

From: Wiseman, Richard RM SI-LMAPF
Sent: 01 January 2007 17:44
To: 'alfred@shellnews.net'
Cc: Ruddock, Keith KA SI-LSEP
Subject: Re: Article and Offer

Dear Mr Donovan,

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I have copied him into this email so you have his address.

Many thanks.

Regards

Richard Wiseman

General Counsel M & A
International Limited

Tel: +44 20 7934 5544

Mobile: +44 7785 381 779

Email: Richard.Wiseman@shell.com

-----Original Message-----

From: Alfred Donovan <alfred@shellnews.net>
To: Wiseman, Richard RM SI-LMAPF
Sent: Sun Dec 31 12:51:01 2006
Subject: RE: Article and Offer

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[REDACTED]

From: [REDACTED]
Sent: 31 December 2006 10:53
To: [REDACTED]
Subject: Donovan

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[REDACTED]
[REDACTED]

Tel: [REDACTED]

Mobile: [REDACTED]

Email: [REDACTED]

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Sent: 01 January 2007 17:58
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Dear Mr Wiseman

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Ruddock, Keith KA SI-LSEP

From: Ruddock, Keith KA SI-LSEP
Sent: 01 January 2007 19:31
To: 'alfred@shellnews.net'; Wiseman, Richard RM SI-LMAPF
Subject: Re: Article and Offer

Thank you Mr Donovan and I look forward to hearing from you. You are indeed correct that we have come across each other previously as you describe.

Regards

Keith Ruddock
Keith Ruddock
General Counsel Exploration and Production
Shell International B.V.

Sent from my BlackBerry Wireless Handheld

-----Original Message-----
From: Alfred Donovan <alfred@shellnews.net>
To: Wiseman, Richard RM SI-LMAPF
CC: Ruddock, Keith KA SI-LSEP
Sent: Mon Jan 01 18:57:47 2007
Subject: RE: Article and Offer

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Ruddock, Keith KA SI-LSEP

From: Alfred Donovan [alfred@shellnews.net]
Sent: 03 January 2007 10:47
To: Ruddock, Keith KA SI-LSEP
Subject: Article and Offer



sakhalin article 03
Jan 2007.Z...

Dear Mr Ruddock

You will already have seen from the email correspondence with Mr Wiseman the basis on which the attached article is being supplied after Shell accepted our offer.

I have also reprinted the draft below in its entirety just in case you have any problem opening the file.

We await your response.

Regards

Alfred Donovan

The inside story of Shell's Sakhalin II debacle

By Alfred Donovan

The Sakhalin II project in Russia is the world's largest combined oil and natural gas project. It is being developed by Sakhalin Energy, a company in which Shell was the majority shareholder. Shortly before Christmas, following a long campaign by the Russian government prominently reported in the global business news media, Shell surrendered its majority holding and became a minority shareholder along with the other founding partners, Mitsui and Mitsubishi. Like Shell, each sold 50% of their holding to Gazprom at less than market value.

A few days later, the Russian government leaked the news that the founding partners had entered into what was supposed to have been a secret protocol with Gazprom which made the proposed deal even more of a multibillion dollar humiliation for Shell and the Japanese companies.

Under the provisionally agreed terms, Shell ends up as a junior partner in a state run project controlled by a ruthless Russian government led by the former KGB Colonel, President Putin. He has been personally involved since his public roasting of Royal Dutch Shell CEO Jeroen van der Veer (during a state visit to The Netherlands in November 2005) over the proposed doubling of the project budget to \$20 billion.

<http://www.shellnews.net/week44/reutersputin2november2005.htm>

Shell executives had pretended that they knew nothing about the huge project budget increase when agreeing a swap deal in principle with Gazprom earlier in the year. A matter of days later Shell sprung the astonishing news on Gazprom that the Sakhalin II budget had increased by \$10 BILLION. It was a breathtaking blunder to try to pull a fast one on the Russians who are the recognised grandmasters in game strategy.

<http://www.shellnews.net/week28/shellnewssakhalin2debacle.htm>

Shell will now have to be satisfied with whatever crumbs are thrown in its direction. Even more worrying to Shell, despite the inking of the provisional deal, the final terms are still being negotiated, so the revelations of deception and cover-up in this article may provide more ammunition for Putin to punish Shell management for its mendacity and incompetence.

Putin attended the signing ceremony in Moscow at which Shell CEO, Jeroen van der Veer, bizarrely thanked him for his support. Bearing in mind the allegations made by US Vice President Cheney that Russia is using energy as "*an instrument of intimidation and blackmail*", the humiliatingly submissive stance adopted by Van der Veer would appear analogous to a mugger's victim expressing thanks for being coshed and robbed.

Perhaps the entirely unsubstantiated allegations that Putin was responsible for ordering the murder of prominent opponents during the period in which the Sakhalin II deal has been negotiated, rattled Mr Van der Veer somewhat. It was not an ideal backdrop, as far as Shell was concerned, for negotiations already being conducted in a tense atmosphere, with world leaders making their objections known about the hardball tactics allegedly being used against Sakhalin Energy.

Our Role

A threatened claim against Sakhalin Energy for \$30 billion by the Russian environmental agency, Rosprirodnadzor, plus the possibility of criminal proceedings, rests on evidence we supplied to its deputy head, Oleg Mitvol, the now notorious so called "Kremlin attack dog". There are grounds to suggest that Mitvol works directly for Putin.

My son John and I jointly own and operate a website under the domain name of royaldutchshellplc.com: the dotcom domain name for Royal Dutch Shell Plc. It has been described by Mitvol as an "anti-Shell" website. Mr Mitvol has publicly acknowledged our significant role in the momentous events which have unfolded. The reasons for our opposition to the current Shell management are set out below in the section entitled "**Background Information**".

Our website, with its "Live Chat" facility, has effectively replaced the Tell Shell Forum on Shell's own portal website as a venue for Shell employees to discuss concerns with other Shell employees on an anonymous basis if they wish. "Tell Shell" was "suspended" over a year ago after Shell General Counsel Richard Wiseman admitted to me in an email that contrary to claims previously made by Shell management, including John Hofmeister, of a censorship free forum for open and lively debate, postings had in fact been secretly censored.

As a result of our website activities, we have been contacted by numerous Shell "insiders", some of whom have revealed scandalous conduct by Shell executives. One example is the **Brent Bravo scandal** in which Shell received a record breaking fine for Health and Safety violations as a result of the tragic but preventable deaths of Shell North Sea workers. According to Shell International Group Auditor, Bill Campbell (now retired), Shell Executive, Malcolm Brinded, was involved in a related cover-up.

<http://royaldutchshellplc.com/2006/08/09/shellnewsnet-when-is-shell-going-to-sue-former-shell-international-group-auditor-bill-campbell-for-defamation/>

As a result of contact made by insiders working on Sakhalin II, it soon became apparent that things were also going badly amiss on what Jeroen van der Veer has always described as "an elephant project". He may now agree with the modified description we have regularly applied: a white elephant project.

Leaked Shell internal documents have regularly fallen into our hands. This included email correspondence about Sakhalin II between two senior Shell managers, Engel van Spronsen, in his then capacity as Technical Director of Sakhalin Energy, and Hans Bouman, a natural-gas field manager; both are now retired.

<http://royaldutchshellplc.com/2006/10/23/shellnewsnet-the-hans-bouman-engel-van-spronsen-sakhalin-emails/>

We are in the fortunate position of having access to Shell insiders who can provide us with expert analysis of information supplied and did so in respect of the above extraordinary email correspondence.

Concern was expressed in the emails, that the design for oil and gas wells on Russia's Sakhalin Island does not properly address seismic risks. After studying the relevant emails, the relevant Shell insider, who is calm and cautious by nature, warned us of a potential environmental calamity on a scale never before witnessed by humanity (our description).

A quote from the Shell insider warning: -

"You have no idea how significant the comments in those emails might be - to a petroleum engineer, they conjure up the worst of possible scenarios - uncontrollable blowouts in a frozen, pristine, ecologically sensitive environment, and the potential for the entire contents of the Sakhalin oil and gas fields to be released at the seabed. The Exxon Valdez would, quite literally, be a drop in the ocean by comparison."

The warning went on to link Sakhalin II issues with the Shell reserves fraud in 2004.

We passed on these misgivings about the Sakhalin II project directly to President Putin in November 2005.

<http://www.shellnews.net/week46/shellnewsputinwarning25november2005.htm>

We later sent information to Oleg Mitvol and subsequently obtained his private fax number from his secretary to get information directly on to his desk. However, since we had never succeeded in speaking to Mitvol, we had no idea whether any of the information we had passed on from Shell insiders had been of any interest. The first clue that our activities had been noticed was when a message from "The Ministry of Natural Resources of The Russian Federation" was posted on our "Live Chat" forum in October 2006:

<http://royaldutchshellplc.com/2006/10/06/shellnewsnet-did-our-whistleblower-email-to-oleg-mitvol-precipitate-the-sakhalin-ii-crisis/>

We were subsequently surprised to read an article in a petroleum magazine which contained a question and answer interview with Oleg Mitvol. He indicated that his threatened \$10 billion claim against Shell for alleged environmental damage (later upped to \$30 billion) rested on evidence supplied by my son. The following is an extract:

What documents are these? Where are they from?

Mitvol: "I have email correspondence between executives in Sakhalin Energy management from 2002. I received these letters from John Donovan, owner of the anti-Shell website www.royaldutchshellplc.com. I received them on 19 October and forwarded them to Sakhalin Energy with a request for an official reply. But I have not received any reply so far. I presume that they are in shock."

How could you prove that these documents are genuine?

Mitvol: "They appear genuine and we have special services working to prove this. Once they have been verified, we will have enough evidence to take Sakhalin Energy to court. If we win, the Sakhalin 2 consortium should pay compensation for all the environmental damages — which will come to over \$10bn — as well as compensation to the state for loss of revenues caused by the additional delays."

Link to full article: <http://royaldutchshellplc.com/2006/11/19/argus-eyescom-mitvol-turns-up-the-heat-i-received-these-letters-from-john-donovan-owner-of-the-anti-shell-website-wwwroyaldutchshellplccom/>

Further confirmation was contained in an Interfax news agency report published by "Johnson's Russia List"

"On October 19, Rosprirodnadzor deputy chief Oleg Mitvol sent a letter to Sakhalin Energy CEO Ian Craig, asking him either to confirm or deny information contained in confidential e-mails from Shell natural gas field manager Hans Bouman to Engel Van Spronsen, then Sakhalin Energy technical director in 2002. Copies of the e-mails were forwarded to Rosprirodnadzor from John Donovan, a Shell shareholder and the owner of a website providing news on Shell."

<http://www.cdi.org/russia/johnson/2006-256-22.cfm>

We are now in direct correspondence with Mark Stephens, a senior partner in the London law firm Finers Stephens Innocent, appointed by the Russian authorities in relation to the Sakhalin II project. We will shortly be supplying Mr Stephens with highly sensitive confidential information received from Shell insiders which may well provide additional grounds for the Russian authorities further punish Shell. The information we are receiving is truly astonishing.

As we have previously acknowledged, we have no illusions about the Sakhalin II high-stakes poker game which has been in progress. We have supplied information and Shell internal documents in the probably forlorn hope that some good will come of it in terms of the environment and in particular the endangered Gray Whale population. From recent comments attributed to Putin, it seems as if the environmental issues may indeed be swept to one side. We also wanted to expose the continuing hypocrisy of a Shell management which claims to work within an ethical code pledging honesty, integrity and openness in all of its dealings. The reality of corruption, fraud, cover-up, intimidation of employees and **admitted use of undercover agents**, confirms that the ethical code is purely for PR purposes as per the multi-million dollar "Profits & Principles" global campaign. It should have been "Profits & No Principles".

Spying activity

Oleg Mitvol has confirmed that he called in Russian "special services" to check on the authenticity of the leaked Spronsen/Bouman emails. This probably explains the Lloyds List news story:

<http://royaldutchshellplc.com/2006/11/30/lloyds-list-i-spy-with-my-little-russian-secret-services->

According to reports received from Shell insiders, Shell "spooks" have also been engaged in a hunt to track down the sources of leaks documents and information.

Shell in alliance with distasteful regimes

It is ironic that Shell is now in bed with what many people rightly or wrongly consider to be a very distasteful Russian government. In any event, this is unlikely to concern Shell management as it has worked alongside corrupt Nigerian regimes for decades in plundering Nigerian national resources (and polluting the environment to a horrific extent). Time will tell whether President Putin has acted in the Russian national interest or for other motives.

Shell Nigerian Corruption: <http://www.shellnews.net/2004%20Documents/peaceandsecurity/peaceandsecurityinthenigerdeltawebpage.htm>

Sakhalin II corruption: <http://www.shellnews.net/WEEK%20%202006/shellnewsnet-bribery-and-corruption-at-shell-14-january-2006.htm>

Inside the Evil Empire:

A Shell insider who worked on the Sakhalin project has recently shared some insights with us about the mechanics of how Shell got the project costs so massively wrong. To protect anonymity some information has been changed without affecting the accuracy of the basic revelations made about the project. From what we have learned, the company's senior managers - both locally in Sakhalin and elsewhere - were aware of cost overruns far earlier than they have yet admitted and actively tried to suppress the true costs becoming common knowledge, even threatening employees to preserve the vow of omerta inside the project.

The individual concerned is a long serving Shell manager who was working in a project role in Sakhalin and had regular access to monthly cost reports. He was recruited for the Sakhalin project based on his previous experiences with other Shell developments, but rapidly found that this project was run along very different lines. Although he left the project towards the end of last year he still retains contact with other Expat and Russian national staff.

Specific allegations include:

From mid 2003 (when he first arrived on the island) the cost increases were common knowledge amongst the Expat community - Shell management has consistently claimed that they only became aware of this later. In fact when David Greer joined the project he immediately instigated a cost review, thinking that he could rapidly raise project costs and leave the blame with Steve McVeigh. He could then deliver for slightly less and justify a sizeable bonus for himself. Amusingly, Shell's management is so incompetent they can't even fudge numbers effectively!

The contingency for the project was absolutely minimal 5% - the official explanation for this was that they could afford a low contingency because the likelihood of problems was easily managed by the expertise of the management team. In practice, industry norms for a project of this nature would be around 12.5% - 15% and often as high as 20% to reflect potential problems with operating in Russia with uncertainty over the cost of materials such as steel and delays due to extreme weather conditions. Additionally, for the early part of the project there was no effort made to hedge against losses on currency exchange, leading to significant avoidable cost increases, although there was very significant risk present and recognisable since much of the project contracts were based on US\$ pricing and many materials - i.e. steel - are in high demand on the world market and thus command a premium. Shell clearly had not learned from their problems with the Kashagan project where they made the same mistakes, and ended up shifting the blame on Togrul Tosun, one of the senior managers in charge. In the late 1990s he was already

predicting sizeable cost overruns for the Sakhalin project as he was convinced that Shell's controls were totally inadequate for the situation they found themselves in. His reward was to carry the blame for Kashagan (one of Shell's earlier disastrous Russian developments) in order to shield the men above him from justifiable censure.

One cost report which our insider received showed the true cost as being nearly \$13 billion - this was in mid 2003 when the reported cost was still only \$9.6 billion. At this point he approached various senior managers in Sakhalin Energy to discuss his concerns. Steve McVeigh refused to discuss this with him at all, and the Finance Director (Mike Taylor) asked him not to discuss this further but told him this would be sorted out soon. A lack of apparent action led to him asking again both Mike Taylor and other senior finance staff who never gave any clear explanation, but advised him not to rock the boat.

At the end of 2003 he was asked to follow up on issues arising from an audit of one of the component parts of the project. This was in respect of infrastructure on Sakhalin Island to facilitate the overall project. Although a relatively small portion of the overall budget, the cost and scheduling problems associated could be seen as typical for a project in this geography. The infrastructure costs were uniformly at least 15% above forecast, often as much as 30% above, and some were more than double the original estimates - plus nothing had been completed on time: more worryingly still there was no process to provide control over changes to scope or cost of the work, although many changes were being made on the hoof. Some of the work was also delivered to a **substandard quality** thereby requiring remedial work, consuming both additional time and money. Given that these elements of the project were the smallest and simplest of the works needed to deliver the overall project on time, it was abundantly clear that the cost estimates for the overall project were even more inaccurate than he had previously feared. One cost estimate at the time showed costs around \$14.5 billion - numbers still rapidly rising as the reality of technical specification needed to operate in Sakhalin's harsh climate overtook the optimistic wishful thinking behind the original \$9.6 billion cost presented to and approved by the development partners.

The potential of demonstrable negligence being a primary root cause of environmental damage would open Shell up still further to the attacks of Rosprirodnadzor and increase the prospect of sizeable damages.

The audit report also highlighted some significant breaches of normal contractual practice - for example the man charged with delivery of the infrastructure (David Meehan) worked for one of Shell's contractors: as such he was able to ensure a steady flow of work to his own company and the audit report pointed to evidence that not all of this work was ever tendered competitively. Additionally, one of his sub-ordinates (Rogier Kamerbeek who worked directly for Shell) was responsible for monitoring the contract. In effect he was able to write an open cheque for work to his own company with none of the appropriate checks and balances in place. He discussed these issues with David Meehan who quite angrily told him the audit was over with. He got a similar non-response from finance, and saw no evidence of effort to follow up on the audit findings. Follow up conversations with Taylor and Meehan made it very plain that his career would be threatened if he did not desist this line of questioning. Similar things had occurred in Shell Expro during the period when Malcolm Brinded had been MD, when a shortage of staff meant that contract staff were approving budgets and making contract awards to other contractors - and for material items, not just restocking the stationery cupboard! To compound matters, conversations with other Shell engineers reveal that even before formal investment approval it was accepted that costs were largely inaccurate and would need to be revised upwards after approval was gained. The thinking was that potentially critical flaws in design and specification would only become apparent once drilling and production had started, by which time the original engineering team would have made their killing from Sakhalin and have either moved on or retired.

The accounting for the infrastructure project was in the hands of a small group of young, inexperienced and unqualified Russians. The original project structure had called for these to be

given oversight and support by an experienced expatriate accountant but this role was removed in late 2003 as part of a "cost saving" exercise. It seems evident that a project costing well in excess of \$10 billion (which was the stated cost of the project, even if the true cost was much higher) required strong cost control, and reducing the finance staff monitoring it would only weaken the control: it was also clear that reducing the staffing would make it easier for problems to remain undiscovered and unreported, and make it less likely that questions would be asked of senior management. The expatriate oversight role was never fully replaced.

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Brinded ignored the evidence, and our invitation to withdraw support for the mastermind of the deception. Instead Shell was cornered into admitting using undercover agents against us in respect of related litigation. One agent was caught red-handed opening private mail. He used fake credentials and documents during his mission on behalf of Shell. We have also publicised Shell's admitted use of undercover agents from a firm of private spies closely associated with Shell senior directors.

<http://www.shellnews.net/2004%20Documents/sundaytimes/sundaytimesspied8april.htm>

It would therefore be fair to say that there is a certain amount of residual acrimony between us and what we consider to be an incompetent ethically flawed Shell management.

Ruddock, Keith KA SI-LSEP

From: Ruddock, Keith KA SI-LSEP
Sent: 03 January 2007 20:59
To: 'alfred@shellnews.net'
Subject: Re: Article and Offer

Dear Mr Donovan

Thank you and I acknowledge safe receipt of your email.

Regards

Keith Ruddock

Keith Ruddock,
General Counsel Exploration and Production
Shell International B.V.

Sent from my BlackBerry Wireless Handheld

-----Original Message-----

From: Alfred Donovan <alfred@shellnews.net>
To: Ruddock, Keith KA SI-LSEP
Sent: Wed Jan 03 11:46:47 2007
Subject: Article and Offer

Dear Mr Ruddock

You will already have seen from the email correspondence with Mr Wiseman the basis on which the attached article is being supplied after Shell accepted our offer.

I have also reprinted the draft below in its entirety just in case you have any problem opening the file.

await your response.

Regards

Alfred Donovan

The inside story of Shell's Sakhalin II debacle

By Alfred Donovan

The Sakhalin II project in Russia is the world's largest combined oil and natural gas project. It is being developed by Sakhalin Energy, a company in which Shell was the majority shareholder. Shortly before Christmas, following a long campaign by the Russian government prominently reported in the global business news media, Shell surrendered its majority holding and became a minority shareholder along with the other founding partners, Mitsui and Mitsubishi. Like Shell, each sold 50% of their holding to Gazprom at less than market value.

A few days later, the Russian government leaked the news that the founding partners had entered into what was supposed to have been a secret protocol with Gazprom which made the proposed deal even more of a multibillion dollar humiliation for Shell and

the Japanese companies.

Under the provisionally agreed terms, Shell ends up as a junior partner in a state run project controlled by a ruthless Russian government led by the former KGB Colonel, President Putin. He has been personally involved since his public roasting of Royal Dutch Shell CEO Jeroen van der Veer (during a state visit to The Netherlands in November 2005) over the proposed doubling of the project budget to \$20 billion.

<http://www.shellnews.net/week44/reutersputin2november2005.htm>

Shell executives had pretended that they knew nothing about the huge project budget increase when agreeing a swap deal in principle with Gazprom earlier in the year. A matter of days later Shell sprung the astonishing news on Gazprom that the Sakhalin II budget had increased by \$10 BILLION. It was a breathtaking blunder to try to pull a fast one on the Russians who are the recognised grandmasters in game strategy.

<http://www.shellnews.net/week28/shellnewssakhalin2debacle.htm>

Shell will now have to be satisfied with whatever crumbs are thrown in its direction. Even more worrying to Shell, despite the inking of the provisional deal, the final terms are still being negotiated, so the revelations of deception and cover-up in this article may provide more ammunition for Putin to punish Shell management for its mendacity and incompetence.

Putin attended the signing ceremony in Moscow at which Shell CEO, Jeroen van der Veer, bizarrely thanked him for his support. Bearing in mind the allegations made by US Vice President Cheney that Russia is using energy as "an instrument of intimidation and blackmail", the humiliatingly submissive stance adopted by Van der Veer would appear analogous to a mugger's victim expressing thanks for being coshed and robbed.

Perhaps the entirely unsubstantiated allegations that Putin was responsible for ordering the murder of prominent opponents during the period in which the Sakhalin II deal has been negotiated, rattled Mr Van der Veer somewhat. It was not an ideal backdrop, as far as Shell was concerned, for negotiations already being conducted in a tense atmosphere, with world leaders making their objections known about the hardball tactics allegedly being used against Sakhalin Energy.

Our Role

A threatened claim against Sakhalin Energy for \$30 billion by the Russian environmental agency, Rosprirodnadzor, plus the possibility of criminal proceedings, rests on evidence we supplied to its deputy head, Oleg Mitvol, the now notorious so called "Kremlin attack dog". There are grounds to suggest that Mitvol works directly for Putin.

My son John and I jointly own and operate a website under the domain name of royaldutchshellplc.com: the dotcom domain name for Royal Dutch Shell Plc. It has been described by Mitvol as an "anti-Shell" website. Mr Mitvol has publicly acknowledged our significant role in the momentous events which have unfolded. The reasons for our opposition to the current Shell management are set out below in the section entitled "Background Information".

Our website, with its "Live Chat" facility, has effectively replaced the Tell Shell Forum on Shell's own portal website as a venue for Shell employees to discuss concerns with other Shell employees on an anonymous basis if they wish. "Tell Shell" was "suspended" over a year ago after Shell General Counsel Richard Wiseman admitted to me in an email that contrary to claims previously made by Shell management, including John Hofmeister, of a censorship free forum for open and lively debate, postings had in fact been secretly censored.

As a result of our website activities, we have been contacted by numerous Shell "insiders", some of whom have revealed scandalous conduct by Shell executives. One example is the Brent Bravo scandal in which Shell received a record breaking fine for Health and Safety violations as a result of the tragic but preventable deaths of Shell North Sea workers. According to Shell International Group Auditor, Bill Campbell (now retired), Shell Executive, Malcolm Brinded, was involved in a related cover-up.

<http://royaldutchshellplc.com/2006/08/09/shellnewsnet-when-is-shell-going-to-sue-former-shell-international-group-auditor-bill-campbell-for-defamation/>

As a result of contact made by insiders working on Sakhalin II, it soon became

apparent that things were also going badly amiss on what Jeroen van der Veer has always described as "an elephant project". He may now agree with the modified description we have regularly applied: a white elephant project.

Leaked Shell internal documents have regularly fallen into our hands. This included email correspondence about Sakhalin II between two senior Shell managers, Engel van Spronsen, in his then capacity as Technical Director of Sakhalin Energy, and Hans Bouman, a natural-gas field manager; both are now retired.

<http://royaldutchshellplc.com/2006/10/23/shellnewsnet-the-hans-bouman-engel-van-spronsen-sakhalin-emails/>

We are in the fortunate position of having access to Shell insiders who can provide us with expert analysis of information supplied and did so in respect of the above extraordinary email correspondence.

Concern was expressed in the emails, that the design for oil and gas wells on Russia's Sakhalin Island does not properly address seismic risks. After studying the relevant emails, the relevant Shell insider, who is calm and cautious by nature, warned us of a potential environmental calamity on a scale never before witnessed by humanity (our description).

A quote from the Shell insider warning: -

"You have no idea how significant the comments in those emails might be - to a petroleum engineer, they conjure up the worst of possible scenarios - uncontrollable blowouts in a frozen, pristine, ecologically sensitive environment, and the potential for the entire contents of the Sakhalin oil and gas fields to be released at the seabed. The Exxon Valdez would, quite literally, be a drop in the ocean by comparison."

The warning went on to link Sakhalin II issues with the Shell reserves fraud in 2004.

We passed on these misgivings about the Sakhalin II project directly to President Putin in November 2005.

<http://www.shellnews.net/week46/shellnewsputinwarning25november2005.htm>

We later sent information to Oleg Mitvol and subsequently obtained his private fax number from his secretary to get information directly on to his desk. However, since we had never succeeded in speaking to Mitvol, we had no idea whether any of the information we had passed on from Shell insiders had been of any interest. The first clue that our activities had been noticed was when a message from "The Ministry of Natural Resources of The Russian Federation" was posted on our "Live Chat" forum in October 2006:

<http://royaldutchshellplc.com/2006/10/06/shellnewsnet-did-our-whistleblower-email-to-oleg-mitvol-precipitate-the-sakhalin-ii-crisis/>

We were subsequently surprised to read an article in a petroleum magazine which contained a question and answer interview with Oleg Mitvol. He indicated that his threatened \$10 billion claim against Shell for alleged environmental damage (later upped to \$30 billion) rested on evidence supplied by my son. The following is an extract:

What documents are these? Where are they from?

Mitvol: "I have email correspondence between executives in Sakhalin Energy management from 2002. I received these letters from John Donovan, owner of the anti-Shell website www.royaldutchshellplc.com. I received them on 19 October and forwarded them to Sakhalin Energy with a request for an official reply. But I have not received any reply so far. I presume that they are in shock."

How could you prove that these documents are genuine?

Mitvol: "They appear genuine and we have special services working to prove this. Once they have been verified, we will have enough evidence to take Sakhalin Energy to court. If we win, the Sakhalin 2 consortium should pay compensation for all the environmental damages - which will come to over \$10bn - as well as compensation to the state for loss of revenues caused by the additional delays."

Link to full article: <http://royaldutchshellplc.com/2006/11/19/argus-eyescom-mitvol-turns-up-the-heat-i-received-these-letters-from-john-donovan-owner-of-the-anti-shell-website-wwwroyaldutchshellplccom/>

Further confirmation was contained in an Interfax news agency report published by "Johnson's Russia List"

"On October 19, Rosprirodnadzor deputy chief Oleg Mitvol sent a letter to Sakhalin Energy CEO Ian Craig, asking him either to confirm or deny information contained in confidential e-mails from Shell natural gas field manager Hans Bouman to Engel Van Spronsen, then Sakhalin Energy technical director in 2002. Copies of the e-mails were forwarded to Rosprirodnadzor from John Donovan, a Shell shareholder and the owner of a website providing news on Shell."

<http://www.cdi.org/russia/johnson/2006-256-22.cfm>

We are now in direct correspondence with Mark Stephens, a senior partner in the London law firm Finers Stephens Innocent, appointed by the Russian authorities in relation to the Sakhalin II project. We will shortly be supplying Mr Stephens with highly sensitive confidential information received from Shell insiders which may well provide additional grounds for the Russian authorities to further punish Shell. The information we are receiving is truly astonishing.

As we have previously acknowledged, we have no illusions about the Sakhalin II high-stakes poker game which has been in progress. We have supplied information and Shell internal documents in the probably forlorn hope that some good will come of it in terms of the environment and in particular the endangered Gray Whale population. From recent comments attributed to Putin, it seems as if the environmental issues may indeed be swept to one side. We also wanted to expose the continuing hypocrisy of a Shell management which claims to work within an ethical code pledging honesty, integrity and openness in all of its dealings. The reality of corruption, fraud, cover-up, intimidation of employees and admitted use of undercover agents, confirms that the ethical code is purely for PR purposes as per the multi-million dollar "Profits & Principles" global campaign. It should have been "Profits & No Principles".

Spying activity

Oleg Mitvol has confirmed that he called in Russian "special services" to check on the authenticity of the leaked Spronsen/Bouman emails. This probably explains the Lloyds List news story:

<http://royaldutchshellplc.com/2006/11/30/lloyds-list-i-spy-with-my-little-russian-secret-services-infiltrating-sakhalin-energy/>

According to reports received from Shell insiders, Shell "spooks" have also been engaged in a hunt to track down the sources of leaks documents and information.

Shell in alliance with distasteful regimes

It is ironic that Shell is now in bed with what many people rightly or wrongly consider to be a very distasteful Russian government. In any event, this is unlikely to concern Shell management as it has worked alongside corrupt Nigerian regimes for decades in plundering Nigerian national resources (and polluting the environment to a horrific extent). Time will tell whether President Putin has acted in the Russian national interest or for other motives.

Shell Nigerian Corruption: <http://www.shellnews.net/2004%20Documents/peaceandsecurity/peaceandsecurityinthenigerdeltawebpage.htm>

Sakhalin II corruption: <http://www.shellnews.net/WEEK%20%202006/shellnewsnet-bribery-and-corruption-at-shell-14-january-2006.htm>

Inside the Evil Empire:

A Shell insider who worked on the Sakhalin project has recently shared some insights with us about the mechanics of how Shell got the project costs so massively wrong. To protect anonymity some information has been changed without affecting the accuracy of the basic revelations made about the project. From what we have learned, the company's senior managers - both locally in Sakhalin and elsewhere - were aware of cost overruns far earlier than they have yet admitted and actively tried to suppress

the true costs becoming common knowledge, even threatening employees to preserve the vow of omerta inside the project.

The individual concerned is a long serving Shell manager who was working in a project role in Sakhalin and had regular access to monthly cost reports. He was recruited for the Sakhalin project based on his previous experiences with other Shell developments, but rapidly found that this project was run along very different lines. Although he left the project towards the end of last year he still retains contact with other Expat and Russian national staff.

Specific allegations include:

From mid 2003 (when he first arrived on the island) the cost increases were common knowledge amongst the Expat community - Shell management has consistently claimed that they only became aware of this later. In fact when David Greer joined the project he immediately instigated a cost review, thinking that he could rapidly raise project costs and leave the blame with Steve McVeigh. He could then deliver for slightly less and justify a sizeable bonus for himself. Amusingly, Shell's management is so incompetent they can't even fudge numbers effectively!

The contingency for the project was absolutely minimal 5% - the official explanation for this was that they could afford a low contingency because the likelihood of problems was easily managed by the expertise of the management team. In practice, industry norms for a project of this nature would be around 12.5% - 15% and often as high as 20% to reflect potential problems with operating in Russia with uncertainty over the cost of materials such as steel and delays due to extreme weather conditions. Additionally, for the early part of the project there was no effort made to hedge against losses on currency exchange, leading to significant avoidable cost increases, although there was very significant risk present and recognisable since much of the project contracts were based on US\$ pricing and many materials - i.e. steel - are in high demand on the world market and thus command a premium. Shell clearly had not learned from their problems with the Kashagan project where they made the same mistakes, and ended up shifting the blame on Togrul Tosun, one of the senior managers in charge. In the late 1990s he was already predicting sizeable cost overruns for the Sakhalin project as he was convinced that Shell's controls were totally inadequate for the situation they found themselves in. His reward was to carry the blame for Kashagan (one of Shell's earlier disastrous Russian developments) in order to shield the men above him from justifiable censure.

One cost report which our insider received showed the true cost as being nearly \$13 billion - this was in mid 2003 when the reported cost was still only \$9.6 billion. At this point he approached various senior managers in Sakhalin Energy to discuss his concerns. Steve McVeigh refused to discuss this with him at all, and the Finance Director (Mike Taylor) asked him not to discuss this further but told him this would be sorted out soon. A lack of apparent action led to him asking again both Mike Taylor and other senior finance staff who never gave any clear explanation, but advised him to rock the boat.

At the end of 2003 he was asked to follow up on issues arising from an audit of one of the component parts of the project. This was in respect of infrastructure on Sakhalin Island to facilitate the overall project. Although a relatively small portion of the overall budget, the cost and scheduling problems associated could be seen as typical for a project in this geography. The infrastructure costs were uniformly at least 15% above forecast, often as much as 30% above, and some were more than double the original estimates - plus nothing had been completed on time: more worryingly still there was no process to provide control over changes to scope or cost of the work, although many changes were being made on the hoof. Some of the work was also delivered to a substandard quality thereby requiring remedial work, consuming both additional time and money. Given that these elements of the project were the smallest and simplest of the works needed to deliver the overall project on time, it was abundantly clear that the cost estimates for the overall project were even more inaccurate than he had previously feared. One cost estimate at the time showed costs around \$14.5 billion - numbers still rapidly rising as the reality of technical specification needed to operate in Sakhalin's harsh climate overtook the optimistic wishful thinking behind the original \$9.6 billion cost presented to and approved by the development partners.

The potential of demonstrable negligence being a primary root cause of environmental damage would open Shell up still further to the attacks of Rosprirodnadzor and increase the prospect of sizeable damages.

The audit report also highlighted some significant breaches of normal contractual practice - for example the man charged with delivery of the infrastructure (David Meehan) worked for one of Shell's contractors: as such he was able to ensure a steady flow of work to his own company and the audit report pointed to evidence that not all of this work was ever tendered competitively. Additionally, one of his sub-ordinates (Rogier Kamerbeek who worked directly for Shell) was responsible for monitoring the contract. In effect he was able to write an open cheque for work to his own company with none of the appropriate checks and balances in place. He discussed these issues with David Meehan who quite angrily told him the audit was over with. He got a similar non-response from finance, and saw no evidence of effort to follow up on the audit findings. Follow up conversations with Taylor and Meehan made it very plain that his career would be threatened if he did not desist this line of questioning. Similar things had occurred in Shell Expro during the period when Malcolm Brinded had been MD, when a shortage of staff meant that contract staff were approving budgets and making contract awards to other contractors - and for material items, not just restocking the stationery cupboard! To compound matters, conversations with other Shell engineers reveal that even before formal investment approval it was accepted that costs were largely inaccurate and would need to be revised upwards after approval was gained. The thinking was that potentially critical flaws in design and specification would only become apparent once drilling and production had started, by which time the original engineering team would have made their killing from Sakhalin and have either moved on or retired.

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<http://www.shellnews.net/2004%20Documents/sundaytimes/sundaytimespied8april.htm>

It would therefore be fair to say that there is a certain amount of residual acrimony between us and what we consider to be an incompetent ethically flawed Shell management.

[REDACTED]

From:

Sent:

05 January 2007 13:42

To:

Subject:

RE: Legally Privileged and Confidential - Alfred Donovan

Signed By:

All, the Donovan's have now published the article on Sakhalin, together with [REDACTED] response.

<http://royaldutchshellplc.com/2007/01/05/shellnewsnet-the-inside-story-of-shell%E2%80%99s-sakhalin-ii-debacle/>

Regards,
[REDACTED]

[REDACTED]

From: [REDACTED]
Sent: 05 January 2007 13:12
To: [REDACTED]
Cc: [REDACTED]
Subject: Donovan Article on Sakhalin

[REDACTED]

FYI - The Donovan website is now live with its 'revelation' Shell story (and [REDACTED] response to [REDACTED]).

<http://royaldutchshellplc.com/2007/01/05/shellnewsnet-the-inside-story-of-shell%e2%80%99s-sakhalin-ii-debacle/>

[REDACTED]

Office: [REDACTED]
Mobile: [REDACTED]
Email: [REDACTED]
Internet: <<http://www.shell.com/>>

[REDACTED]

From:
Sent:
To:

[REDACTED]
05 January 2007 13:42
[REDACTED]

Subject: RE: Legally Privileged and Confidential - Alfred Donovan
Signed By: [REDACTED]

All, the Donovan's have now published the article on Sakhalin, together with [REDACTED] response.

<http://royaldutchshellplc.com/2007/01/05/shellnewsnet-the-inside-story-of-shell%E2%80%99s-sakhalin-ii-debacle/>

Regards,
[REDACTED]

Ruddock, Keith KA SI-LSEP

From: Ruddock, Keith KA SI-LSUK/4 on behalf of Ruddock, Keith KA SI-LSEP
Sent: 05 January 2007 10:54
To: Alfred Donovan
Subject: RE: Article and Offer

Dear Mr Donovan

We disagree fundamentally with the factual basis and interpretation of much of the material you have produced but believe that no useful purpose would be achieved by engaging in a detailed rebuttal.

Regards

Keith Ruddock

-----Original Message-----

From: Alfred Donovan [mailto:alfred@shellnews.net]
Sent: 03 January 2007 10:47
To: Ruddock, Keith KA SI-LSEP
Subject: Article and Offer

Dear Mr Ruddock

You will already have seen from the email correspondence with Mr Wiseman the basis on which the attached article is being supplied after Shell accepted our offer.

I have also reprinted the draft below in its entirety just in case you have any problem opening the file.

We await your response.

Regards

Alfred Donovan

The inside story of Shell's Sakhalin II debacle

By Alfred Donovan

The Sakhalin II project in Russia is the world's largest combined oil and natural gas project. It is being developed by Sakhalin Energy, a company in which Shell was the majority shareholder. Shortly before Christmas, following a long campaign by the Russian government prominently reported in the global business news media, Shell surrendered its majority holding

and became a minority shareholder along with the other founding partners, Mitsui and Mitsubishi. Like Shell, each sold 50% of their holding to Gazprom at less than market value.

A few days later, the Russian government leaked the news that the founding partners had entered into what was supposed to have been a secret protocol with Gazprom which made the proposed deal even more of a multibillion dollar humiliation for Shell and the Japanese companies.

Under the provisionally agreed terms, Shell ends up as a junior partner in a state run project controlled by a ruthless Russian government led by the former KGB Colonel, President Putin. He has been personally involved since his public roasting of Royal Dutch Shell CEO Jeroen van der Veer (during a state visit to The Netherlands in November 2005) over the proposed doubling of the project budget to \$20 billion.

<http://www.shellnews.net/week44/reutersputin2november2005.htm>

Shell executives had pretended that they knew nothing about the huge project budget increase when agreeing a swap deal in principle with Gazprom earlier in the year. A matter of days later Shell sprung the astonishing news on Gazprom that the Sakhalin II budget had increased by \$10 BILLION. It was a breathtaking blunder to try to pull a fast one on the Russians who are the recognised grandmasters in game strategy.

<http://www.shellnews.net/week28/shellnewssakhalin2debacle.htm>

Shell will now have to be satisfied with whatever crumbs are thrown in its direction. Even more worrying to Shell, despite the inking of the provisional deal, the final terms are still being negotiated, so the revelations of deception and cover-up in this article may provide more ammunition for Putin to punish Shell management for its mendacity and incompetence.

Putin attended the signing ceremony in Moscow at which Shell CEO, Jeroen van der Veer, bizarrely thanked him for his support. Bearing in mind the allegations made by US Vice President Cheney that Russia is using energy as "*an instrument of intimidation and blackmail*", the humiliatingly submissive stance adopted by Van der Veer would appear analogous to a mugger's victim expressing thanks for being coshed and robbed.

Perhaps the entirely unsubstantiated allegations that Putin was responsible for ordering the murder of prominent opponents during the period in which the Sakhalin II deal has been negotiated, rattled Mr Van der Veer somewhat. It was not an ideal backdrop, as far as Shell was concerned, for negotiations already being conducted in a tense atmosphere, with world leaders making their objections known about the hardball tactics allegedly being used against Sakhalin Energy.

Our Role

A threatened claim against Sakhalin Energy for \$30 billion by the Russian environmental agency, Rosprirodnadzor, plus the possibility of criminal proceedings, rests on evidence we supplied to its deputy head, Oleg Mitvol, the now notorious so called "Kremlin attack dog". There are grounds to suggest that Mitvol works directly for Putin.

My son John and I jointly own and operate a website under the domain name of royaldutchshellplc.com: the dotcom domain name for Royal Dutch Shell Plc. It has been described by Mitvol as an "anti-Shell" website. Mr Mitvol has publicly acknowledged our significant role in the momentous events which have unfolded. The reasons for our opposition to the current Shell management are set out below in the section entitled "**Background Information**".

Our website, with its "Live Chat" facility, has effectively replaced the Tell Shell Forum on Shell's own portal website as a venue for Shell employees to discuss concerns with other Shell employees on an anonymous basis if they wish. "Tell Shell" was "suspended" over a year ago after Shell General Counsel Richard Wiseman admitted to me in an email that contrary to claims previously made by Shell management, including John Hofmeister, of a censorship free forum for open and lively debate, postings had in fact been secretly censored.

As a result of our website activities, we have been contacted by numerous Shell "insiders", some of whom have revealed scandalous conduct by Shell executives. One example is the **Brent Bravo scandal** in which Shell received a record breaking fine for Health and Safety violations as a result of the tragic but preventable deaths of Shell North Sea workers. According to Shell International Group Auditor, Bill Campbell (now retired), Shell Executive, Malcolm Brinded, was involved in a related cover-up.

<http://royaldutchshellplc.com/2006/08/09/shellnewsnet-when-is-shell-going-to-sue-former-shell-international-group-auditor-bill-campbell-for-defamation/>

As a result of contact made by insiders working on Sakhalin II, it soon became apparent that things were also going badly amiss on what Jeroen van der Veer has always described as "an elephant project". He may now agree with the modified description we have regularly applied: a white elephant project.

Leaked Shell internal documents have regularly fallen into our hands. This included email correspondence about Sakhalin II between two senior Shell managers, Engel van Spronsen, in his then capacity as Technical Director of Sakhalin Energy, and Hans Bouman, a natural-gas field manager; both are now retired.

<http://royaldutchshellplc.com/2006/10/23/shellnewsnet-the-hans-bouman-engel-van-spronsen-sakhalin-emails/>

We are in the fortunate position of having access to Shell insiders who can provide us with expert analysis of information supplied and did so in respect of the above extraordinary email correspondence.

Concern was expressed in the emails, that the design for oil and gas wells on Russia's Sakhalin Island does not properly address seismic risks. After studying the relevant emails, the relevant Shell insider, who is calm and cautious by nature, warned us of a potential environmental calamity on a scale never before witnessed by humanity (our description).

A quote from the Shell insider warning: -

"You have no idea how significant the comments in those emails might be - to a petroleum engineer, they conjure up the worst of possible scenarios - uncontrollable blowouts in a frozen, pristine, ecologically sensitive environment, and the potential for the entire contents of the Sakhalin oil and gas fields to be released at the seabed. The Exxon Valdez would, quite literally, be a drop in the ocean by comparison."

The warning went on to link Sakhalin II issues with the Shell reserves fraud in 2004.

We passed on these misgivings about the Sakhalin II project directly to President Putin in November 2005.

<http://www.shellnews.net/week46/shellnewsputinwarning25november2005.htm>

We later sent information to Oleg Mitvol and subsequently obtained his private fax number from his secretary to get information directly on to his desk. However, since we had never

succeeded in speaking to Mitvol, we had no idea whether any of the information we had passed on from Shell insiders had been of any interest. The first clue that our activities had been noticed was when a message from "The Ministry of Natural Resources of The Russian Federation" was posted on our "Live Chat" forum in October 2006:

<http://royaldutchshellplc.com/2006/10/06/shellnewsnet-did-our-whistleblower-email-to-oleg-mitvol-precipitate-the-sakhalin-ii-crisis/>

We were subsequently surprised to read an article in a petroleum magazine which contained a question and answer interview with Oleg Mitvol. He indicated that his threatened \$10 billion claim against Shell for alleged environmental damage (later upped to \$30 billion) rested on evidence supplied by my son. The following is an extract:

What documents are these? Where are they from?

Mitvol: *"I have email correspondence between executives in Sakhalin Energy management from 2002. I received these letters from John Donovan, owner of the anti-Shell website www.royaldutchshellplc.com. I received them on 19 October and forwarded them to Sakhalin Energy with a request for an official reply. But I have not received any reply so far. I presume that they are in shock."*

How could you prove that these documents are genuine?

Mitvol: *"They appear genuine and we have special services working to prove this. Once they have been verified, we will have enough evidence to take Sakhalin Energy to court. If we win, the Sakhalin 2 consortium should pay compensation for all the environmental damages — which will come to over \$10bn — as well as compensation to the state for loss of revenues caused by the additional delays."*

Link to full article: <http://royaldutchshellplc.com/2006/11/19/argus-eyescom-mitvol-turns-up-the-heat-i-received-these-letters-from-john-donovan-owner-of-the-anti-shell-website-wwwroyaldutchshellplccom/>

Further confirmation was contained in an Interfax news agency report published by "Johnson's Russia List"

"On October 19, Rosprirodnadzor deputy chief Oleg Mitvol sent a letter to Sakhalin Energy CEO Ian Craig, asking him either to confirm or deny information contained in confidential e-mails from Shell natural gas field manager Hans Bouman to Engel Van Spronsen, then Sakhalin Energy technical director in 2002. Copies of the e-mails were forwarded to Rosprirodnadzor from John Donovan, a Shell shareholder and the owner of a website providing news on Shell."

<http://www.cdi.org/russia/johnson/2006-256-22.cfm>

We are now in direct correspondence with Mark Stephens, a senior partner in the London law firm Finers Stephens Innocent, appointed by the Russian authorities in relation to the Sakhalin II project. We will shortly be supplying Mr Stephens with highly sensitive confidential information received from Shell insiders which may well provide additional grounds for the Russian authorities to further punish Shell. The information we are receiving is truly astonishing.

As we have previously acknowledged, we have no illusions about the Sakhalin II high-stakes poker game which has been in progress. We have supplied information and Shell internal documents in the probably forlorn hope that some good will come of it in terms of the environment and in particular the endangered Gray Whale population. From recent comments

attributed to Putin, it seems as if the environmental issues may indeed be swept to one side. We also wanted to expose the continuing hypocrisy of a Shell management which claims to work within an ethical code pledging honesty, integrity and openness in all of its dealings. The reality of corruption, fraud, cover-up, intimidation of employees and **admitted use of undercover agents**, confirms that the ethical code is purely for PR purposes as per the multi-million dollar "Profits & Principles" global campaign. It should have been "Profits & No Principles".

Spying activity

Oleg Mitvol has confirmed that he called in Russian "special services" to check on the authenticity of the leaked Spronsen/Bouman emails. This probably explains the Lloyds List news story:

<http://royaldutchshellplc.com/2006/11/30/lloyds-list-i-spy-with-my-little-russian-secret-services-infiltrating-sakhalin-energy/>

According to reports received from Shell insiders, Shell "spooks" have also been engaged in a hunt to track down the sources of leaks documents and information.

Shell in alliance with distasteful regimes

It is ironic that Shell is now in bed with what many people rightly or wrongly consider to be a very distasteful Russian government. In any event, this is unlikely to concern Shell management as it has worked alongside corrupt Nigerian regimes for decades in plundering Nigerian national resources (and polluting the environment to a horrific extent). Time will tell whether President Putin has acted in the Russian national interest or for other motives.

Shell Nigerian Corruption: <http://www.shellnews.net/2004%20Documents/peaceandsecurity/peaceandsecurityinthenigerdeltawebpage.htm>

Sakhalin II corruption: <http://www.shellnews.net/WEEK%20%202006/shellnewsnet-bribery-and-corruption-at-shell-14-january-2006.htm>

Inside the Evil Empire:

A Shell insider who worked on the Sakhalin project has recently shared some insights with us about the mechanics of how Shell got the project costs so massively wrong. To protect anonymity some information has been changed without affecting the accuracy of the basic revelations made about the project. From what we have learned, the company's senior managers - both locally in Sakhalin and elsewhere - were aware of cost overruns far earlier than they have yet admitted and actively tried to suppress the true costs becoming common knowledge, even threatening employees to preserve the vow of omerta inside the project.

The individual concerned is a long serving Shell manager who was working in a project role in Sakhalin and had regular access to monthly cost reports. He was recruited for the Sakhalin project based on his previous experiences with other Shell developments, but rapidly found that this project was run along very different lines. Although he left the project towards the end of last year he still retains contact with other Expat and Russian national staff.

Specific allegations include:

From mid 2003 (when he first arrived on the island) the cost increases were common knowledge amongst the Expat community - Shell management has consistently claimed that they only became aware of this later. In fact when David Greer joined the project he immediately instigated a cost review, thinking that he could rapidly raise project costs and

leave the blame with Steve McVeigh. He could then deliver for slightly less and justify a sizeable bonus for himself. Amusingly, Shell's management is so incompetent they can't even fudge numbers effectively!

The contingency for the project was absolutely minimal 5% - the official explanation for this was that they could afford a low contingency because the likelihood of problems was easily managed by the expertise of the management team. In practice, industry norms for a project of this nature would be around 12.5% - 15% and often as high as 20% to reflect potential problems with operating in Russia with uncertainty over the cost of materials such as steel and delays due to extreme weather conditions. Additionally, for the early part of the project there was no effort made to hedge against losses on currency exchange, leading to significant avoidable cost increases, although there was very significant risk present and recognisable since much of the project contracts were based on US\$ pricing and many materials - i.e. steel - are in high demand on the world market and thus command a premium. Shell clearly had not learned from their problems with the Kashagan project where they made the same mistakes, and ended up shifting the blame on Togrul Tosun, one of the senior managers in charge. In the late 1990s he was already predicting sizeable cost overruns for the Sakhalin project as he was convinced that Shell's controls were totally inadequate for the situation they found themselves in. His reward was to carry the blame for Kashagan (one of Shell's earlier disastrous Russian developments) in order to shield the men above him from justifiable censure.

One cost report which our insider received showed the true cost as being nearly \$13 billion - this was in mid 2003 when the reported cost was still only \$9.6 billion. At this point he approached various senior managers in Sakhalin Energy to discuss his concerns. Steve McVeigh refused to discuss this with him at all, and the Finance Director (Mike Taylor) asked him not to discuss this further but told him this would be sorted out soon. A lack of apparent action led to him asking again both Mike Taylor and other senior finance staff who never gave any clear explanation, but advised him not to rock the boat.

At the end of 2003 he was asked to follow up on issues arising from an audit of one of the component parts of the project. This was in respect of infrastructure on Sakhalin Island to facilitate the overall project. Although a relatively small portion of the overall budget, the cost and scheduling problems associated could be seen as typical for a project in this geography. The infrastructure costs were uniformly at least 15% above forecast, often as much as 30% above, and some were more than double the original estimates - plus nothing had been completed on time: more worryingly still there was no process to provide control over changes to scope or cost of the work, although many changes were being made on the hoof. Some of the work was also delivered to a **substandard quality** thereby requiring remedial work, consuming both additional time and money. Given that these elements of the project were the smallest and simplest of the works needed to deliver the overall project on time, it was abundantly clear that the cost estimates for the overall project were even more inaccurate than he had previously feared. One cost estimate at the time showed costs around \$14.5 billion - numbers still rapidly rising as the reality of technical specification needed to operate in Sakhalin's harsh climate overtook the optimistic wishful thinking behind the original \$9.6 billion cost presented to and approved by the development partners.

The potential of demonstrable negligence being a primary root cause of environmental damage would open Shell up still further to the attacks of Rospirodnadzor and increase the prospect of sizeable damages.

The audit report also highlighted some significant breaches of normal contractual practice - for example the man charged with delivery of the infrastructure (David Meehan) worked for one of Shell's contractors: as such he was able to ensure a steady flow of work to his own company and the audit report pointed to evidence that not all of this work was ever tendered competitively. Additionally, one of his sub-ordinates (Rogier Kamerbeek who worked directly

for Shell) was responsible for monitoring the contract. In effect he was able to write an open cheque for work to his own company with none of the appropriate checks and balances in place. He discussed these issues with David Meehan who quite angrily told him the audit was over with. He got a similar non-response from finance, and saw no evidence of effort to follow up on the audit findings. Follow up conversations with Taylor and Meehan made it very plain that his career would be threatened if he did not desist this line of questioning. Similar things had occurred in Shell Expro during the period when Malcolm Brinded had been MD, when a shortage of staff meant that contract staff were approving budgets and making contract awards to other contractors - and for material items, not just restocking the stationery cupboard! To compound matters, conversations with other Shell engineers reveal that even before formal investment approval it was accepted that costs were largely inaccurate and would need to be revised upwards after approval was gained. The thinking was that potentially critical flaws in design and specification would only become apparent once drilling and production had started, by which time the original engineering team would have made their killing from Sakhalin and have either moved on or retired.

The accounting for the infrastructure project was in the hands of a small group of young, inexperienced and unqualified Russians. The original project structure had called for these to be given oversight and support by an experienced expatriate accountant but this role was removed in late 2003 as part of a "cost saving" exercise. It seems evident that a project costing well in excess of \$10 billion (which was the stated cost of the project, even if the true cost was much higher) required strong cost control, and reducing the finance staff monitoring it would only weaken the control: it was also clear that reducing the staffing would make it easier for problems to remain undiscovered and unreported, and make it less likely that questions would be asked of senior management. The expatriate oversight role was never fully replaced.

During 2004 he undertook another audit, working as part of a team, included for his technical expertise to evaluate project scope. It became very clear that that the original scope for the contract let (i.e. the scope underpinning the cost included in the original \$9.6 billion cost) was utterly inadequate for the stated purpose. Shortly after the contract had been agreed, and after Shell had received formal Investment Approval based on the stated development cost of \$9.6 billion, the existing scope was totally revised which resulted in a near doubling of cost. An examination of the documents exchanged with the supplier made it very clear that this approach had been discussed and agreed between Shell's project manager and the contractor several months before Investment Approval had been granted. It seems clear that this unorthodox approach was designed solely to ensure that the contractor would be guaranteed profitable work, whilst permitting the Project Manager to report a lower cost than was actually the case until too late to withhold the contract. The chain of emails seeking explanations for this behaviour included David Greer, Mike Taylor and Campbell Wyper - recently installed as the Head of Contracts Purchasing at the express request of Malcolm Brinded. In spite of the seniority of these individuals, no satisfactory explanation was ever received.

Malcolm Brinded and Jeroen van der Veer have consistently stated that they were surprised to learn about the cost increases and passed on this info to the Russian authorities immediately once they were aware. News of the growing costs broke in the UK press in July 2005 - after the first suggestion of Gazprom becoming involved with the project. In fact, Brinded had known of the rapidly escalating costs for at least two months at this point - he was informed in May 2005 that the costs would be at least \$15.5 billion and his response was to ask for all details before he could respond - ensuring a lengthy delay whilst all numbers were cross checked - in reality this meant he took no action to address the problem. So he knew, but by asking for a detailed written report (which could not be produced rapidly) he gained time and deniability - although he certainly knew the costs were substantially greater than reported to date. This ability to manipulate perceived reality is one reason Brinded has risen so high and clung on for so long. Since Jeroen van der Veer stated that he told Gazprom immediately he was informed, it therefore raises two possibilities - either he is lying through his teeth, or his

own senior management (Brinded and his EP Leadership Team) were deliberately withholding information from him. Either possibility speaks of a company in crisis. Jeroen's comment is eerily similar of his limp response to the reserves scandal where he denied culpability by saying he didn't know or understand - whereas in fact, at that level of seniority, his job is to know. He is either negligent or dishonest and neither characteristic is desirable in the leader of a publicly quoted company.

Background Information

By way of background information, my son and I have been involved in litigation with Shell intermittently for the last 12 years. This was after previously acting as marketing consultants to the Royal Dutch Shell Group on an international basis for over a decade commencing in the early 1980's. We have lost count of the High Court actions and other cases, including the proceedings Shell International Petroleum brought against me in 2005 in respect of Shell related internet domain names, including royaldutchshellplc.com. Shell has never won a case against us. All settlement sums received from Shell have been ploughed back by us into further litigation against Shell after further causes of action became apparent.

I am four months away from being 90 years old. Despite this fact, Shell currently has an application before the High Court of Malaya demanding my appearance for cross examination in respect of a defamation case brought collectively by EIGHT Royal Dutch Shell companies against an unemployed former Shell production geologist, Dr John Huong, who blew the whistle on the Shell reserves fraud. He recorded in a Shell internal document his moral reservations about giving false information to Shell shareholders about hydrocarbon reserves volumes. Shell is seeking his imprisonment for alleged contempt of court in respect of postings made on our website. The deluge of draconian proceedings against Dr Huong, who worked almost 30 years for Shell, is all in respect of alleged defamatory postings under his name on our websites.

The penny dropped for us about Shell senior management when we wrote to Malcolm Brinded several years ago after uncovering a conspiracy by Shell managers to deceive and cheat participants in a major contract tender:

<http://royaldutchshellplc.com/2006/12/17/shellnewsnet-another-leaked-email-from-jeroen-van-der-veer/>

Brinded ignored the evidence, and our invitation to withdraw support for the mastermind of the deception. Instead Shell was cornered into admitting using undercover agents against us in respect of related litigation. One agent was caught red-handed opening private mail. He used fake credentials and documents during his mission on behalf of Shell. We have also publicised Shell's admitted use of undercover agents from a firm of private spies closely associated with Shell senior directors.

<http://www.shellnews.net/2004%20Documents/sundaytimes/sundaytimespied8april.htm>

It would therefore be fair to say that there is a certain amount of residual acrimony between us and what we consider to be an incompetent ethically flawed Shell management.