a certain Operating Rank no matter what performance is evaluated.

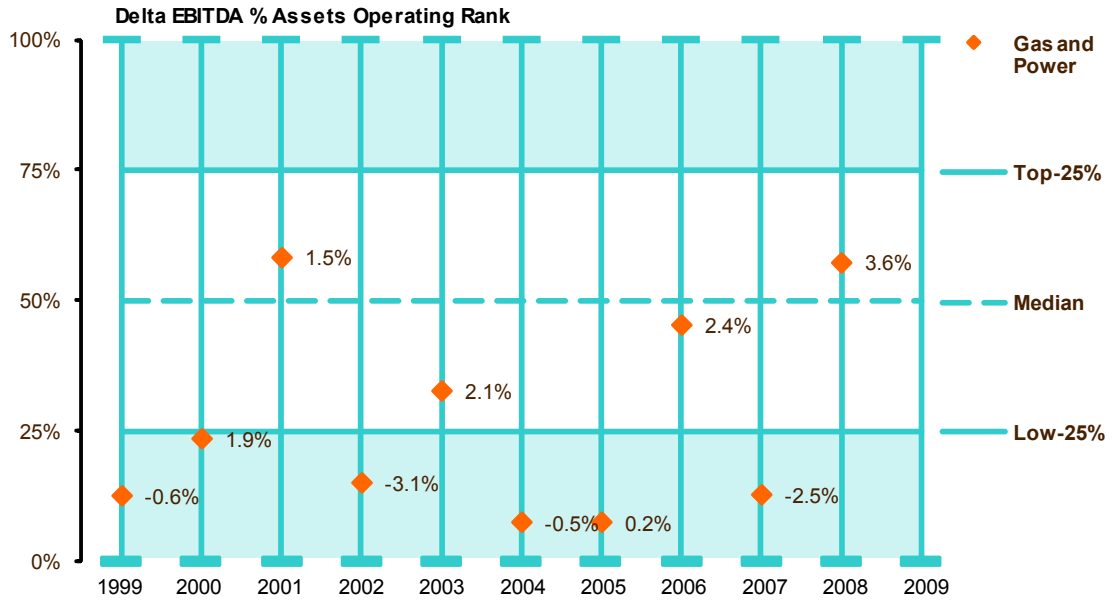
2.2 Operating Rank Exploration & Production



Exploration & Production	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Actual Value: Delta EBITDA %	12.5%	30.6%	-6.2%	-2.6%	1.2%	3.6%	10.6%	6.1%	-8.1%	12.3%
Rank: Delta EBITDA % Assets	91.8%	100.0%	11.1%	20.0%	28.0%	56.1%	91.3%	76.2%	0.0%	94.7%

Peer Group: Exploration & Production

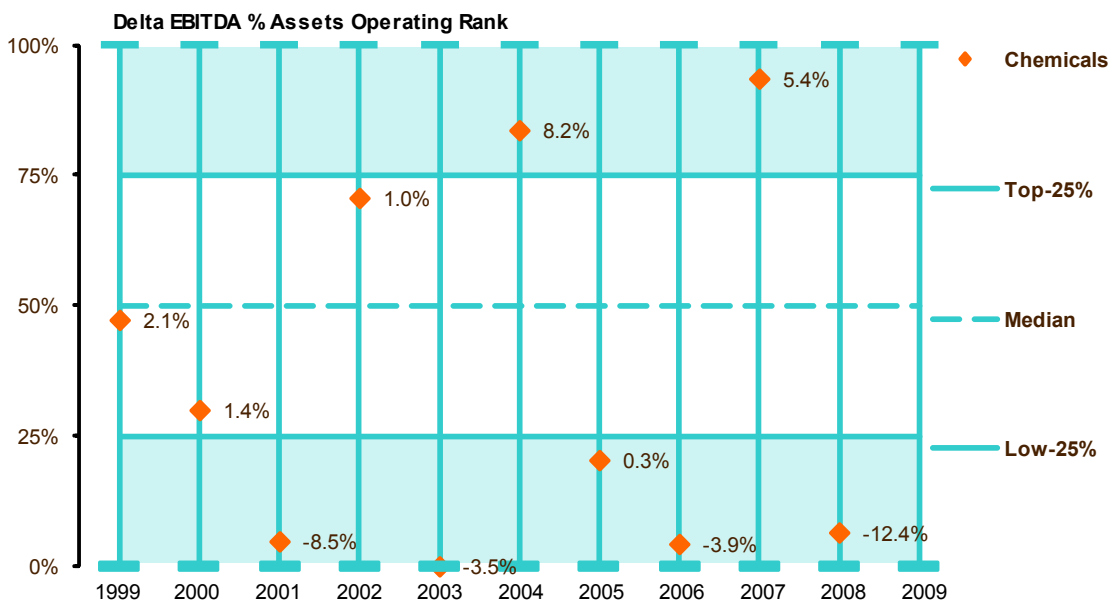
2.3 Operating Rank Gas & Power



Gas and Power	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Actual Value: Delta EBITDA %	-0.6%	1.9%	1.5%	-3.1%	2.1%	-0.5%	0.2%	2.4%	-2.5%	3.6%
Rank: Delta EBITDA % Assets	12.5%	23.5%	58.4%	15.0%	32.7%	7.4%	7.4%	45.4%	12.7%	57.4%

Peer Group: Gas and Power

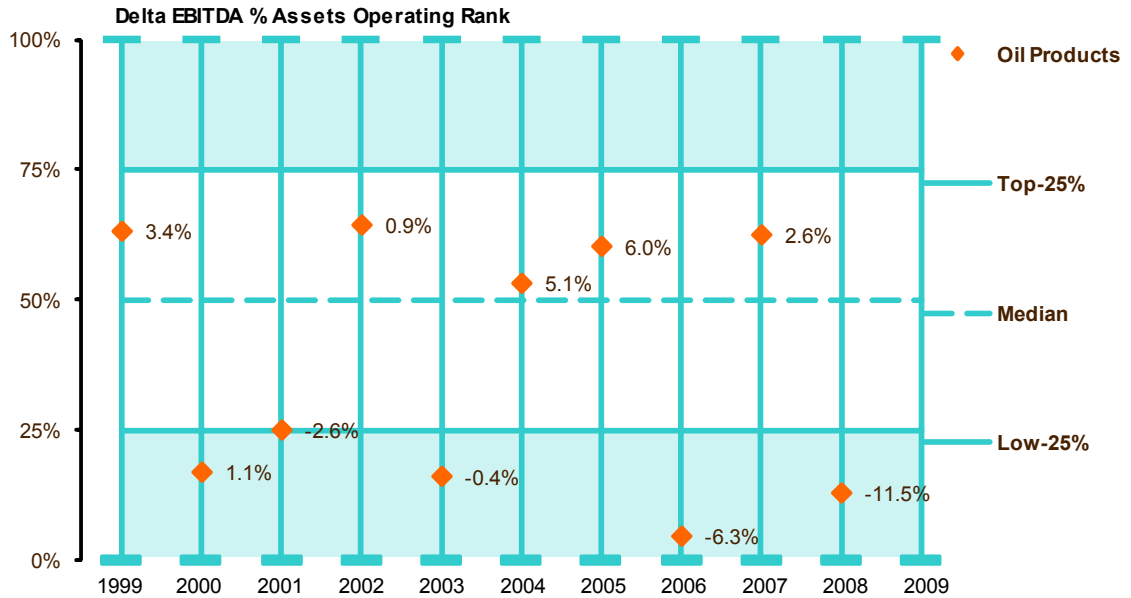
2.4 Operating Rank Chemicals



Chemicals	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Actual Value: Delta EBITDA %	2.1%	1.4%	-8.5%	1.0%	-3.5%	8.2%	0.3%	-3.9%	5.4%	-12.4%
Rank: Delta EBITDA % Assets	47.3%	30.0%	4.8%	70.7%	0.0%	83.7%	20.4%	4.3%	93.6%	6.5%

Peer Group: Chemicals

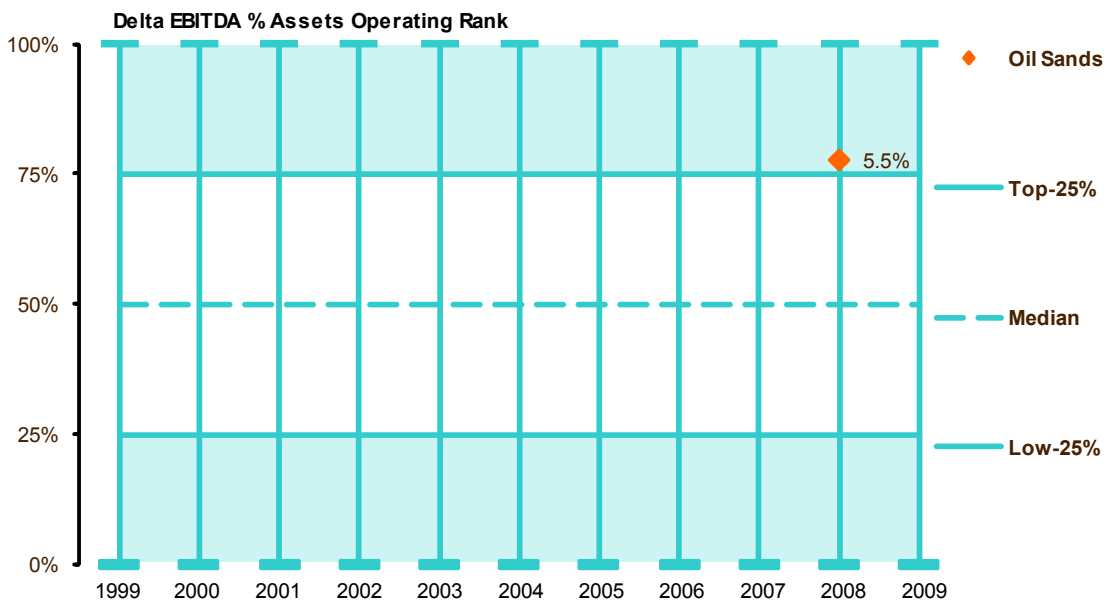
2.5 Operating Rank Oil Products



Oil Products	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Actual Value: Delta EBITDA %	3.4%	1.1%	-2.6%	0.9%	-0.4%	5.1%	6.0%	-6.3%	2.6%	-11.5%
Rank: Delta EBITDA % Assets	63.2%	16.9%	25.0%	64.4%	16.1%	53.2%	60.3%	4.6%	62.5%	12.9%

Peer Group: Oil Products

2.6 Operating Rank Oil Sands



Oil Sands	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Actual Value: Delta EBITDA % Assets										5.5%
Rank: Delta EBITDA % Assets										77.7%

Peer Group: Oil Sands

COMPENSATION OPINION

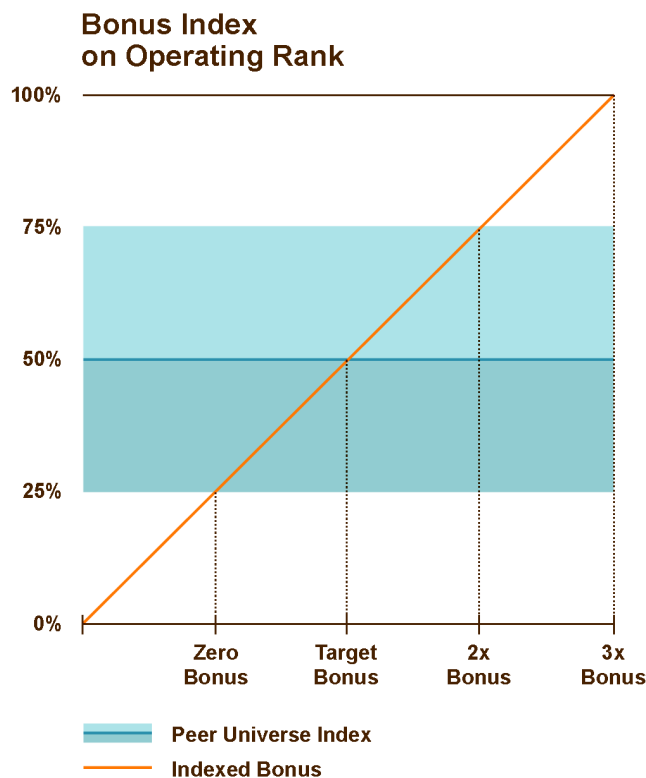
1 Indexed Compensation Method

Since Operating Ranks are independent of external factors (including investor sentiment) and a standardized performance measure, deserved bonus levels are directly derived from the Operating Rank. The Compensation Opinion uses the following formula for calculating the Bonus Multiple.

$$\text{Bonus Multiple} = 4 * [\text{Operating Rank on } \Delta\text{EBITDA in \% of Assets}] - 1$$

The Bonus Multiple is the factor by which individually agreed target bonuses (e.g. typically expected or average historic bonus levels) are multiplied to obtain the actually deserved indexed bonus. For instance, if the agreed target bonus is €10'000 and the Bonus Multiple is 1.2, the deserved actual bonus is €12'000 (1.2 times €10'000).

The following graph illustrates how Operating Rank is converted into Bonus Multiples:



2 Indexed Compensation Analysis

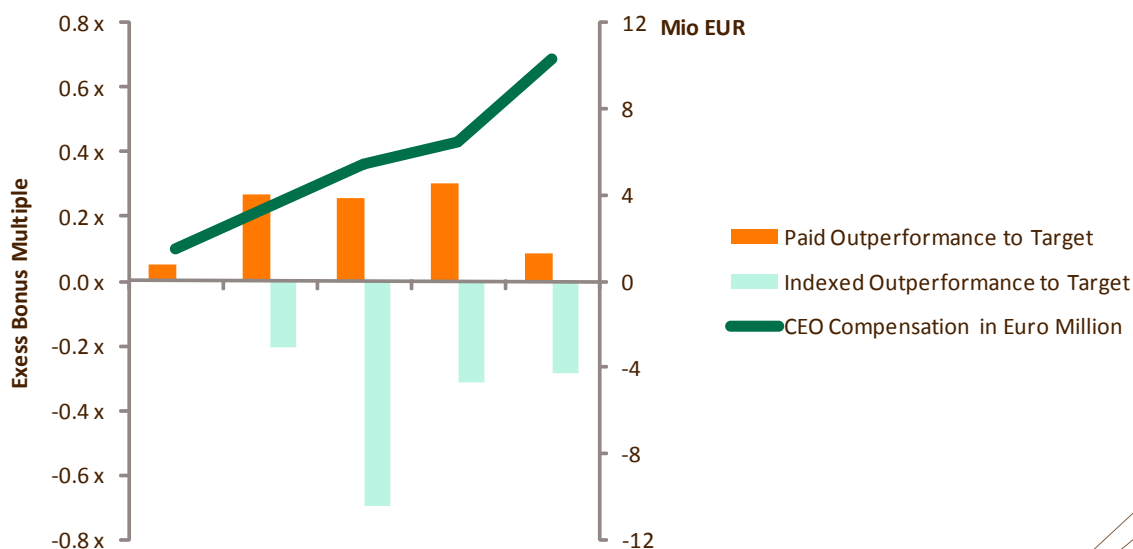
We compare declared bonus multiples in the Royal Dutch Shell remuneration report with achieved indexed performance as stated above as Operating Rank compared to peers. Outperformance is derived by deducting 1.0 times bonus.

in Euro	2004	2005	2006	2007	2008
Target Bonus CEO ¹	100%	100%	100%	120%	150%
Payout CEO ¹ (Average for 2008 ²)	105%	127%	126%	156%	163%
Paid Bonus Multiple to CEO	1.1 x	1.3 x	1.3 x	1.3 x	1.1 x
Total Remuneration CEO ^{1,3}	1'500'000	3'484'246	5'439'054	6'503'473	10'320'194
Increase		132%	56%	20%	59%
Indexed Performance	(stated as Operating Rank)				
Exploration & Production	56%	91%	76%	0%	95%
Gas & Power	7%	7%	45%	13%	57%
Chemicals	84%	20%	4%	94%	7%
Oil Products	53%	60%	5%	63%	13%
Oil Sands					78%
Indexed Performance Group (average excluding Oil Sands)	50%	45%	33%	42%	43%
Indexed Bonus Multiple	1.0 x	0.8 x	0.3 x	0.7 x	0.7 x
Paid Outperformance to Target	0.1 x	0.3 x	0.3 x	0.3 x	0.1 x
Indexed Outperformance to Target	0.0 x	-0.2 x	-0.7 x	-0.3 x	-0.3 x

¹ Source: Annual Reports Royal Dutch Shell plc

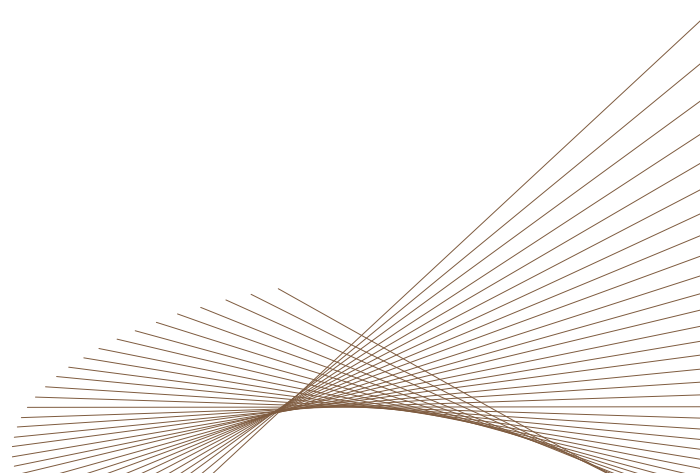
² Payout low 138%, Payout high 188%

³ 2004 only base salary was declared



3 Opinion

While Royal Dutch Shell declared outperformance in all previous five years (orange bars), indexed performance based on EBITDA never reached peer levels (blue bars). From an indexed (relative) performance point of view, there is no justification for outperformance compensation, especially not for the large increases in salary levels. Quite the contrary the analysis shows that the bonus should be below target.



APPENDIX

Indexing Operating Performance

In order to assess whether a company has outperformed relative to an [Operating Index](#), investors, the Board of Directors and the Executive Management are interested in calculating [Operating Alpha](#) and [Operating Rank](#) by indexing their operating performance. Operating Alpha represents a true measure for operating performance free of external effects.

Furthermore, Operating Rank standardizes performance, allowing decision makers to compare different businesses, time periods and financial metrics directly. This has three core applications:

- **Indexed Bonus Targets:** fairer bonus plans independent of economic cycles
- **Indexed Strategy Controlling:** measure true operating performance free of external effects
- **Indexed Investment Valuation:** identify value sources and gaps in investments

For further information on indexing operating performance, see www.obermatt.com/indexing-operating-performance/

Declaration of Interest and Disclaimer

Obermatt provides this opinion free of any commercial or other benefit from the company analyzed. The analysis is entirely funded by Obermatt.

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www.obermatt.com/bonus-index

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About Obermatt Inc.

Obermatt is an international financial research company focused on indexing corporate operating performance to measure, rank and compare key financial ratios standardized and independent of external factors. Obermatt helps corporations, private equity firms and investors add value for their shareholders and to their investments through products that make innovative use of indexed performance measurement: for cycle-independent and thus fairer incentive plans and for standardized performance comparison in strategic controlling and in investment analysis. The company is employee owned and has offices in Los Angeles, California and Zurich, Switzerland.

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