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# Shell Investors Revolt Over Executive Pay Plan

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By GUY CHAZAN and JOANN S. LUBLIN

Royal Dutch Shell PLC, Europe's largest oil company, suffered a stunning rebuke Tuesday when investors shot down its executive-compensation plan, in the latest display of shareholder anger over big paychecks and boardroom excesses amid the economic crisis.



Getty Images

Royal Dutch Shell's board is pictured during a shareholders meeting in The Hague, with (from left) Chief Financial Officer Peter Voser, Chief Executive Jeroen van der Veer and Chairman Jorma Ollila.

Shell is the largest among a growing group of British companies whose shareholders have voted down compensation plans in advisory votes, including Royal Bank of Scotland Group, Bellway PLC and Provident Financial PLC.

Large numbers of shareholders, though not a majority, voted against compensation plans at miner Xstrata PLC, oil major BP PLC, and Pearson, owner of the Financial Times.

The Shell vote, although nonbinding, shows how the economic downturn has inspired a new activism among shareholders,

particularly in Europe, and a greater willingness to challenge board decisions, especially those perceived as rewarding failure.

In a charged meeting at Shell's headquarters in The Hague, which was broadcast live in London to U.K.-based shareholders, a succession of investors lined up to excoriate the board of the Anglo-Dutch company for awarding performance-based shares to executives despite the company's failure to reach its own internal targets.

Investors gasped in disbelief when results of the vote were displayed.

European investors are angry over bonuses that are relatively modest by U.S. standards. At Exxon Mobil Corp., the largest U.S. oil company, Chief Executive Rex Tillerson received a 2008 compensation package valued at \$23.9 million, including \$1.87 million in salary, a \$4 million bonus and stock grants initially valued at \$17.6 million, according to the company's latest proxy.

Shell Chief Executive Jeroen van der Veer was awarded 78,889 shares, worth about €1.3 million (\$1.76 million at current prices), in addition to his salary, bonus and benefits of €5.7 million.



Chief Financial Officer Peter Voser was awarded 38,967 shares, worth about €666,336. Mr. van der Veer is to step down at the end of June, and some shareholders complained that he will also get an award

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Royal Dutch Shell PLC ADS Cl A(RDSA)	61.74	0.74	9:31a.m.
Lowes's Cos.(LOW)	26.56	0.12	9:30a.m.
Ingersoll-Rand Co. Ltd.(IR)	37.88	0.62	9:31a.m.
Provident Financial PLC(PFG.LN)	866.00	-7.00	9:30a.m.
Wal-Mart Stores Inc.(WMT)	54.55	0.16	9:31a.m.
Total S.A. ADS(TOT)	58.88	0.79	9:30a.m.
BP PLC ADS(BP)	60.40	0.92	9:30a.m.

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Bloomberg News

Demonstrators gather Tuesday outside the Barbican Center in London, where Shell's annual meeting was broadcast live to shareholders.

for a three-year period that ends in 2010.

Executives were supposed to get the performance-based shares only if Shell placed in the top three of its peers in a ranking of total shareholder return, based on its share price and dividend payouts.

Shell placed fourth, but the board's remuneration committee decided to exercise

its discretion and award the bonuses.

Shareholders in London's financial district were met by protesters holding banners and handing out leaflets accusing Shell of human rights abuses in the oil-rich Niger Delta region of Nigeria.

Stony-faced board members also heard strident criticism of Shell's investments in Canadian oil sands, which green groups have condemned as polluting, carbon-intensive and damaging to the environment. There was also strong disapproval of Shell's decision to back away from investments in renewables such as solar and wind energy.

"The gravy train has got to stop," Martin Simons, a retiree, told the board at Tuesday's meeting. In the end, 59.42% of shares voting opposed the remuneration proposal, and 40.58% backed it.

The rebellion hasn't yet spread to the U.S., where shareholders, generally voting on executive-compensation practices for the first time, have approved every plan, including those at troubled banks such as [Citigroup Inc.](#) and [Bank of America Corp.](#)

Shell Chairman Jorma Ollila said board members "take the outcome of this vote very seriously and we will reflect carefully upon it." But Sir Peter Job, head of Shell's remuneration committee, stressed it was "advisory" and wouldn't invalidate the pay award.

The board had previously said it awarded the shares because the difference between Shell and the third-ranking company, France's [Total SA](#), was marginal and Shell's ranking didn't fully reflect its relative performance.

Investors in British companies have been skeptical of pay plans since they gained the annual advisory vote in 2003. That year, investors rejected the compensation plan at [GlaxoSmithKline PLC](#), which later amended it.

But this year's votes reflect a significant change in investor behavior, with institutional investors and small private shareholders coming together to oppose awards seen as excessive.

Governance watchers said the relatively muted reaction among U.S. shareholders reflected the novelty of the advisory vote on pay, which was enacted by Congress in February for recipients of federal bailout funds. That gave activists relatively little time to organize "vote no" campaigns among other investors.

In the U.K., more experienced shareholders "are not afraid to cast a vote no" on pay plans, said Richard Ferlauto, director of corporate governance and pension investment at the American Federation of State, County and Municipal Employees.

Mr. Ollila, Shell's chairman, said its remuneration committee had exercised discretion in recent years, in two cases denying share bonuses when directors had qualified for them. He also said the board had received shareholder approval to use discretion in operating the company's long-term share plan.

U.S. shareholders are voting on compensation plans for the first time this year at about 400 companies that received federal bailout funds, plus a scattering of others that have adopted the practice voluntarily.

Congress may extend the required vote to all publicly traded companies this year. Sens. Charles Schumer, a New York Democrat, and Democrat Maria Cantwell of Washington, introduced a bill Tuesday to do so.

Although many large U.S. companies have already held their annual meetings, a few potential flashpoints remain. Troubled insurer [American International Group Inc.](#), which is nearly 80% owned by the U.S. government, said Tuesday it will hold its annual meeting June 30. As a recipient of bailout funds, AIG must offer investors an advisory vote on pay.

[Ingersoll-Rand Co.](#) investors will vote on management pay practices June 3. At [Exxon](#) and [Lowe's Cos.](#), shareholders will cast votes this month on resolutions urging the appointment of

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independent board chairmen.

Activist investors at [Time Warner Inc.](#) and [Wal-Mart Stores Inc.](#) have submitted proposals that would make it easier for investors to call special shareholders' meetings.

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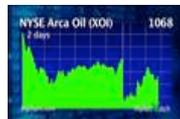
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