



VEB Questions Q&A session

Balance sheet and (long-term) earning capacity

During the presentation of the first-quarter results, CEO Van Beurden painted a (very) bleak picture of the mid- and long-term future for oil and gas prices and demand.

Directly or indirectly, the lion's share of the value of Shell's assets is heavily dependent on energy prices that are the critical determinant of the cash flows these assets produce. This is, among others, the case for the exploration and production assets (165 billion USD) and the intangible assets (23.6 billion USD), but also the deferred tax assets (28 billion USD).

In note 8 of the annual accounts, Shell discloses the key-input assumptions used for the impairment test of Property, Plant, and Equipment ("PPE").

The assumption for the Brent crude price was 60 USD a barrel in both the projection period (2020-2022) and the terminal value calculation. Regarding the Henry Hub natural gas price, the impairment test assumed a long-term price of 3.00 USD per million British thermal units (for 2022 and onwards).

Both assumptions seem overly optimistic in the current macro-economic climate.

1. Do you believe the assumptions used for the impairment test are (still) consistent with the view/outlook given by CEO Ben van Beurden and CFO Jessica Uhl during the Q1-presentation held April 30?
2. Is it fair to assume (substantial) write-downs are inevitable during the second financial quarter?

In the annual report, the auditor noted with respect to the potential impact of COVID-19 on the value Exploration and production assets that:

" On March 10, 2020, we reported to the Audit Committee orally that both events are indicative of conditions that arose after the balance sheet date, and that therefore they are both non-adjusting events that have no impact on our conclusions concerning the recoverable amounts of Shell's assets at the balance sheet date. "

3. Do you believe the current unprecedented situation in the energy markets qualifies as a “*triggering event*”, implying new impairment tests should be executed on short notice? Why (not)?
4. Potential impairments negatively affect the company’s balance sheet (gearing). Do you believe Shell’s credit rating is currently at risk?
5. On December 31, 2019, Shell reported 11,096 million barrels of oil equivalent of proved reserves. What percentage of the reserves can not be extracted in a way that is economically viable under current circumstances?
6. Do you believe the 5 USD billion divestment program for this year is realistic? Is it (still) in the interest of shareholders to continue the program, even if assets can only be sold at bargain prices?
7. Shell is still disclosing an indicative operating cash flow sensitivity at group level of 6 billion USD per annum for each 10 USD per barrel Brent price movement. Although, Shell notes the sensitivity “*is most applicable to smaller price changes than we currently witness*”. Is it fair to assume that the impact of oil price changes around current low levels is substantially higher than 6 billion USD? Could you give a ballpark figure?

Capital allocation policy

8. Shell’s strategy sets out three clear ambitions. One of them is to become a “*world-class investment case*”. Given the latest developments, Shell can’t deliver on this promise. Doesn’t this mean the company needs a new overall strategy? Is Shell planning a new Capital Market Day in the short term?
9. Did you consider committing to shareholders that the payment will be reinstated to previous levels in case certain medium/long-term conditions are met – for example, regarding oil and gas prices? Why (not)?

10. What are the key considerations in the determination of future dividends – i.e., is it still the intention to “*grow the dollar dividend through time, in line with management’s view on earnings and cash flow*” like the previous policy?
11. In better times, the lower payout will increase financial flexibility for Shell. Will Shell’s future distribution strategy be focused (more) on share repurchases like some U.S. peers?
12. Does Shell believe the new quarterly dividend payout of 0.16 USD per share is sustainable in every (reasonable) economic scenario? How committed is Shell to maintain the dividend if economic conditions deteriorate substantially?
13. During the presentation of the first-quarter results, CEO Van Beurden proclaimed that the dividend yield is “*a relatively poor approximation of a valuation*” for a company. Is it not the case, however, investors’ focus on dividend payouts is purely the result of the fact that over the past years Shell was unable to realize returns on capital that exceeded the cost of capital – hence investors justly prefer dividends over re-investing in the business?
14. What do you believe is (will be) the impact of the dividend cut on the shareholder base of Shell? Has Shell already noticed a rotation in its shareholder base?

Corporate governance and remuneration

During the first quarter financial results presentation, CEO Van Beurden mentioned: “*.... no group performance bonuses will be paid to anyone in Shell for this financial year...*”.

15. Should investors in Shell be concerned the decision to revoke bonuses will affect the culture and morale of employees in every layer of the organization?

16. Has the search and hiring of talent become more difficult over the past years for Shell now the societal view about energy companies seems to have changed for the worse?
17. Does the “no-bonus-policy” apply to both the annual bonus and the long-term-incentive (LTI) – hence both the shares that vest in 2020 and the shares that are granted this year?
18. Did the board consider to claw back variable compensation that was paid out in previous years and based on a performance that has proven to be unsustainable?

Climate change

19. In the annual report, the company mentions that 12 lawsuits have been filed against Shell and other oil and gas companies. The plaintiffs seek damages for – in brief – the harm done by energy companies to the environment. Although Shell remarks there remains a high degree of uncertainty regarding the outcome of these lawsuits, management *“believes the outcome of these matters should be resolved in a manner favorable to Shell.”* Based on what assessment is Shell confident that the outcomes will be favorable?
20. Shell recently raised the level of ambition on its carbon footprint. We’re positive about the ambition but do understand some of the criticism regarding the fact that Shell doesn’t set absolute limits to certain emissions. Is Shell willing to set a net zero target for its own production that is comparable to peers?

21. Shell cumulatively invested 2.3 billion dollars in its New Energies Business since the formation of the unit in 2016. This is well below the 1 to 2 billion dollars annual target that was communicated at the company's Capital Markets Day. This makes the 2020-2025 target of 2-3 billion dollars look ambitious.
- a. What is (are) the reason(s) investments in New Energies have been substantially lower than planned?
 - b. Based on what assessment is Shell confident that it will be able to find (at least) 2 billion dollars worth of attractive investment opportunities a year?
 - c. Do you (still) believe Shell will be able to realize returns on capital on the New Energies business that exceed the cost of capital?
 - d. Is it fair to assume investments in New Energies will both in absolute terms and compared to total investments increase as a result of the recently announced more ambitious environmental targets?
22. Can you give a commitment that Shell will increase its transparency with respect to its New Energies Business (hence: report financials on a stand-alone basis and not as part of the integrated gas business)?
23. In order to achieve its 2050 net-zero target, Shell seems dependent on the efforts made by Shell's customers.
- a. Could you elaborate on the investments (both opex and capex) that customers are required to make in order for Shell to deliver on the 2050 target?
 - b. Will Shell compensate its customers for these investments? If yes. Could you give an estimate of the total compensation involved?
 - c. What is the feedback you received from customers since the announcement of the new targets?