SHAREHOLDER RESOLUTIONS AT ROYAL DUTCH SHELL AND BP PLC

Investor Briefing

Introduction

This briefing provides investors with information regarding shareholder resolutions which will be on the 2010 AGM Agenda of each of BP plc and Royal Dutch Shell plc. The resolutions call on each company to present a comprehensive strategic justification of its allocation of capital to Canadian oil sands projects in light of shifting market conditions and increasing doubts about the financial viability of Canadian oil sands projects.

Shifting Sands

Expected climate change regulation and future carbon prices together with increasing doubts about the reliability of demand for oil and the sustainability of high oil prices has created strategic uncertainty for Canadian oil sands producers. 2008 witnessed the postponement of production, increasing costs and lower bitumen recovery levels. In light of this strategic uncertainty, investors need clarity regarding the macro-economic assumptions being made by BP and Shell in deciding to allocate capital to the acquisition and development of oil sands resources.

This clarity is required to enable investors to evaluate both the economic viability of Canadian oil sands projects and the particular risks to investors which are "universal owners" with highly diversified holdings across the entire global economy.

Doubts about the Likelihood of Sustained High Oil Prices

Oil sands production involves high levels of capital expenditure, is carbon intensive and therefore requires sustained high oil prices to achieve profitability:

> *"….so you can achieve good returns at high oil prices with oil sands, no doubt but it needs upfront money. It is very capital intensive."*
> **Peter Voser, Shell CEO, Financial Times, 26 January 2010**

Analysts have suggested that profitability is dependent on an oil price in a range of $70 to $100, with in-situ production (which includes BP's Sunrise Project) requiring the upper level of that range.[1] Deutsche Bank state that ***"for investors in Canadian oil sands who require an $80/bbl long-term oil price to make a fair return (15% IRR), it would require a planning assumption/visible average oil price (i.e., average futures strip) of around $100/bbl for a major new investment to be sanctioned."***[2]

There is growing uncertainty as to whether oil prices at that level are sustainable. The issue for companies is not simply oil price volatility (which might be tolerated so long as a sufficient average price exists) but also that sustained high oil prices together with disruptive technological development in sectors which use a lot of oil could lead to oil demand destruction in key markets. A recent report by Deutsche Bank supports this view, suggesting that high oil prices could well trigger a permanent shift to more energy efficient products, more efficient oil use and substitution. Such a structural demand shift would not be reversed by

What are Oil Sands?

Oil sands (also known as tar sands) are deposits of sand and clay saturated with bitumen. Bitumen is oil in a solid or semi-solid state. The oil sands cover 140,000 sq km in the boreal forest of Alberta – an area larger than England.

Extraction

Where oil sands are close to the surface this involves excavating the bitumen out of the ground in an open cast mine. The land is cleared and the bitumen-soaked sand is dug out with mechanical shovels and loaded into trucks to be taken to a separation plant. Only about 18% of the ultimately recoverable oil sands are in deposits shallow enough to be mined. The rest requires in situ production. In situ production requires power and steam generating plants, a large number of wells, often spread out in groups, and extensive roads, pipelines and product collection areas. While some in situ production works much like conventional heavy oil production, most involves injecting steam into the bitumen to enable it to flow towards the production well. There are a number of different technologies for doing this, some more efficient than others, but all of these methods are extremely energy intensive and therefore generate significant CO2 emissions.

lower prices. Deutsche Bank state that ***"the value of high capex intensity, long lead time, currently un-developed oil, such as undeveloped Canadian heavy oil sands…….could be far lower than the market currently expects".***[3]

Long-term demand forecasts made by the International Energy Agency (the "IEA"), OPEC and the US Department of Energy's Energy Information Agency have fallen by some 20% since 2006. In order to achieve the Copenhagen endorsed 2 degree temperature rise limit, the relevant IEA scenario predicts 2030 demand of 89 million barrels per day with ***"Canadian oil sands production particularly heavily affected".***[4]

Despite increasing certainty that profitable oil sands production requires high oil prices, BP has recently suggested that the Sunrise Project can achieve profitability with oil prices of between $45 and $70 per barrel.[5] Given the disparity between BP's analysis of a profitable oil price and that of independent analysts, BP must be transparent as to how the Sunrise Project involving in-situ production can be profitable at such prices. The range suggested by BP is very broad leading investors to ask what conditions are necessary to achieve profitability at an oil price of $45 per barrel as opposed to $70. Given that BP confirmed a **pre-refining** cost of $40 per barrel, investors need to understand how profitability and sufficient shareholder return can be achieved with an oil price of $45 per barrel.

In the face of these increasing doubts about the likelihood of the market conditions necessary for oil sands to be profitable, investors in Shell and BP need the companies to disclose their assumptions on future demand and on oil price which underpin their strategies and to respond to the doubts raised by independent analysts.

Counting the Costs

Oil price uncertainty focuses attention on the cost of oil sands projects. In addition to high capital costs, land reclamation costs and potential costs and delays arising from litigation, there is a risk of significant cost connected to the carbon intensity of oil sands.

Even using the oil industry's favoured measure (from oil well to car exhaust), oil from this source emits between 14% and 40% more greenhouse gasses (GHGs) than the average of conventional oil.[6] Amidst growing international consensus regarding the need to regulate and price GHG emissions, the IEA has suggested that the price of carbon in industrialised countries will need to be $50 per tonne in 2020 rising to $110 by 2030. These prices add $5 and $11 respectively to the cost of producing a barrel of oil sands on average.[7]

BP plc recently informed investors that the method of production to be used in the Sunrise Project emits 5% more GHG than other commonly imported conventional fuels.[8] The source quoted by BP in support of these figures (the "Jacobs Report")[9] is subject to challenge on the grounds that it was not peer reviewed, used only theoretical project data rather than publicly available operator data and used dirtier conventional fuels for comparison than other studies such as those from the US Department of Energy. Peer reviewed studies and US government studies show that the relative emissions of oil sands are much higher than BP claim. [10] While BP has presented figures for the method of production to be utilised, it has not disclosed the actual GHG emissions of all processes involved in the specific Sunrise Project.

Carbon Capture and Storage (CCS) together with efficiency improvements have been heralded by Shell as a means of significantly reducing GHGs and therefore mitigating the risk from a rising, legislative carbon price. Even if the, as yet unproven, CCS technology proves successful at reducing GHG emissions the costs could be prohibitively expensive at $110-$290 per tonne. This compares unfavourably with estimates for CCS for coal-fired generation at $60 to $150 per tonne.[11] While the current Alberta administration has agreed to subsidise the CCS facility for Shell's existing project, no decisions regarding CCS for any future projects have been made.

Investors require greater transparency from Shell on their assumptions regarding the 2020 and 2030 carbon price as well as how these will be paid and by whom. BP has disclosed an assumed carbon price of $40 per tonne but Shell will only confirm that its projections include a higher than current carbon price

Shell and BP's Canadian Oil Sands Investments

BP

In December 2007, BP plc (the "Company") announced a reversal in its oil sands policy by entering into a $5 billion asset swap with Husky Energy whereby the Company will exchange 50% of its Toledo refinery for 50% of Husky's sunrise project (the "Sunrise Project"). Final project sanction is anticipated later this year with production expected to commence in 2014. Recent reports suggest that BP may expand its Canadian oil sands operations by the purchase of additional oil sands assets.

Shell

Shell first started exploring for tar sands in the Athabasca region in the 1940s. However, major investment began in 1999 when Shell started to develop the Athabasca Oil Sands Project (AOSP). By the time AOSP became operational in 2003, Shell had invested over $3.6 billion for its 60% share in the project. In 2008 Shell informed investors that Canadian oil sands accounted for approximately 1/3 of its total global resources. However in January 2010 Shell announced a postponement of intended development of those resources.

and they decline to provide further information on the grounds of commercial sensitivity. Given BP's disclosure investors are entitled to expect the same level of disclosure from Shell.

Investors require transparency from Shell on the assumptions regarding the cost and success of CCS which underpin the companies' profitability projections. Investors require assurances as to whether the financial viability of oil sands projects depends on the efficacy of CCS (which remains unproven at a commercial scale) and on the receipt of subsidies for its operation.

Strategic Roadmap

BP's 2007 decision to enter the oil sands sector through a joint venture with Husky Energy represented a significant strategic reversal from its 1999 position which saw the disposal of all of its oil sands assets. Favourable market conditions since 2004 likely motivated this reversal. In the intervening years, there are been a further shift in market conditions.

> *"it's very clear that in the mature markets of the west, the peak for gasoline consumption was in 2007. The industry will not sell more gasoline in either the US or Europe than it did in 2007. Ever. As government regulation and policy drives efficiency into the transport fleet.....it's a challenge for companies like BP. It's why our refining and marketing businesses are so challenged right now because there is a lot of surplus capacity which is not going to go away."*
> **BP CEO Tony Hayward-BBC Radio 4 Today Programme, 4 February 2010.**

Fresh uncertainty surrounds the likelihood of market conditions necessary to justify BP's allocation of capital to high cost oil sands production over other projects within its portfolio. Fortunately the final decision on whether to proceed with this project has yet to be made. That decision will be taken later this year. This provides BP with the opportunity to revise its 2007 decision to commence the most carbon intensive and expensive form of oil sands production in light of shifting market conditions in the intervening years as evidenced by Shell's recent postponement of expansion.

Further disclosures required from BP

- The total cost of producing a barrel of oil sands including the cost of refining.
- The basis for its profitability projection at oil prices of between $45 and $70 per barrel of oil.
- The GHG emissions from all processes involved in the Sunrise Project and clarification of why it regards the Jacobs Report as a more accurate measure than numerous peer reviewed studies.

Since the Shell resolution was filed, Shell CEO Peter Voser has confirmed in an interview with the Financial Times that the company intends to slow its development of oil sands. This decision highlights the validity of concerns raised about the economic vulnerability of oil sands expansion. Peter Voser claims oil sands expansion can be scaled back because there are "enough other growth opportunities". This would appear to contradict Shell's claims under his predecessor Jereon van der Veer that high cost carbon intensive oil sands production was a necessary and substantial part of the response to energy demand. This contradiction emphasises the importance of investors voting for a comprehensive and transparent strategic review.

Shell's postponement of further expansion should not be seen as a reason for investors to postpone calls for greater transparency on the strategic direction of the company. Those concerns have not been addressed merely by the decision to postpone. Shell still has a declared intention to develop its oil sands resources:

> *"we have clearly said that going forward the way we look at those unconventionals, we look at them as being developed but at a much slower pace."*
> **Shell CEO, Peter Voser, Financial Times, 26 January 2010.**

By supporting the resolution, investors can obtain assurances from Shell in advance of any decision to recommence expansion. Investors are entitled to understand the company's assumptions regarding the economic viability of projects which Shell, in 2008, stated accounted for approximately one third of its total global resources.[12]

Further Disclosures required from Shell

- Details of the carbon price assumed by Shell.
- The reliance being placed on the efficacy of CCS.
- Its assumptions regarding the level and likelihood of the sustained high oil prices required for future projects to be profitable.

Universal Owners

Many investors in Shell and BP are "universal owners", with highly diversified holdings across the entire global economy. For such investors, returns depend on the performance of the economy as a whole rather than on any one sector or stock. There is increasing concern that the expansion of carbon-intensive oil sands production could negate efforts in other industry sectors to effect a smooth transition to a low carbon economy. Accordingly, the issue for many large investors is not just whether the macro-economic conditions necessary to ensure the profitability of oil sands production are in place but whether the continued expansion of oil sands production could aggravate climate change thereby putting at risk GDP growth and the performance of their portfolio as a whole.

Environmental and Social Impacts of oil sands

In addition to the investment risks posed by Canadian oil sands projects, their environmental and social impacts have resulted in them being among the most contentious industrial developments in the world. The development of such carbon intensive projects represents, in the view of many people, a backward step at a time when the international community is realising the need for urgent action on climate change. Other negative environmental impacts include existing mining operations being licensed to divert from the Athabasca River an amount of water sufficient for a city of three million people and the creation of tailings lakes filled with toxins which currently cover an area larger than the city and metropolitan area of Manchester. Oil sands extraction has also negatively impacted the traditional livelihoods of certain First Nation and Métis people in Alberta. The destruction of hunting and fishing habitats, high levels of air pollution and claims of health impacts have led certain communities to commence litigation claiming breaches of treaty rights protecting their traditional livelihood.[13] It is likely that many pension beneficiaries are concerned about the environmental and social impacts as well as the investment risks arising from oil sands. The resolutions provide pension providers with the opportunity to obtain from BP and Shell comprehensive disclosure about the impacts and risks which may be of concern to some pension beneficiaries.

Resolutions

BP plc

Special Resolution – Report on investment risks associated with the Sunrise Project

That in order to address our concerns for the long term success of the Company arising from the risks associated with the Sunrise SAGD Project, we as shareholders of the Company direct that the Audit Committee or a Risk Committee of the Board commissions and reviews a report setting out the assumptions made by the Company in deciding to proceed with the Sunrise Project regarding future carbon prices, oil price volatility, demand for oil, anticipated regulation of greenhouse gas emissions and legal and reputational risks arising from local environmental damage and impairment of traditional livelihoods. The findings of the report and review should be reported to investors in the Business Review section of the Company's Annual Report presented to the Annual General Meeting in 2011.

Royal Dutch Shell plc

Special Resolution – Report on investment risks associated with future Canadian Oil Sands projects

That in order to address our concerns for the long term success of the Company arising from the risks associated with oil sands, we as shareholders of the Company direct that the Audit Committee or a Risk Committee of the Board commissions and reviews a report setting out the assumptions made by the Company in deciding to proceed with oil sands projects regarding future carbon prices, oil price volatility, demand for oil, anticipated regulation of greenhouse gas emissions and legal and reputational risks arising from local environmental damage and impairment of traditional livelihoods. The findings of the report and review should be reported to investors in the Business Review section of the Company's Annual Report presented to the Annual General Meeting in 2011.

Acknowledgements

This investor briefing was prepared with contributions from Louise Rouse of FairPensions, Matt Crossman of Rathbone Greenbank and Niall OShea of The Co-Operative Asset Management.

1 ***"Macro-Economic Limits to Oil Price and "Nonconventional Oil"***- Innovest Strategic Value Advisors, February 2009

2 Deutsche Bank Global Market Research, 04 October 2009. ***The Peak Oil Market: Price Dynamics at the end of the oil age.*** p.20

3 ibid. p.5.

4 International Energy Agency, World Energy Outlook 2009. p216

5 Stated at an investor briefing given by BP plc in London on 9th February 2010.

6 Brandt, Adam R. & Farrell, Alexander E. "Scraping the bottom of the barrel: greenhouse gas emission consequences of a transition to low-quality and synthetic petroleum resources" Climatic Change (2007) 84:241–263

7 International Energy Agency, World Energy Outlook 2009.

8 Investor Briefing delivered 9th February 2010 http:// www.bp.com/liveassets/bp_internet/globalbp/STAGING/global_assets/downloads/B/BP_Oil_Sands_Presentation_08022010.pdf

9 Source: CAPP, based on Jacobs Consultancy, Life Cycle Assessment Comparison for North America and Imported Crudes, June 2009

10 Op cited no.6 p. 249, Table 2 shows well to wheel GHG emissions between 14% and 40% higher than other oil sources; NRDC Tar Sands LCA White Paper, December 2008; DOE National Energy Technology Laboratory ***"Consideration of Crude Oil Source in Evaluating Transportation Fuel GHG Emissions"***, March 20 2009 available at: http://www.netl.doe.gov/energy analyses/ pubs/Life%20Cycle%20GHG%20Analysis%20of%20Diesel%20Fuel%20by%20Crude%20Oil%20Source%202.pdf

11 WWF-UK and The Co-operative Financial Services, October 2009. ***Carbon Capture and Storage in the Albertan Oil Sands: A Dangerous Myth***.

12 Shell has 20 billion barrels of tar sands resource among 66 billion barrels of oil equivalent globally, Shell March 2008 strategy update: Investing in new heartlands for Shell.

13 Alphonse Lameman and the Beaver Lake Cree Nation v Her Majesty the Queen Right of the Province of Alberta and the Attorney General of Canada.

ES/2659/2-10