I took the opportunity to meet many Shell staff (including secondees in Woodside) and spend significant time with John Akehurst (CEO Woodside) and with Charles Goode
(Chairman Woodside).
Tim Warren's arrival has certainly done good for all involved and he is enjoying it!

Some observations:

- Sunrise project is struggling (cost increase,reserves decrease,Phillips has stronger position,too much noise in press,East -Timor complications) and will need concentrated effort to keep it alive. Joint EP/GP tactics to be worked urgently and hopefully to CMD for update end October.This is a Group reputational issue due to the high profile given on this FLNG opportunity.
- NWS is looking good (record production last month at 550,000 boe/d) also wrt Train 4 construction. Partners not aligned on forward commitments (Train 5,new offshore developments,refurbishment scope onshore/offshore).Of concern is pre-occupation with growth (wanting to execute all activity asap),increasing cost structure and HSE performance. It is amazing how much the plant performance is still dependent on Shell expats on site in Karratha,clearly doing a good job wrt to asset utilization.
- Internal conflicts on what stranded gas reserve should be "out of the block" next as Woodside does not have equity in Gorgon (the next logical choice).Partner alignment following strategy review is the no-1 priority here in Australia where market constraints and Australian politics are sufficient hurdles that you do not want companies to disagree or send mixed messages! This should also involve our preparedness to exit several assets (eg exit/swap Blacktip/Chuditch/Evans Shoal/Scott Reef-Brecknock).
- relationship between Shell and Woodside is not as bad as I perceived:
  - some mutual international opportunities being worked (eg Libya,Shelf GoM)
  - Shell staff like working in Woodside ("dynamic environment")
  - more Shell input is being sought (acquisitions,HSE help)
  - China deal was very big boost for everyone

but:

- JA remains very manipulative and very focused on his personal agenda (be independent and international)
- Woodside Board not as effective as it could be on challenge (budgets,capitalization of exploration expenses,cost structure (foremost overhead),growth portfolio)
- JA trying to push forward with $ 1.5 billion acquisition of small US independent with scattered portfolio that has never been on our radarscreen!
- Woodside would struggle tremendously if we would withdraw our 65 secondees mostly in key positions.
- company should focus more on growth in Australia (asset acquisitions,small independents through industry consolidation,CBM) and New Zealand,also as oil production will decline (Laminaria) and the scale game will have to be played to survive profitably.Also there appears to be a too negative view on reserves outlook ,even in core areas as NWS which hence partly drives their international aspirations.
- our current set-up with SDA plus Woodside is obviously high-cost,foremost as half of SDA staff (just under 100 in total) are expats.This is not acceptable foremost as also many Australians are abroad.

We will be tested with their acquisition proposal shortly (join or dilute,Shell equity would be some $ 200 million) whilst we will have to decide how much we can improve the status -quo (further alignment,cost reductions,US GAAP,capital efficiency,shift to "local growth/acquisitions") versus the Westminster route.
I must admit that I have lost some of my appetite for Westminster but we will work that further in October also.

I assume Malcolm will add his personal perspective on Shell in Australia.
(Whilst in Melbourne I was also given a quick update on the coded OP projects).

Regards,
Walter

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No. 2526

COMMITTEE OF MANAGING DIRECTORS
MINUTES OF THE MEETING HELD IN LONDON
ON MONDAY, 22 AND TUESDAY, 23 JULY 2002

Present:	P B Watts	Chairman
	J van der Veer	
	P D Skinner (Items 1 -7, 9, 16-19, 28-40)	
	W van de Vijver	
	M A Brinded	
In attendance:	J G Boynton	
	K A Ruddock	Secretary

1. MINUTES

The Minutes of CMD Meeting No. 2525 were approved, as amended.

2. MA&D REPORT

Neil Gaskell entered the meeting. He presented a report on acquisition options which was discussed by the Committee.

Lynn Elsenhans entered the meeting. Neil Gaskell presented a further report on the Group acquisition and divestment activities.

Copy of Minute to: none.

EXHIBIT
Van der V., J
16
2/1/07

3. POST ACQUISITION REVIEW

Lorin Brass, Gregory Hill, Ron Blakely and Lynn Elsenhans entered the meeting; Neil Gaskell was in attendance.

Neil Gaskell presented a review of the Enterprise and PQS acquisitions. The presenter commented that, in respect of Enterprise, the high level of Shell preparation was viewed by both external lawyers and the banks as coming close to raising "off market" issues in the UK. However, clearly the Group did not want to carry out less preparation for these potential acquisitions and in part the issue may be one of educating external advisers.

Having two substantial deals running in tandem did put pressure on the system and in particular PQS struggled to get attention over Enterprise. In PQS, the bank's role ran much more satisfactorily than with Enterprise. In relation to PQS, the bank was clearly in a support role and already knew the business. With respect to Enterprise, the bank was not sufficiently proactive but did fulfil its statutory role, as required by UK law, well.

In respect of integration, it was considered important that an integration leader be appointed as soon as possible in the process and that a specific team, distinct from the deal team, be appointed to support the integration planning effort, unless it was known in advance that competition clearance would cause delay.

The Committee commented that generally these deals had demonstrated a high internal capability. The introduction of a deal file and thorough preparation had contributed significantly to the success of both transactions. The divestments experience gained in Chemicals had also been useful.

In relation to confidentiality concerns, and the numbers of people to involve, this was clearly always going to be a difficult issue, but if the right people were not involved early, work would be created later in the process. For future transactions a small steering committee should be appointed with other personnel only involved on a strictly need to know basis.

The Committee commented that the interface with the European regulators, in particular the competition law authorities, appeared to be much better than in the US, especially in relation to the FTC. With both Spectrum and PQS, the FTC had not reacted as had been anticipated. The Committee was concerned that the Group did not appear to have access to the best legal input in respect of US transactions and Judy Boynton undertook to investigate this further.

Lorin Brass presented a review of the Enterprise Oil transaction. It was noted in particular that the adjusted Enterprise plan was very close to the Shell forecast prior to the transaction, even taking account of the UK tax changes. It was noted that development of the Corrib field may be delayed until 2004 as planning consent had been refused for the terminal. The Committee queried whether the Group had sufficiently well placed contacts with the Irish government and regulators. Paul Skinner undertook to explore this issue further in consultation with the Country Chairman in Ireland. It was noted that an Enterprise progress review would take place in Q3/2002. A full post-investment review will take place in Q1/2003.

Ron Blakely presented a progress report on the integration of Texaco's interests into Shell Oil Products in the US and of Spectrum in Germany.

In the US, although the merged entity had a 14% market share, it achieved this with a much higher number of service stations than its competitors. Staff would remain with Equiva Services until the end of 2002 when they would transfer to Shell Oil Products. Until the service level agreement had been put in place with Saudi Refining Inc (SRI), the full organisational change could not be implemented. This was targeted to take place on 1 August 2002. The Committee commented that the relationship with SRI appeared to be working well although decisions did seem to take longer.

Aggressive rebranding of service stations will enable the Texaco brand to be withdrawn from the US retail market before the end of the exclusivity period. The PQS transaction will impact both the lubricants rationalisation and integration efforts. To the analysts, the position could be summarised as being "off to a good start". The Committee noted that the sensitivities of SRI should be borne in mind in making any public statements. The Committee queried the position for former Texaco employees and their pension funds. The presenter explained that these issues had been specifically addressed pre-closing and that liability would remain with Texaco.

With regard to Spectrum and Germany, the presenter explained that the potential for synergies appeared to be improving. The early exercise of the put option may expedite this as it would mean that there were no longer two owners involved. Brand was a challenge as DEA had a very strong presence in the German market and indeed was probably stronger than the Shell brand post Brent Spar.

OP considered eMerger, which was a synergy capture and tracking tool, to have been very useful.

In respect of the remedies required in Germany, the Committee appreciated that potential divestments were being made into a very competitive market with BP similarly trying to divest a large part of its business.

The Committee noted that OP appeared to be delivering against their promises in respect of both transactions.

Copy of Minute to: P Skinner, W van de Vijver.

4. PROCUREMENT

Jeroen van der Veer explained that it was proposed that, while procurement would remain the responsibility of individual businesses, the profile of C&P generally should be raised and progress maintained in pushing forward the agreed C&P strategy. This could be done by taking C&P out of ID and having it report to a CMD member directly which would enable "Big Rules" to be applied across all businesses.

The Committee commented that C&P generally appeared to have improved markedly. All businesses had dedicated high quality senior resources to address the historic problems with C&P. TradeRanger was conducting more business but it was still too early to say whether it would be a success.

The Committee discussed how the current C&P improvements could be sustained in the longer term. It was recognised that procurement was one of the most difficult change management areas in any company.

The Committee believed that there was value in raising C&P's profile but was not sure about the tasks and organisation of a specific C&P director for which a job description needed to be drawn up.

The Committee also wondered whether, by appointing a C&P director, the current accountability which each business had for its C&P component would be diminished. The Committee sought assurance that the appointment of a C&P director would add value to the process and was keen to a see a detailed job description and tasks and targets for the first 12 months.

Jeroen van der Veer confirmed that he would come back with a detailed job description for the C&P director role in early September.

Copy of Minute to: J van der Veer.

5. 2002 PLANNING CYCLE PREMISES AND SENSITIVITIES

Lynn Elsenhans, David Lawrence, Mark Turner, Evert Henkes, Linda Cook, Lorin Brass, Mark Williams and David Kinder entered the meeting.

David Lawrence introduced a series of presentations from each of the businesses in respect of the premises and sensitivities.

The Committee noted that in some cases the same factor could have very different outcomes in respect of the EP and OP businesses. One feature of OP rate figures should stand as proposed.

Copy of Minute to: D Lawrence.

6. CHEMICALS VISION – INDUSTRY STRUCTURE

Rosemary Mecca, James Smith, Stan Park and Simon Lowth (McKinsey and Co) entered the meeting.

James Smith gave a presentation on the Chemicals industry structure and the competitive environment.

In particular the presenter highlighted the significant change in the Middle East's role as a future exporter of product to China and Western Europe's increasing role as an importer. The Group's focus was in the "cracker plus 1" area. The merchant market was contracting which was a challenge for the Group as this was 40% of its business. One issue for the Middle East was whether support could be obtained for ROACE objectives. For sustained long-term growth, presence in Asia and the Middle East was vital. The Committee queried whether the basic business model would change if a shift took place to these new areas. The presenter commented that capability would be diminished if the Group was not present in these areas.

There was still scope and a requirement for industry consolidation and the Group had to determine whether it wanted to be part of that. If a sale was considered, it would not be easy to find a buyer for the entirety of the business. In addition, the impact of a potential sale on the interface between Chemicals and the rest of the Group had to be considered.

The Committee commented that a great deal depended on whether China would assume the importer role anticipated or whether it would prefer to build its own capacity. In both the Middle East and China, consideration would need to be given as to who the best potential partner or partners would be. The new mindset required was one of global marketing. However, it was recognised that having a strategic partner in either Asia or the Middle East could limit the Group's options.

The presenter commented that of the traditional players, ExxonMobil was probably best placed and there was undoubtedly still a gap between Shell and ExxonMobil (and in turn between Shell and BP) which was largely due to physical configuration differences. ExxonMobil could improve but did not have a major step change available to it. The Committee recognised that at some of the

Group's major refineries, such as Deer Park and Norco, there were already outside parties in place which would constrain possible choices with regard to Chemicals. The Committee suggested that the value of integration needed to be examined in detail, focusing on the size of the prize and doabiltiy. This was a key deliverable.

The Committee queried in respect of Basell as to why it was that a company with a strong market position and good technology had such structural performance problems. It appeared difficult to identify what was inhibiting performance. The Committee anticipated that a potential buyer of Basell may well be conflicted. The Committee suggested that all M&A options should be considered. The alternative was to consider becoming a purely commodity player which would involve developing a different long-term strategy.

The Committee suggested that Chemicals devise a short summary describing the elements of the perceived strategic benefit in retaining Chemicals in the Group with a NPV US Dollar figure listed against each. The Committee wanted to know to what extent having Chemicals in the Group increased the Group's value.

The Committee expressed its appreciation for the quality of the paper and presentation and believed that its level of interaction with the Chemicals Vision Team had been a very positive start to the overall process.

Copy of Minute to: E Henkes.

7. SAKAHLIN

Rein Tamboezer, Din Megat, Peter de Wit, Steve Kersley, Michael Blaha, Iain Lo and Linda Cook entered the meeting.

Rein Tamboezer and Peter de Wit explained that there were still major risks associated with this project, in particular as no firm gas sale arrangements had yet been put in place. In particular, there was considerable uncertainty in the gas market until the pricing on Guangdong had been determined. The presenters confirmed that if Guangdong prices proved to be at the low end of the anticipated range, that would nonetheless not be likely to lead to reopening of current higher price existing contracts until contractual price reviews (which generally occurred approximately every 5 years). Customer reluctance to commit to offtake supply was largely attributed to the lack of growth in Japan and the appreciation by probable customers that they were not under time pressure to make a decision.

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Both Korea and Japan saw Sakhalin as a regional strategic asset which was better placed in the long-term to supply their requirements than most other likely sources of supply. The potential customers did appreciate that the Sakhalin partners needed to reach a decision soon. The Committee queried what customer reaction would be if they thought Sakhalin might not go ahead. It will be necessary to enlist the assistance of the Japanese participants in the project to secure wider Japanese support. The presenter confirmed that prospective Japanese customers did have flexibility under their current agreements to take additional Sakhalin gas.

The Committee considered that the list shown of the consequences of not proceeding was unduly negative. It should rather be viewed as a list of items which might be affected but should be put no stronger than that. If Sakhalin did not proceed, prospective customers may respect the Group all the more.

The Committee queried whether, if the Group did not fund the project, "Japan Inc" might do so itself. The presenter thought that, if the project was strategic for Japan Inc, then Japan would find the necessary funds. The key to future success lay in achieving bankable contracts with customers now.

The Committee thought that, even if firm gas offtake commitments were in place, the project would still not be ready to go to FID. One option which could be considered was whether increased cooperation with Sakhalin I may improve the economics. The Committee considered that, if the project were to continue, it would be on the basis of long-term strategic positioning and prospects. At present it was viewed as a marginal project where the economics had not improved in the last six months. It was noted that a VAR 4 would take place before the end of 2002. Greater consideration should be given to the consequences of a much-reduced LNG pricing level if the Guangdong outcome was at the lower end of the range.

The Committee noted that the Group is viewed as a leader in this business and the market generally would understand if it chose to walk away or to slow down the pace of development. The Committee, however, considered that the Group's decision should not be constrained by what the market would expect.

The Committee considered that the project clearly had potential real value but also had significant risks associated with it. There was support for continuing to retain optionality by going forward but maximum activity was required in securing gas offtake commitments, particularly in Japan.

The Committee noted that in three months time it may tactically be desirable to put the project on hold to concentrate the attention of potential customers. The critical importance of the supply of LNG to Mexico for the success of the project was also noted.

The Committee considered that the overall message to customers and partners should be that the Group did want to do this project if it could get the support it required from partners and customers. It would ultimately be a very difficult decision but nonetheless work should continue on the basis that FID would be taken in March 2003. The set of conditions precedent should be made crystal clear with a timescale for achieving each of them. A tactical plan on how best to manage the process would be put in place to be reviewed by the Committee on a three monthly basis, with the reviews to take place at the end of each of September 2002, December 2002 and March 2003.

The Committee noted that ExxonMobil had expressed an interest in examining synergies with Sakhalin 1 although there was a concern that this may be a spoiling tactic to slow things down.

The Committee expressed its appreciation to the Sakhalin team for its determination in pushing forward with what was clearly a very difficult project.

Copy of Minute to: W van de Vijver, L Cook.

8. FT ARTICLE RE: TOLLING AGREEMENTS

Lynn Elsenhans, Mike Warwick, Simon Henry and Mary Jo Jacobi entered the meeting; Linda Cook was in attendance.

Linda Cook explained the sequence of events leading up to and following the publication in the Financial Times of two articles on Monday, 15 July 2002 relating to Shell's tolling transactions in the US. The Financial Times had published a third article on 18 July referring to comments made by JJ Traynor of Deutsche Bank. It was understood that Deutsche Bank had lodged a letter of complaint with the FT.

The Committee noted that the reputation of Royal Dutch/Shell in The Netherlands had been particularly badly affected due to extensive television news coverage.

The presenter commented that a number of lessons were clear. Greater preparation should have been made for the worst-case scenario and it was important to establish proper ownership of the issue earlier. The Group's complicated internal structure made reacting quickly more difficult and it was accepted that the reactive press release should have been issued by noon on 15

July. It was suggested that media training in the Group be broadened generally and that great care be taken when using internal jargon externally. Issues management should be tested in Gas & Power "affiliates" (e.g. Shell Trading and SGS) and the company secretaries must be involved earlier.

Issues management in Shell Trading should be linked into general Gas & Power issues management. Half the calls received occurred in the first few hours after publication and were predominately from analysts and investors rather than the media. Most of these calls were fact finding in nature but the information required was not immediately available.

It was noted that in the post Enron and Worldcom climate, former employees with grudges were now being taking very seriously in any allegations they may make about their former employers. It was noted that the individual who had made these allegations had not been a senior employee. Although described as a general manager, he had no subordinates and was employed at JG3 level. His job title reflected a trend in the US for "title inflation". The Committee thought it desirable that a common terminology for titles be developed across the Group worldwide.

The Committee understood from contacts with the Editor of the FT that it wished to develop a more investigative style and sharper edge in its reporting. However, the FT also had to be aware that it carried huge weight and authority within business and any reporting must be accurate.

The Committee also noted that, in the current climate, careful thought needed to be given to any unintended conclusions which could be drawn. For example, it might have been preferable to have fielded someone other than Debbie Wernet for the interview, given her Enron background.

The Committee asked whether there were any other concerns in relation to Coral of which they should be aware. Mike Warwick explained that there was some potential litigation in California and that the FERC investigations arising out of Enron's practices were ongoing. It was anticipated that these investigations would continue through to May 2003.

The Committee asked whether Coral in particular, and Shell in the US generally, had engaged in any "wash trades". Mike Warwick confirmed that no wash trades had been uncovered in Coral during the investigations earlier this year and that the FERC had been notified accordingly. Of the ten objectionable categories of Enron behaviour identified by the FERC, Coral, and Shell generally, had not engaged in any. There were some trading practices which were considered normal which Coral had engaged in which had been notified to FERC for the sake of good order and completeness.

The Committee asked whether it could state without reservation that all matters had been investigated in Coral and Shell in the US which might pertain to Enron-type behaviour, especially "wash trades". Mike Warwick explained that these matters had been investigated intensively, that no evidence of any misbehaviour had been found and that Coral had no motivation to engage in any such behaviour.

The Committee noted that having the note in the Accounts had proved very helpful in this instance and that there had been no communication from the SEC or the New York Stock Exchange, possibly as a result of the note.

The Committee queried whether Master Limited Partnerships (MLPs) were creating a problem. Mike Warwick commented that he was not aware of specific concerns in this respect.

The Committee expressed its thanks to all involved in dealing with this issue and in particular expressed its appreciation for the media and investor relations response teams who had handled the large number of queries on the day in a very professional manner.

Copy of Minute to: L Elsenhans, L Cook.

9. Q2 RESULTS (OIL PRODUCTS)

Ron Blakely and Tim Morrison entered the meeting; Simon Henry was in attendance.

Tim Morrison presented the initial Q2 results for the Group and Ron Blakely presented those for OP. Given that Q2/2001 had been a record result for OP, the OP results for Q2/2002 were always likely to fall short. In particular, in 2002, refinery margins were difficult in Europe. The East Zone had turned in a good performance but in the South Zone the difficulties in Brazil and Argentina had pulled the results down. In trading, the shipping results were disappointing. Canadian results were affected by having the three refineries shutdown during the period although this may prove to have been opportune in the economic circumstances. In the US, OP's strong refining position on the west coast may act to its detriment compared to ExxonMobil and BP who were better placed geographically given the relative refining margins.

In retail, SEOP had performed well in Europe, but so had the competition. Following the Q1 results, expectations were going to be very high and accordingly a very strong and aligned story needed to be developed .

The Committee requested the development of a step chart quarter by quarter for OP and its competitors. From a structural perspective, it was believed that Shell benefited from a $1 per barrel advantage over BP. Care needed to be taken with the storyline, particularly as DEA acceleration was about to be announced. The key factor was whether in these economic circumstances Shell was under-performing compared to its main competitors. Transparency in giving the OP story was the key.

Across the Group, EP generally was in line with analysts' expectations while OP and GP would be disappointing. Chemicals had performed very well but, given the amounts involved, may not feature prominently in the overall story. The minimum analysts' estimate for the Q1 results was $2.2 bln.

Copy of Minute to: P Skinner, T Morrison.

10. CHEMICALS VISION

Rosemarie Mecca, James Smith, Stan Park and Evert Henkes entered the meeting.

James Smith gave a presentation which evaluated the strategic options in petrochemicals and in particular reviewed Shell's portfolio strategy, its competitive position and performance, and the key strategic issues faced.

In terms of competitive position and strategic confidence, the Group position was particularly strong in base chemicals. The Committee suggested that SADAF should be included for the sake of completeness. It was noted that SADAF's styrene and cracker businesses were particularly well placed. EO/G and polyethylene, as readily transportable derivatives, were key in the context of possible developments in the Middle East. In polyethylene, Basell was the market leader in Europe but did not have a global position, nor a presence in North America. While the additives business was not strategic to Shell Chemicals, and could be considered as a potential divestment, it had a greater relevance for OP. In respect of catalysts, the EO/G part of the business was very successful but the remainder, which related to refinery catalysts and was asset intensive, was potentially divestable.

The Committee found the presenter's presentation of average ROACE for the component businesses within Shell Chemicals particularly helpful.

With regard to Basell, the Committee noted that Basell had certain strengths and was achieving synergies but nonetheless had a record of poor profitability. The Committee needed to understand why this was the case and whether a ROACE of 15% was achievable by 2006. If so, what steps needed to be taken to reach that objective.

The Committee recommended that the presenter prepare a separate story specifically on Basell, to gain understanding of the market conditions faced and what self-help measures were available. The presenter reminded the Committee that a moratorium on divestment was in place until 1 January 2005 under the shareholder agreement.

With respect to Basell, the presenter commented that he did not see any major impediments due to Basell not being a 100% Shell entity although Cleo would probably already be in place if Basell was 100% Shell. The Committee commented that value and doability were key elements in reviewing each of the options to be presented by the Team. The Committee also commented that the Team should investigate what Basell should look like were it to become a 100% Shell entity. The Committee believed that it was very important to gain sufficient understanding of Basell to enable the Committee to undertake a detailed review of its future and to enable Conference to do the same.

In respect of the North American ethylene market, it was noted that buyers had the option to build their own plants. While it was tenable to remain in this market for the longer term, it may not be as strategically strong a business as it might otherwise be. The presenter commented that Shell was heavily exposed to the merchant market which accounted for 40% of Shell's total production. The Committee noted that this was a very volatile market but queried whether there may be scope for selling this business to take advantage of an upturn in the market. The presenter responded, however, that he thought potential buyers would look at the business in the longer term.

With respect to Shell Chemicals' strengths and weaknesses, the presenter emphasised the strength of the Chemicals' staff but commented that the age profile indicated that a significant number of key employees would be retiring within the next ten years.

In relation to asset integrity, the presenter noted that the assets in Europe and North America were typically older than those in the Far East. An ongoing programme of asset refurbishment was underway. The lower olefins assets in North America were considered to be the next priority. Once lower olefins had been addressed, the remaining spend would be spread across the whole business.

It was noted that the investor perspective presented on Shell Chemicals was, due to the requirement to maintain confidentiality, drawn only from a very limited range of sources. The Committee commented that a wider external perspective was required but noted the difficulties in achieving this within confidentiality constraints.

Although initial indications were that the largest challenges with the chemicals business were focused on North America and Basell, the Committee observed that it was too early to make a judgement.

The Committee commented that it would be very helpful to obtain an understanding of how each SPU is positioned, particularly given that each SPU is very different in character. Each SPU should also be reviewed in the context of what it brings to the Group generally and where it stands in the value chain. The Committee were also aware that the Chemicals business does bring in some technology advantages which are helpful elsewhere in the Group. The presenter confirmed that the SPU paper would be updated and in particular that the long-term reference conditions underpinning this paper would also be reviewed. EO and polyethylene were clearly key parts of the value chain, especially with regard to the Middle East.

The Committee commented that over the years a series of Chemicals projects had been brought to it for consideration, each with excellent VIR, but which nonetheless proved to be disappointing in practice. There was some suspicion in the organisation generally with regard to the ability of Chemicals to perform and deliver on its targets which the Team needed to bear in mind.

Copy of Minute to: E Henkes.

11. Q2 RESULTS (OTHER THAN OP)

Tim Morrison and Simon Henry entered the meeting.

The Committee appreciated that the discussion was based on very preliminary figures and was intended to raise any areas of concern at the earliest possible stage. Even though the numbers were still subject to change, the Committee believed that the businesses should be told the preliminary numbers.

Tim Morrison presented the preliminary second quarter results. In respect of Special Items, he noted that the $68 mln figure relating to the Enterprise acquisition was after tax. The power restructuring figure for GP related to turbines and the OP environmental provision included MTBE in California. ?

Walter van de Vijver presented the preliminary Q2 EP results. For EP the main impact was caused by the downward oil and gas price trend. The Committee suggested that the figure for Price and Associates should be addressed separately. EP's current ROACE stood at 15.9% normalised at a $16/bbl level. Production had increased by 8% (including Enterprise) and without Enterprise would stand at 1% which was still a good outcome. If both Enterprise and OPEC restraints were excluded, production would be up by 3%. On EP Opex, unit costs were higher by 1% compared to the same period for 2001. EP normalised earnings were roughly equivalent to the same 2001 period.

The key messages for EP were that, even including Enterprise, ROACE was higher than 15%. On production, EP stood 2% ahead of promise and on Enterprise the integration process was proceeding rapidly with the London office to be closed by the end of July. On new exploration discoveries, EP was very constrained as to what it could say about new finds. With regard to Erha in Nigeria and Block 18 in Angola, as they were both non-operated, they were difficult to announce but ExxonMobil may do so. In relation to Opex, underlying operating costs were 2% down on the first half of 2001 and were close to the target of 3%. On capital expenditure, if Enterprise were excluded, the year-to-date expenditure was 52% of the external promise.

In terms of Opex figures, it was important to achieve consistency in how these were calculated and presented. If underlying Opex figures were be to used, these needed to be explained.

The Committee queried whether, with exchange rates moving so markedly, it would be timely to initiate a debate on costs now with a review at the end of the year.

The Committee believed that it was necessary to do more work on costs on a business-by-business basis with consistent rules being applied. Each business needed to be able to say what it would achieve by the end of 2002 and, even though this was likely to be a different story in each part of the business, that was not of itself a problem. The $5 bln external figure had been given in a completely different environment. The 3% figure was also given in US Dollars. It may now be timely to convert to a target in local currency.

Turning to GP, lower prices were the main impact on LNG. Volumes were down against plan and, even though Q2 usually represented a dip in performance, in 2002 the dip was greater than usual. The Coral business was still positive but was down compared to its record Q2/ 2001. For GP, consideration should be given to taking each part of its business section by section and presenting them in that way to emphasise their respective strengths. Marketing and Trading were negative and this was due to Canadian legacy contacts. In particular it could be emphasised that Trading in Houston was in the black for Q2.

Turning to Chemicals, the story was very positive with adjusted earnings double underlying earnings for Q2/2001 although the ROACE was still 1.1%.

With regard to Others, Renewables overall was flat. Shell Consumer had incurred a number of shutdown costs due to withdrawing from certain businesses such as vehicle leasing. IT for Shell still had an under-recovery situation. Unless the costs were charged to individual businesses, it was not possible to get tax relief. The Committee noted that SITI needed to be prompter in allocating its costs to businesses and must make sure that this was achieved by the end of 2002 to enable it to reverse its position. Shell Internet Works' shutdown costs were also included in the "Others" figures. On Corporate, the interest amount had increased because of higher debt levels caused by, in part, the acquisition of Enterprise.

Copy of Minute to: W van de Vijver (EP), E Henkes (CH), L Cook (GP), T Morrison (all).

12. KEY EXTERNAL MESSAGES

Mary Jo Jacobi entered the meeting; Tim Morrison and Simon Henry were in attendance.

Simon Henry explained that the current proposed tone of the message was one of "robust profitability in uncertain times but mixed progress on key targets and areas for action and improvement". The Committee suggested that, especially in the current environment, openness and transparency would particularly be valued and this should dictate the tone. On the positive side, both EP and Chemicals were displaying great resilience, the integration of Enterprise was going well, hydrocarbon production volumes were up by 8%, OP was delivering on both its US and DEA improvement programmes, Chemicals was recovering, portfolio actions had been implemented, and progress was being made on the $7 bln priority attention assets.

With regard to growth milestones, reference could be made to the Tarim Basin, Block 18 in Angola, Erha in Nigeria, Kashagan, Venezuelan LNG and DEA - significant items which ranged right across the businesses. On the negative side, ROACE overall stood at 12% (13% at a normalised level). Costs were up, especially in OP. Queries could be expected on capital discipline, although it could be demonstrated that this was still in place, and on whether the cultural change was permanent. The analysts may query whether pursuing a growth agenda has already compressed returns. It would be necessary to recognise current global concerns relating to governance and accounting issues.

On the draft presentation, the Committee suggested that it should not be called a "strategy" update. Thought needed to be given to the length of the presentation which currently stood at approximately 30 minutes.

The Committee believed that there would be value on this occasion in giving out a full copy of the text of the Chairman's speech. Doing so may enable the detail on the presentation slides to be reduced. It was suggested that the text be handed out at the end of the presentation so that it did not detract from the presentation itself. It was acknowledged by the Committee that handing out the text of the speech created an expectation for the future. The logistical difficulties of preparing a correct Dutch translation within the limited timescale available were acknowledged.

The Committee recommended that the consequences of the delisting of Royal Dutch from the S&P 500 should be discussed at the press conference, especially in The Netherlands. A chart needed to be prepared to demonstrate how Shell Transport and Royal Dutch had compared with their respective oil company peers and the market as a whole.

Simon Henry explained that Project "Respiration 2" may potentially be announced on 1 August. This would be combined with a stock exchange announcement. On InterGen restructuring, a separate press release was being prepared with Bechtel. The Committee commented that this was an occasion on which a virtue would have to be made out of a necessity. By flagging this now, Shell could take credit for taking action and giving forewarning of the likely costs involved. On the $7 bln Watch List, it was important to emphasise that a coherent action plan was in place and these actions could be listed. In respect of the Caspian, an announcement from Kerr Magee was expected.

The Committee accepted that the key tone should be one of "robust transparency".

Copy of Minute to: T Morrison.

Kerr McGee intent in Kazakhstan. awaiting government approval

13. RESERVES OUTLOOK

, finding new material investment opportunities

Lorin Brass entered the meeting. He explained that some of the main challenges facing EP in respect of its reserves outlook related to securing extensions of licence periods and in developing a well thought through strategy on the timing of booking reserves. For example, in 1996, it may have been preferable, instead of booking all the reserves at once, to have booked these over a longer period.

With regard to when reserves could be booked, it was noted that the SEC was tightening its requirements in this area. While it should not be necessary to unbook reserves already booked, it was now appropriate only to book reserves if EP is committed to commercial development with a demonstrable unit cost. The current internal process required that any reserves booked had to be approved by the Group Controller and also had to pass both an internal and external audit check. The presenter queried, however, whether EP could be better at smoothing out its booking profile.

! true !!
+ de-booking Nigeria Oman

The Committee recognised that a sizeable prize in reserves could be achieved by success in securing licence extensions without incurring capital expenditure. A major technical and operational excellence effort was already underway and a new bookings strategy needed to be devised, and implemented. The Committee queried whether EP had sufficient technical expertise in this area. The Committee considered that EP's overall technical expertise was of a very high quality but that the skills could still be better utilised. It was also recognised that some booking practices had been too aggressive in the past.

The Committee recognised that EP had been through some major upheavals organisationally in the past eight years. Generally a more holistic view of the business needed to be developed and it was suggested that the approach should be one of value assessment allied with unit development costs.

smart-arm B.S ?!

Copy of Minute to: W van de Vijver.

14. PROJECT "B"

Dominique Gardy, Neil Gaskell and Lynn Elsenhans entered the meeting; Lorin Brass was in attendance.

Dominique Gardy presented a status report on Project "B". The Committee made a number of comments. Project "B" would be considered further by the

Committee on 30 July.

Copy of Minute to: none.

15. TOWARDS A FRAMEWORK FOR GROUP GREENHOUSE GAS TARGETS BEYOND 2002

Lex Holst, David Hone and Laura Ann Jones entered the meeting. Lynn Elsenhans was in attendance.

David Hone explained that the Group story on greenhouse gas reduction of the controlled portfolio had been a positive one to date although after 2007 the effects of growth in the business would outweigh reductions and emissions overall would start to rise.

The presenter suggested that a move to an equity reporting basis, which was the basis used by BP, and preferred by ExxonMobil, would give a truer reflection of the Group portfolio although the story would become one of continuously rising GHG emissions from 1990 onwards. In particular, including InterGen increased emissions significantly. However, this was in contrast to the Group product portfolio, which had "decarbonised" over the same period. This situation led the presenter to propose that the Group change its approach to GHG reporting to one that focussed on carbon intensity of its controlled operations and which also included reference to its product portfolio an the lower carbon energy solutions being developed. This approach also proposed the introduction of equity GHG reporting, initially only for information to demonstrate transparency.

The Committee acknowledged that externally there was a perception that the Group had committed to beating Kyoto by 2010. Although this commitment had never been given explicitly, it was nonetheless a real expectation. Therefore, the Committee believed that an absolute commitment needed to be retained although this did not preclude moving towards intensity targets. Any change in external reporting of absolute emissions would be viewed with considerable suspicion. As there was an established track record in this area, some advantage was perceived in continuing with this to demonstrate both transparency and consistency.

The Committee was concerned that a danger of setting targets in this area was that they could drive the business. GHG reduction should not become a cottage industry but rather should be part of the company's normal business.

The Committee considered whether, if a target were to be selected, it should be one which placed the Group in the middle of the pack rather than ahead or behind relative to the competition. NGOs would scrutinise the leaders and tail enders more closely than other companies. If an intensity approach was adopted, it was important to compare like for like (e.g. gas with gas rather than with SMDS).

If a move was made to an intensity basis, consideration needed to be given to whether it should be a number of measures across different businesses or even within segments of businesses. Lynn Elsenhans commented that there may be a danger in disaggregating if it meant that the Group would not compare favourably with its competitors. She advised that the Group should be very careful about talking about these measures externally until it knew exactly what position it wanted to adopt. ExxonMobil, for example, would probably be better placed if it moved to intensity targets.

The Committee recognised that a danger of not participating in the discussion externally was that somebody else would determine the standard.

With regard to the proposal to begin discussing the Group's portfolio and its emissions, the Committee considered that essentially the Group's business was not to decarbonise but rather to take advantage of opportunities which had arisen as a result of the world's desire to decarbonise. Account needed to be taken of the changes in external perception and the Group should be responding to customer preferences. Nevertheless, given measures such as the LNG and the SMDS business, for example, it was not unreasonable to expect that the Group could pursue decarbonisation as a good business case.

The Committee advised that more attention was required in determining the definition of control for equity GHG assessment in particular. It noted that the practicalities of testing the portfolio on an equity basis had yet to be explored. The Committee also asked what the cost would be of rectifying an emissions deficit position if all else had failed in terms of reductions and improvements in energy efficiency. The presenter explained that in many countries trading in emissions permits would not be a solution. The cost would consist of offsets rather than trading. The Committee nonetheless requested an indication of likely cost broken down on a per business base as well as at a Group level.

The Committee did not support the proposals put forward for the establishment of a micro target to demonstrate Group commitment to greener energy solutions. The Committee did query whether there were actions already underway within the Group for which credit could be taken.

Lynn Elsenhans advised the Committee that she was concerned that in Europe the pressure from NGOs and from stakeholders generally on the Group's apparent lack of definition on this issue beyond 2002 could create difficulties. Stakeholders in Europe were expecting the Group to take a leadership role in this area and, if it did not do so, it could create reputational issues.

The GHG team will return to the Committee in October for further discussion. The Committee recognised that the concept was good but considered that the Group was not well currently placed to take a leadership role in this area.

Copy of Minute to: L Elsenhans.

16. JULY CONFERENCE AGENDA

The agenda for the July Conference was approved subject to certain minor revisions.

Copy of Minute to: none.

17. PROJECT "NIKE" - POTENTIAL RETAIL ACQUISITION IN HUNGARY AND SLOVAKIA

Paul Skinner explained that the quality of the sites which BP was selling was very high. The Committee queried whether the Group, and OP in particular, could afford this. Paul Skinner explained that this transaction was within both the OP plan and budget. It did not amount to additional capex as Project "Iris" was now likely to be constructed as a swap with ExxonMobil. The Committee noted that if Nike proceeded, and if Iris ultimately had a cash component, Iris would have to be considered afresh. The Committee supported the proposal, subject to the comments made in respect of Project "Iris".

Copy of Minute to: none.

18. PROPOSED OIL PRODUCTS OFFICE - MIAMI

Subject to obtaining further satisfactory legal and tax advice, the Committee supported the proposal.

Copy of Minute to: none.

19. SHELL IN THE US REVIEW

The Committee commented that the note appeared to lack a holistic approach and had not given sufficient attention to the rebranding challenge and to the question of Shell's attractiveness as an employer in the US. It was hoped that improvements could be made in future to the process for compiling this report.

Copy of Minute to: none.

20. FLETCHER CHALLENGE

The Committee noted that this item was due to be considered by the GAC on 30 July. A cover note was required to be drafted by Walter van de Vijver in conjunction with Judy Boynton.

Copy of Minute to: none.

21. INFORMATION SECURITY IN SHELL

The Committee noted that the costs were higher than those discussed in the IT Business Council. Mike Rose believed that there were a number of crucial exposures in the security environment which had to be rectified urgently. The IT Business Council would monitor specific scope and cost. Of the costs listed, $8 mln related to secure components for business applications, $12 mln related to intrusion detection and $27 mln was for compliance auditing. Even with these additional costs, the overall level of spend would still be lower than the industry average. Malcolm Brinded commented that there was an internal perception that IT security had become an optional extra. To redress the findings of the unacceptable audit would require not just money but a change of mindset. It was proposed that a VAR be conducted of the costs to test whether they were necessary. The outcome of the unacceptable audit will be discussed at the GAC with Mike Rose present.

Copy of Minute to: M Rose.

22. SHELL EXPRO - SCHIEHALLION CLAW DEVELOPMENT

Walter van de Vijver explained that, although the Schiehallion Claw Development would not involve additional expenditure in 2002, he had tabled this Note for Discussion to forewarn the Committee of additional expenditure which would be incurred in the future. Any proposal for future expenditure needed to be considered at the appropriate time in the overall context of capital discipline across the Group as previously discussed.

Judy Boynton's concerns were noted.

Copy of Minute to: W van de Vijver

23. TOLLING AGREEMENT ACCOUNTING

Phil Watts explained that he had asked for this note to be prepared to ensure that the Group position on tolling agreement accounting was clearly understood. Judy Boynton would be the focal point for any discussion on this point. Having one Group view on this issue would facilitate a quick response to problems such as the recent Coral issue. Judy Boynton explained that she had talked to KPMG as requested by the Committee but KPMG had indicated that they were not aware of other companies in a similar position to Shell. It was suggested that the key objective for Shell was to achieve convergence. Tim Morrison would be the focal point for contact with the relevant authorities.

Copy of Minute to: J Boynton.

24. BUSINESS CONTROL INCIDENTS

The Committee noted that this note would be presented to the Group Audit Committee. In particular, concern was expressed that both Brazil and Marine had given rise to a significant number of incidents.

Copy of Minute to: none.

25. PROJECT "EAGLE"

The Committee noted that, while the mandate and the contract were both expressed in Euros, the basic deal had been expressed in US Dollars. Accordingly, care needed to be taken on currency conversion.

Copy of Minute to: L Cook.

26. PENNZOIL QUAKER STATE

Paul Skinner reported that it appeared that the FTC would be immoveable on the requirement to dispose of the interest in the EXcel base oils plant. If this proved to be the case, the discussion would focus on establishing a reasonable basis on which this could be achieved. If a satisfactory basis was agreed, the remedy should have relatively little impact on the value of the transaction.

Copy of Minute to: none.

27. SINOPEC JV

Paul Skinner reported that the joint venture contract has now been initialled together with side agreements on other key issues such as branding. The next step is to obtain formal government approval of the JVC. The likely timing of the start up is Q4/2002.

Copy of Minute to: none.

28. SUDAN

Paul Skinner reported that terms have now been agreed with an acceptable local third party for the sale of the up country aviation facilities in Sudan with effect from the end of July. Thereafter, there will no longer be in any business with the Sudanese military except in Port Sudan (which is outside the conflict zone) where the sale completion awaits the arrival of ISO tank. Aviation fuel would continue to be supplied to the World Food Programme at Obeid.

Copy of Minute to: none.

29. POTENTIAL P&O TANKER DRIVERS' DISPUTE

Paul Skinner reported that the UK tanker drivers' (who are employees of P&O) had called off their proposed strike at the last moment and a two-year deal has been agreed between P&O and the TGWU.

Copy of Minute to: none.

30. MOTIVA-DELAWARE CITY

Paul Skinner reported that the EPA in the US had filed a gross negligence claim against Motiva following the sulphuric acid tank accident in 2001. The potential scale of any negotiated settlement is thought likely to be approximately US$10 mln. There has been extensive media speculation suggesting that Motiva's liability could be considerably greater. However, the $10 mln figure is based on initial negotiations with the EPA.

Copy of Minute to: none.

31. TOGO - FATALITY

Paul Skinner reported, with regret, six third party fatalities on 11 July when a contractor (Ezonsou) road tanker on its way back to Lomé was involved in an accident which appears to have contributed to a second road tanker (contracted by TFE) colliding with the taxi, killing all six occupants of the taxi. The accident is being investigated.

Copy of Minute to: P Skinner.

32. USA - FATALITY

Paul Skinner reported, with regret, a third party fatality on 17 July when a Shell employee's car was hit by a motorcyclist who was not wearing a crash helmet and was killed as a result of the accident. The accident is being investigated.

Copy of Minute to: P Skinner.

33. USA - FATALITY

Paul Skinner reported, with regret, a third party fatality on 11 July at a Motiva service station in New Jersey when a third party was pursued onto the service station and shot six times by an assailant. The incident is being investigated.

Copy of Minute to: P Skinner.

34. MALAYSIA - FATALITY

Paul Skinner reported, with regret, a third party fatality on 5 July, when a contractor lorry suffered a tyre blow out between Segawat and Juantan causing the driver to lose control and swerve into the path of an oncoming car killing the driver of the motor car and injuring his passenger. The accident is being investigated.

Copy of Minute to: P Skinner.

35. TURKEY - FATALITY

Paul Skinner reported, with regret, a third party fatality when a customer died when using a jet wash at a dealer service station in Ipsala. Although not yet determined, it appears that the customer's death may have been caused by electrocution. The incident is being investigated further.

Copy of Minute to: P Skinner.

36. BRAZIL - FATALITY

Paul Skinner reported, with regret, a contractor fatality which occurred in a bus garage in Osasco operated by Viacao Osasco to which Commercial Quality Service Systems (CQSS) provided a fuelling, lubrication and vehicle washing service. The victim, employed by CQSS, worked as a supervisor for the vehicle washing operations and was struck by a bus in the garage. The accident is being investigated.

Copy of Minute to: P Skinner.

37. PAKISTAN - FATALITY

Paul Skinner reported, with regret, a contract driver fatality on 9 July near Ranipur following a collision with a third party truck parked on the roadside. The accident is being investigated.

Copy of Minute to: P Skinner.

38. ETHIOPIA - FATALITY

Paul Skinner reported, with regret, a contract driver fatality on 10 July when a truck operated by Afrique Transport went off the road and overturned approximately 400 kms north of Addis Ababa. The accident is being investigated.

Copy of Minute to: P Skinner.

39. UK - FATALITIES

Walter van de Vijver reported, with regret, eleven staff and contractor fatalities on 17 July when a Bristow helicopter operating on behalf of Shell Expro crashed while flying from the Clipper platform to the Monarch platform, 30 miles off Cromer, Norfolk. All passengers and crew on the helicopter died and 10 bodies have been recovered so far. Although the cause of the accident is not yet known, it is currently believed that one of the rotor blades may have snapped. The two crew members worked for Bristow, three of the passengers were Shell staff, three worked for Amec, two for Amec sub-contractors and the remaining passenger worked for Oilfield Medical Services.

The Committee expressed its sincere appreciation for the excellent response shown by all concerned within Shell's UK operations in very difficult circumstances.

Copy of Minute to: W van de Vijver.

40. NIGERIA

Walter van de Vijver reported that he had recently been contacted by ChevronTexaco to request assistance from Shell's fire-fighters to assist with a fire at ChevronTexaco's Escravos Tank Farm which had been hit by lightening. Walter van de Vijver had authorised the provision of assistance.

Copy of Minute to: W van de Vijver.

41. **BOLIVIA - FATALITY**

Malcolm Brinded reported, with regret, a fatality of an employee of Transredes (a non Shell operated joint venture) on 21 July involving a head-on collision between a motorcycle, which was in the wrong lane, and a Transredes vehicle near Sawaipata resulting in the death of the two motorcycle passengers. The accident is being investigated.

Copy of Minute to: M Brinded.

42. **DYNERGY**

Malcolm Brinded explained that, given the rumours in the market about the potential collapse of Dynergy, the Group was urgently managing down its potential exposure and this should be reduced to US$22 mln by the end of this week.

Copy of Minute to: none.

43. **GUANGDONG**

Malcolm Brinded reported that he understood that, as a result of the discussions between the Australian Prime Minister and the Chinese Ambassador to Australia, Australia had agreed to provide one "friendship" cargo a year of LNG to Guangdong as a way of finding some value to offer other than adjusting the headline price. This amounted to less than 1% of annual cargoes but would not be confirmed until the North West Shelf had been confirmed as a supplier. Malcolm Brinded anticipated that the final award would probably be to both Tangguh and to North West Shelf.

Copy of Minute to: M Brinded.

44. EAST TIMOR

Malcolm Brinded reported that the recent statement by East Timor that it lay claim to a 200 mile territorial waters boundary, was a move which had been expected by Australia and which was still being discussed by it with East Timor. It was viewed as an announcement made for domestic consumption and was thought unlikely to delay the development of Sunrise.

Copy of Minute to: M Brinded.

45. NANHAI

Malcolm Brinded queried the extent to which progress with CNOOC on Nanhai should be linked to receiving help on other substantial projects. The Committee felt that linkage should not be made unless the Group was absolutely sure that it was going ahead with Nanhai. The month leading up to final Conference review, currently anticipated to be at the end of October 2002, was the period when this could occur. The Committee commented that it would clearly be prudent to obtain as much advantage as possible in exchange for the Group's participation if it did decide to go forward with Nanhai.

Copy of Minute to: M Brinded.

46. CHILE - FATALITY

Jeroen van der Veer reported, with regret, a contract driver (FAMASA) fatality on 12 July caused by a collision between FAMASA truck and an on-coming truck which appears to have been in the wrong lane. The accident is being investigated.

Copy of Minute to: J van der Veer.

47. DEER PARK

Jeroen van der Veer reported that a cooling water tower at Deer Park refinery in Texas had collapsed internally causing significant impairment of operations. At present there was no clear explanation for the implosion of the water tower which he noted was an extremely unusual event.

Copy of Minute to: J van der Veer.

48. **MARKET UPDATE**

Simon Henry entered the meeting. He reported on the day's stock market movements. The Committee requested that he prepare a one-page review of market movements since 9 July when the announcement was made that Royal Dutch was being removed from the S&P 500. This review should set out a comparison with both ExxonMobil and BP and with the indices. In addition, Simon Henry was requested to prepare a daily report on market movements for the members of the Committee.

Copy of Minute to: J Boynton.

49. NOTES FOR INFORMATION/DISCUSSION

The following matters were before the Committee as Notes for Information/ Discussion:

ITEMS FOR DISCUSSION

Forthcoming Items for CMD and Conference

Fletcher Challenge Energy Acquisition Post Investment Review

Information Security in Shell

Project "Nike"

Proposed Oil Products Office - Miami

Russia – Oil Value Chain

Shell Expro (UK) Schiehallion Claw Development

Shell in the US Review

Tolling Agreement Accounting – Update on Development of Standards

Towards a New Gasgebouw

Project "Respiration"

Corporate Governance (distributed electronically)

ITEMS FOR INFORMATION

2002 Interim Dividend and Revised 2002 Share Buyback Proposal

Annual HSE Council Meeting

Business Control Incidents

Corporate Restructuring of Shell Companies in New Zealand

Corporate Restructuring of the Shell Resources plc/Enterprise Oil plc Group

Delisting from S&P 500

Group Corporate Restructuring Proposal: Bulgaria, Czech Republic, Poland, Slovakia

Project "Eagle" – Update

Project "Figo"

Project "Puzzle"

Project "Spielberg" – Refining JV with ExxonMobil in Victoria, Australia

Shell Centre Redevelopment

Shell Energy (Australia) Pty Ltd; Group Divestment Proposal: Memorandum to the Board of SPCo

Shell Exploration and Production Namibia BV: Withdrawal from Kudu Licence and Liquidation of the Company

Shell Oil Products US

Tarim Gas Development

STRICTLY PERSONAL AND CONFIDENTIAL

CMD No. 2526
22/23 July 2002

EXTRACT FROM THE MINUTES OF A MEETING
OF THE COMMITTEE OF MANAGING DIRECTORS

13. RESERVES OUTLOOK

Lorin Brass entered the meeting. He explained that some of the main challenges facing EP in respect of its reserves outlook related to securing extensions of licence periods, finding new material investment opportunities, and in developing a well thought through strategy on the timing of booking reserves. For example, in 1996, it may have been preferable, instead of booking all the reserves at once, to have booked these over a longer period.

With regard to when reserves could be booked, it was noted that the SEC was tightening its requirements in this area. It is considered unlikely that potential over-bookings would need to be de-booked in the short-term, but reserves that are exposed to project risk or licence expiry cannot remain on the books indefinitely if little progress is made to convert them to production in a timely manner. It was stressed that it is only appropriate to book reserves in cases where a specific project has been progressed to technical and commercial maturity, to the extent that funding is reasonably certain to be secured. The current internal process required that any reserves booked had to be approved by the Group Controller and also had to pass both an internal and external audit check. The presenter queried, however, whether EP could be better at smoothing out its booking profile.

The Committee recognised that a sizeable prize in reserves could be achieved by success in securing licence extensions without incurring capital expenditure. A major technical and operational excellence effort was already underway and a new bookings strategy needed to be devised, and implemented. The Committee queried whether EP had sufficient technical expertise in this area. The Committee considered that EP's overall technical expertise was of a very high quality but that the skills could still be better utilised. It was also recognised that some booking practices had been too aggressive in the past.

The Committee recognised that EP had been through some major upheavals organisationally in the past eight years. It was concluded that high transparency needs to be maintained both on the existing booked reserves base and on the emerging portfolio hydrocarbon resources, with a view to identifying areas of both value opportunity and risk for the overall performance of the EP business.

EXHIBIT
Van der Vijver
12
3/1/07

V00030240

Bilo

Van der Laan, Marian M SI-MGDWV/DIRMB

From:	Van der Laan, Marian M SI-MGDWV/DIRMB on behalf of Van De Vijver, Walter SI-MGDWV
Sent:	16 May 2002 12:36
To:	Megat, Zaharuddin Z SEPI-EPM
Cc:	Van der Veer, Jeroen J SI-MGDJV; Dubnicki, Carol C SIEP-EP-HR
Subject:	OMAN VISIT 8-11th MAY 2002

Oman visit 8-11 May 2002.doc (...

Marian v.d. Laan
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EXHIBIT
Van der Vijver
18
2/1/07

FOIA Confidential Treatment Requested

HAG00208193

Oman Visit 8-11th May 2002

Introduction

I visited Oman from 8-11th May (last visit was in September 2001). The objectives were to carry out an overall "health check" on the management team and on the overall state of the business.
The programme included sessions with the individual management team members, the Omani Staff Committee and Government officials (Minister of Oil & Gas , Minister of National Economy, Chairman of PDO/Undersecretary of MOG).
Also various briefings on topical issues were included (including watching an on-line bid for a $ 150 million Gas Plant in Saih Nihayda!) and a talk to all SG3 above staff (some 250) completed the well-organized programme.

Summary

Overall my patience has been tested too long with PDO and it's management, progress over the last year (is it not just about delivered production!) has been less than expected, less than promised and less than could have been possible. Changes will have to be made.

Highlights/lowlights were:

- Leadership at the top is very poor and not aligned. There are poor team dynamics and a lack of forward vision/direction/focus to the organization
- Production continues to slide (now some 770,000 b/d oil versus 800,000 b/d year average target with formally agreed "stretch" of 815,000 b/d) with totally unreliable monthly short-term forecasts
- Credibility of PDO, and therefore of Shell, is at a very low level. Confidence in forward action plan and production outlook needs to be achieved by end September latest (before October Board and prior to Government Budget finalisation in November).
  The situation with PDO obviously will also have a negative impact on OLNG where difficult negotiations are ongoing (intra-plant price, Train 3, mercury removal)
- High level of frustration in the organization (low morale), not just in Government and in management team!
- Omanisation talent pipeline below the "old guard" is still weak, some emerging talent at SG 2/3 but large talent pipeline with less than 5 years experience.
- Continued pressure on downward revision of reserves.
+ SAP is a success although there are still many issues at operational level (maintenance/well engineering) linked to purchasing/stocks/invoice backlogs
+ Top-down drive on "new" procurement business model is demonstrating real impact
+ Good progress on "government gas" related activity (capacity planning for growth, continued reserves growth)
+ Holistic review of asset portfolio (long-term reservoir management, issues, segmentation) finally kicked-off
+ New organization effective 1/5/02 should be more "fit for purpose".

Company Direction

MD has "seen the light" last week and is trying to mobilize his leadership team (and simultaneously government!) from the starting point that the "company is in a mess" (quote) and that forward action should be focused on delivering new production from 7 strategic focus areas:

- Exploration (shift to near field exploration, near term oil)
- Output from study effort (some 80 man-years ongoing, Shell support up to 50 man-years)
- Reservoir and well management (focus on productivity enhancement, water injection, etc.)
- Reduction in drilling costs/timings
- Technology application
- EOR project delivery
- New contractor relationships (use their skills/technological capabilities and revise contracts).

MD claimed his management team was "confused" but on a journey from complacency to denial to confusion to transforming, i.e. progress is being made!

Although the above themes for production focus may be appropriate it will not deliver the "goodies" without addressing other activities:

- There is a distinct lack of focus in the organization with too many initiatives and "hobby horses" that should be killed off/deferred e.g.:
    - Long-term GW related activities (beyond "prudent operatorship")
    - Internal activities on power generation (outsourcing potential?)
    - CAO expansion in a low-tech world with a need for employment
    - Safety drive without focus on line responsibility/accountability
    - Culture of meetings/offsite sessions without clear agenda's/prioritisation
    - The business model for staff has to change. Staff currently move around too quickly (lack of continuity and lack of performance tracking) and the need for specialist skills (including progression/recognition/business needs) is not well communicated. Without this "new ways of working" PDO will fail.
    - Portfolio review needs to be integrated into the totality of the forward action plan and company direction also as:
        - Forward portfolio needs to be risk balanced (no over-reliance on EOR, continue selected infill drilling and new field hook-ups, focus on large assets for reservoir management)
        - Big issues such as depletion rates, voidage control, ESP's impact, management failures and learnings (Yibal "complications", reservoir pressures too low, lack of well drainage control) should be incorporated.
    - Clarity on resourcing strategy incl. Omanisation and use of contract staff should be dealt with pro-actively
    - Better alignment is needed (recognizing that PDO is not a Shell OU) with our global drive in EP
    - Better role definition is needed between the management team, foremost between MD and DMD

- A positive culture is needed; there is too much a blame culture and a looking backwards mentality top-down in the organization. Staff need to be energized and need to understand what's in it for them:
  - Company direction
  - Celebrate successes and recognize role models
  - Transition team needs to be strengthened to be more than an "enthusiastic group of staff" i.e. need to be seen an extension of PDO leadership.
  - Job satisfaction and pride
- Harweel and Mukhaizna development promises (each delivering 100,000 b/d by 2007/2008) appear to lack credibility and robustness. Are these being managed with the appropriate horsepower and transparency?

Operational Performance

- Given the historical emphasis on creaming for short-term production benefits and given the generally high uptime, there will be no quick wins on the production side. Whilst keeping the pressure on the organization, I expect that production will further slide before recovering. This will be a very difficult message to sell to the Government
- There appears to be a lack of focus on HSE, foremost in follow through of earlier improvement drives (STOP programme, vehicle monitoring equipment, accountability drive). Reporting LTIF/TRCF in two decimals is also quite unique!
- More needs to be done on pro-active engagement with Government on "big ticket" procurement items (strategy engagement, local content, evaluation standards), the "old way" in PDO will not work anymore
- Exploration is too much focussed on the reserves addition targets (70 mmbo/year, 1 Tcf gas/year) and should be more integrated with the business needs (UTC, production impact)
- Government Gas Organization appears somewhat slow on action w.r.t. mercury removal solutions; more pressure/focus needed?
- CBP (competency based progression) is off to a slow start in petroleum engineering
- Petroleum study effort can be better integrated with the operational/implementational phase of well engineering/petroleum engineering in PDO
- Extreme reliance on ESP's (approx. 45% of production): is the technical justification as artificial lift method as sound as the commercial one?
- Young Omani talent available but working in a difficult environment (low morale, many contractor staff). Large gap between "old guard" and the new generation, very few in between.
- Reserves will continue to be an area for exposure as aggressive bookings in the past have not translated (yet) in production.

<u>Government</u>

- <u>M.O.G. (Al-Ruhmy)</u>
  Friendly discussion with the Minister. He clearly is under a lot of pressure personally and feels very frustrated with PDO's performance and PDO's management transparency.
  Although recognizing assistance from Shell over the last 9 months, he is quite naturally (also given his own credibility within the Government) questioning whether Shell is doing enough, foremost on petroleum engineering side. Also questioning large efforts ongoing by Shell in other ME countries (who is more important?) and likes to portray "PDO in trouble" being a Shell OU. Continued dialogue needed.

- <u>M.O.G. (Shaban)</u>
  Somewhat tense discussion with the Undersecretary influenced by MD presentation a few days earlier.
  It does not help that this relationship with the Minister is not very strong (he is HM appointee!) but he is a career member of the ministry and feels marginalized by Shell and the PDO MD.

- <u>M.N.E. (Macki)</u>
  Warm meeting with the Minister.
  He is prepared to wait for the new numbers in Q3 but still hopes to get 815,000 b/d plus for 2003 with subsequent upwards recovery to 850,000 b/d in later years.
  He reported that he receives a lot of challenge on Shell performance rather than PDO performance; he wants government to have increased responsibility on the good and bad things of PDO.
  Simply hopes that Shell will deliver.
  He admitted to increasing "social costs" in Oman, needing nearly $10/b price equivalent just to pay government/army employment bills! Obviously higher oil prices help to more than compensate for production shortfall in 2002.
  Some careful expectation management needed!

- <u>General</u>
  It appears that it is becoming politically less acceptable for the "old guard" to be seen to be too close to Shell.
  Given the "open-door" policy of the Government many messages from PDO reach the Government, tainted by the low morale in the organization.
  Although still good things happen in PDO (exploration successes, low deferments, procurement, etc.), the impact of not meeting production targets has had a dramatic effect on the overall confidence level towards PDO delivery.

Management Team PDO

The following are my summary observations on the management team:

Overall
The team is not cohesive and there are clear personal (unspoken) agenda's and not all providing the body language to be behind their MD.
Amazing how long several members were hoping that PDO was just experiencing a temporary "blib" in performance and that a few initiatives would fix it.

Ollereanshaw
A very capable individual in terms of broad business knowledge, tenacity and work capacity. It is evident that he attempts to drive improvement initiatives, however:

- He has a somewhat negative approach and does not engage well with his team, nor energizes the organization
- He is prone to "panic management", rapidly changing the direction, not adequately thinking through the consequences of his actions. Examples are messages to staff, behaviour at MOG, relationship with DMD (Lamki) and his recent "wake-up call" to MOG and to his management team
- He is a poor listener. Notwithstanding repeated messages on what needed to be done for a year, he chose his own approach and speed/scope of action.

He remains very keen to continue in his current role and is re-energized by events over the last week but the bottomline is that he lacks fundamental leadership characteristics.

Lamki (DMD)
Very impressive trackrecord in PDO and highly respected. He is a proud man and wants to leave a legacy behind in PDO. He is struggling accepting that avoidable mistakes were made in the last 5 years (Omanisation "effectiveness", organizational structure, lack of check and balance, lack of portfolio/reservoir management studies, drilling "unmanageable" wells, spreading too thin with too many initiatives) but these were somewhat masked by overall company success form the old modus operandi (infill drilling and new field hook-ups to increase production).
The latter may also explain why by some in the organization he is referred to as "the Wall". The relationship with Ollereanshaw is difficult.

Al-Hinai (Oil Director-North)
Lacks leadership skills and foremost deciveness, which he acknowledges. Has gone through a difficult period, as he was last year responsible for all operations in Oman, clearly a role that was beyond his capabilities.
He feels underappreciated by Shell management. He actually handles the situation very well and indeed should be supported, also given the overall work atmosphere and Omanisation shortfalls.

Al-Kharusi (HR)
Not well-motivated and struggling to follow through on actions/changes. Needs a stronger team below him.

Ruitenbeek (Technical Services Director)
On his way out to Brunei.
Although capable, he is far too defensive in his style and takes criticism far too personal and hence struggles with appropriate breakthrough changes.
Basically the job was beyond his capacity.

Peters (Oil Director-South, formerly Exploration-Director)
Significant challenge in his new role. Motivated to make it a success. Understandably still naïve and his tendency to overcomplicate team dynamics particularly vis-à-vis Omanis.
Overall this job is the test he needs to assess his overall capacity.

Eulderink (to replace Ruitenbeek)
Very encouraging start as Change Director, excellent people skills and pragmatic approach. Clearly "right man in the right place and at the right time".

Al-Kharusi (FM)
Still somewhat remote from the remainder of the business. Needs stimulation/coaching to be effective.

Overall organizational "healthcheck"
From the above it is not too difficult to conclude that PDO does not have a high performing management team. More would be possible if the MD was better capable to understand individual issues and engage in a more transparent and consistent manner. Some of his management team were openly challenging the effectiveness of the MD and his credibility internally and externally.
The strength of the top leadership (SG2+) is also still uncertain.

Unknown

From: Boynton, Judith G SI-FN
Sent: 22 August 2002 07:25
To: Van De Vijver, Walter SI-MGDWV
Subject: RE: IR - US Field Trip

Walter---I called your office this morning to discuss, but I learned that you are in Canada. Could you give me a ring when you have a chance? I would like to discuss this topic as well as the next steps in our IR communications project. Thanks, Judy

Judith G. Boynton
Director of Finance and Chief Financial Officer
Shell Centre, London SE1 7NA
Tel: +44 (0)207 934 3003 Fax: +44 (0)207 934 7132
Internet Address: judith.boynton@shell.com

-----Original Message-----
From: Van De Vijver, Walter SI-MGDWV
Sent: 22 August 2002 05:48
To: Watts, Philip B SI-MGDPW
Cc: Boynton, Judith G SI-FN
Subject: RE: IR - US Field Trip

Phil,

Some facts:
I have been working the EP investment case as we need a fundamental re-think on how we portray our EP story.For initial discussion at Excom coming monday
and thereafter with IR etc.
I feel strongly that we should stop talking to analysts about things we have not delivered yet /are still low PoS in terms of implementation. We should learn form FLNG/FONG/
Sunrise/Kudu examples and be cautious about Sakhalin,Brasil, etc. There are other good things happening on operational level etc.
I am worried that we are going to talk prematurely about SURE as well.
You have seen something that I have not seen yet so difficult to comment but I am interested in getting some good stories across from a somewhat different perspective.
With aggressive historical proved reserves booking,massive investment in Nigeria with increasing risks,few material discoveries,ROACE pressures,we just need to be very careful.
Will develop further.
Regards,
Walter

-----Original Message-----
From: Watts, Philip B SI-MGDPW
Sent: 21 August 2002 18:00
To: Van De Vijver, Walter SI-MGDWV
Cc: Boynton, Judith G SI-FN
Subject: IR - US Field Trip

Walter,
I just saw a preliminary agenda for this important field trip - the last significant event before Q3 Results and, effectively, before the Q4 Results/Strategy Presentation.

The EP piece looks very light. I have asked Judy to discuss it with you so that we have good representation and interesting EP things to see.

Phil Watts
Chairman of the Committee of Managing Directors
Royal Dutch/Shell Group of Companies

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EXHIBIT
Vander Vijver
19
2/1/07

Shell Centre London SE1 7NA
Tel: +44 (020) 7934 5556 Fax: +44 (020) 7934 5557
Internet: Phil.Watts@shell.com

Incoming mail is certified Virus Free.
Checked by AVG anti-virus system (http://www.grisoft.com).
Version: 6.0.567 / Virus Database: 358 - Release Date: 24/01/2004

Unknown

From: Van De Vijver, Walter SI-MGDWV
Sent: 02 September 2002 15:19
To: Watts, Philip B SI-MGDPW; Van der Veer, Jeroen J SI-MGDJV; Skinner, Paul PD SI-MGDPS; Brinded, Malcolm A SI-MGDMB; Boynton, Judith G SI-FN
Subject: EP Delivery

Sensitivity: Confidential

Please find attached a note as input to planned further discussion at CMD this month.

CMD EP Delivery.ZIP

Caught in the Box - Sept 2 - C...

Regards,
Walter

Incoming mail is certified Virus Free.
Checked by AVG anti-virus system (http://www.grisoft.com).
Version: 6.0.567 / Virus Database: 358 - Release Date: 24/01/2004

EXHIBIT
Van der Vijver
20
2/1/07

Strictly confidential

To: CMD
Cc. Judy Boynton

EP Delivery

Colleagues,

Holidays provide time for reflection and I would like to engage with you on the dilemma's facing EP and the uncomfortable situation EP is in with obvious implications for the Group overall. This is very sensitive material for your eyes only.

Intro

For some time now we have tried to adhere to a bunch of criteria that can only be managed successfully for so long:

- 15% ROACE at $16/bbl and related capital discipline
- 3% production growth (aai 2000-2005)
- 3% (underlying) unit costs reduction/annum
- > 100% reserves replacement.

Given the external visibility of our issues (lean organic development portfolio funnel, RRR low, F&D unit costs rising), the market can only be "fooled" if 1) credibility of the company is high, 2) medium and long- term portfolio refreshment is real and/or 3) positive trends can be shown on key indicators.
Unfortunately we currently have:

- Medium-term development portfolio is indeed rather weak (few material projects in GoM, lack of progress in Caspian, buyers market in Far East, slow opening of the ME, low R/P in US, few material discoveries outside Nigeria)
- We are struggling on all key criteria ("caught in the box").

Evolving facts

Through a combination of external and internal factors several performance issues have emerged on our EP portfolio:

- False optimism on new resource access in MRH's, foremost ME
- False optimism on UK and Oman field declines and apparent inability to accurately predict those declines
- Lack of material exploration success to feed medium term growth
- Shortage of major development projects relative to competition
- Slowdown in MRH appetite win/win deals and slowdown in gas demand growth, which was partly for banked in volume outlook
- Deteriorating data processes and reserves management quality
- Lack of internal alignment on aspired portfolio and related focused M&A activity

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- Premature promises to external market (Sakhalin, Brasil DW, FLNG realise the limit, etc.)
- Difficulty in re-starting the "opportunity/investment treadmill" in some regions

In addition there are ongoing issues with regard to EP's people processes:

- Fragmentation of skills/capabilities base post Group Transformation
- People processes take time to be re-engineered following loss of management control in early 90"s
- A common feeling that the "right people are not in the right place" to be adding most value to EP.

Early Q3 2001 it was realised that a combination of 5% production-growth with 15% ROACE at $ 14/bbl was not achievable nor sustainable but it was concluded that:

- 3% production growth was the minimum acceptable by the market (firm plan had 1.5% growth mostly from Nigeria, but none of the major competitors had projected growth of less than 3% projected)
- 15% ROACE from EP at $ 14/bbl could not be abandoned in short-term. (linked to roadmap story on capital discipline).

Again it was decided not to change return (15% ROACE) or growth (9/01 commitment) targets following the Enterprise acquisition.

The early draft of the 2003 business plan shows:

- No significant progress on new business development and no discoveries that will lead to material production in the plan period (2002-2006)
- 3 % growth is only achievable on the old 2002 base (i.e. pre Enterprise, using the Shell portfolio only; Enterprise portfolio as expected but offsetting organic targets)
- Having to absorb UK tax increase (1% hit on ROACE at $16/bbl in 2002) and project overexpenditures on e.g. AOSP and Bonga/EA
- 15% ROACE at $16/bbl does not appear to be deliverable in short-term (from 18% to 15% (post Enterprise) to 13-15% with extra UK tax and capex growth)
- Organic reserves replacement only some 60% average over Plan period
- Increased demands on staff for mature asset management.

<u>Is EP underperforming?</u>

Is EP missing something that prevents meeting targets or that demonstrates significant technical incompetence?
Over the last year several initiatives have been undertaken to address the identified weaknesses in EP:

Portfolio

- Prioritise NBD activities and use appropriate review tools in the management process
- Progress global M&A capability
- Resourcing for Oman challenges and for Nigeria "new way of working"/growth plans
- Create NOC relationship plans.

Performance

- Re-establish T&OE organization and processes
- Implement global project delivery organization
- Improve accountability and portfolio in exploration
- Establish closer alignment with OU's and Excom
- Re-introduce reserves management process and establish reserves "hitsquad"
- Investigate alternative focus areas for EP investment case
- "Hands-on" challenge by CEO on OU performance.

People

- Develop global people processes (big rules, Competence Based Progression, leadership development, managed open resourcing)
- Improve global mindset and communication within EP.

There are early indications that we are making progress:

- Success with Enterprise acquisition
- Study/support activity for Oman and Nigeria, which will result in near field activity and bottomline deliverables
- Several high performing large OU's (SEPCo, Malaysia)
- Taskforce on reserves maturation in place
- Refreshment of exploration prospect portfolio (GoM lease sales, Nigeria, Brunei)
- Developing relationship with Pemex and Russian oil companies
- Global cost FRD prize to be won ($ 500 million) to reduce underlying unit Opex!
- Operational problems overcome (Shearwater, Brutus, Auger) and good operational performance (actual vs capacity) in many OU's
- T&OE targeting 100 MMboe reserves increase.

At the same time:

- Deliberate moves are being made to "lead" legacy projects (China E2W, Sakhalin)
- No new business opportunities have been lost to competitors (aside from project Dolphin in Qatar due to "overbidding" by Oxy)
- Strong financial performance continues
- Competitive strengths in technology development and application continues to be demonstrated (e.g. expandables, integrated field studies). This will also require ammunition on competitive production decline management.

In summary I think we can demonstrate technical competence in EP coupled with performance delivery but we need to manage the "caught in the box" challenge.

So where do we go from here?

The "quiet revolution" in EP will continue at accelerated pace to ensure no major opportunities for improvement are foregone whilst taking out no or low-value activities and processes.
This global drive is framed under the 3 P's of portfolio, performance and people with key focus areas around:

- Pursuing the next stage of global synergy (efficiency and effectiveness)
- Implementing simplified accountability models
- Moving towards the EP aspired portfolio
- Secure license extensions.

The immediate risk that we are facing is on the "negative spiral" of our boxed situation:

- 15% ROACE with 3% production growth unachievable in 2002-2004 timeframe with original $7-8 billion plan-average investment level
- RRR remains below 100% mainly due to aggressive booking in 1997 – 2000.

Attached is trying to frame the "caught in a box dilemma".

Way forward

We need to keep a balanced perspective on the overall performance of EP and can easily portray a "the glass is half empty" message.
We are continuing to struggle with portfolio constraints whilst we know we can deliver more global synergy with bottomline impact.
Organic growth will not be adequate and acquisitions and new business development (whilst "working the tail") are needed with obvious strains on short-term ROACE. The value argument with roadmap-type delivery (and associated transparency) will be crucial.
I am confident EP can live up to the challenge.
Whilst this note is only a "scene-setter" I will return to CMD later this month with the overall "EP Delivery" story to get input and support for the way forward.

The EP Dilemma: Caught in the box?

Normalised ROACE delivery

ISSUES
- Impact of acquisitions "at $16/bbl"
- Project capex overruns (AOSP/Nigeria)
- UK tax increase

ACTION
- Divest low ROACE assets
- Cut expex / capex ?

Value

Production Growth

ES
statement of Enterprise
w brownfield NBD
ccesses
vere mature field decline
ON
rtfolio upgrades
ution of Big Tickets?
OE

Reserves Replacement

ISSUES
- Early reserve bookings
- Nigeria/Oman "constraints"
- MRH slow to materialise
- Lack of material exploration success

ACTION
- SFR "hit squad"
- Licence extensions
- NOC relationships

Unit Cost Reduction

ACTION
- Implementing Cost FRD

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Likely Impacts

- Can't improve all four parameters simultaneously

Remedial Action	Unit Cost Reduction	ROACE delivery	Production Growth	Reserves Replacement	Value
Cut opex, expex, capex	↑	↑	↓	↓	Probably ↓ OPEX manageable ?
tfolio Upgrade it Low ROACE assets AP /Dilute Big Tickets	↑	↑	↕	↕	↑
nent Cost FRD	↑	↑	↕	↕	↑
Acquisitions	↕	↓	Probably ↑	↑	↕

V00030272

Unknown

From:	Van De Vijver, Walter SI-MGDWV
Sent:	22 October 2002 15:07
To:	Watts, Philip B SI-MGDPW
Subject:	RE: Weekend Reflections
Sensitivity:	Confidential

Phil,

Thanks for your note,I was actually planning a follow-up as well.
I am currently in Oman dealing with another legacy problem and will fly back to London for meetings on thursday.
I will see whether we can than have a brief chat.

I must admit that I become sick and tired about arguing about the hard facts and also can not perform miracles given where we are today.
If I was interpreting the disclosure requirements literally (Sorbanes-Oxley Act etc) we would have a real problem.
I remain totally convinced (happy for challenge anywhere) that everything possible is being done on the various box parameters.
The next stage of cost take-out is going to be a painful exercise of dismantling OU's as we know and love them.
Obviously I can divest more relatively high cost/low margin parts of our portfolio but that is not where we all want to go as a Group.
Happy to have that debate at CMD.

Regards,

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

From:	Watts, Philip B SI-MGDPW
Sent:	21 October 2002 19:44
To:	Van De Vijver, Walter SI-MGDWV
Subject:	Weekend Reflections
Sensitivity:	Confidential

Walter,
I enjoyed our conversation over dinner last Monday and have reflected over this weekend on the EP part of the Group Plan.
You have a real challenge but that is not unusual.

A few points, if I may, on the "box" in which you talk of being trapped.

1. Costs
- The 3% target is not unreasonable with proper definition and real cost consciousness on the "controllable operational costs".
- The EP target will lack credibility if it does not have a bottom line impact.

2. Reserves
- We have a real issue but the Enterprise acquisition allows us to keep to the 100% replacement ratio averaged over, say, 3 years.

3. Production
- The 3% pa 2000 - 2005 (including A&D) is credible.
- We will have to finesse the "higher base" stuff.
- I am not contemplating a change in the external promise on the basis of (i) past performance, (ii) current performance, (iii) the purchase of Enterprise (and Drayen) and (iv) the intention to make more upstream purchase (s) in the foreseeable future (if good enough willing to lose the AAA rating).

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DB 01383

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Van der Vijver
21
2/1/07

4. ROACE

- I think that this is the key vulnerability.
- There are 3 questions that come to my mind
  - (i) What is the ROACE at reference conditions
    - (a) for 2003 .... can it be explained?
    - (b) for 2004 .... is it higher and approaching 15% at $16.b?
  - (ii) EP as an established business needs to be "capable of 15% ROACE at Reference Conditions". What would it take in terms of Expex and Capex cuts to get back to 15% and how quickly can this be done in circumstances that required it?
  - (iii) Does the increase in 2004 get the Group back into the 13 - 15% range?

For efficiency, I thought I would put these items in a message since they will for me be the key question on 29/10. If you are in Shell Centre this week, I would appreciate a brief chat.

Phil Watts
Chairman of the Committee of Managing Directors
Royal Dutch/Shell Group of Companies
Shell Centre London SE1 7NA
Tel: +44 (020) 7934 5556 Fax: +44 (020) 7934 5557
Internet: Phil.Watts@shell.com

NOTE FOR DISCUSSION

Subject : Review of 2002 and 2003 Reserves Replacement

Date : 7th November 2002

FROM : EPB, EPG

TO : ExCom

Excom,

The attached note summarizes the current outlook for reserves replacement in 2002 and 2003. Its objective is to stimulate discussion and management determination of bookings and debookings that are being contemplated for the 2002 year-end reserves disclosure to the SEC. Summary presentation material is also attached.

Lorin

In support of the above, an additional note on SNEPCO is attached, addressing issues raised by the recent audit of SEC Proved Reserves.

Brian

- what about expectation/STR values?!

EXHIBIT
Van der Vijver
22
2/1/07

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Note for Discussion

Review of 2002 and 2003 Reserves Replacement

The purpose of this note is to advise ExCom of the current outlook for proved reserves replacement in 2002 / 2003 and to obtain management determination of certain reserves additions and debookings that are being contemplated for 2002.

The latest estimate for organic proved reserves additions in 2002 is 659 million boe (47% Reserves Replacement Ratio, RRR). Including the effects of A&D (principally Enterprise) this increases to 1759 million boe (119%). Significant downward pressure is exerted on these figures by a recent SNEPCO audit finding that reserves there may be overstated by 133 million boe. A similar volume of Enterprise reserves may also be at risk, subject to the findings of ongoing audits (Italy Tempa Rossa and Norway Skarv Area). Consequently the 2002 RRR could be as low as 29% excluding A&D, or 101% including A&D. Offsetting upward pressure is limited. Details are provided in Appendix A.

These figures compare with an EP plan for 2002 of 56% organic RRR (98% with Strategic Options, none of which is likely to be delivered this year). The principal reasons for underperformance are a delay in the maturation of Bonga SW (90 million boe), disappointing appraisal results in Namibia (125 million boe), PSC / PSV effects in Malaysia, Iran and Oman GISCO (100 million boe) and a variety of other unforeseen negative revisions. These have been offset by the Enterprise acquisition (1140 million boe, subject to audit) and acceleration of Kashagan booking pursuant to the Declaration of Commerciality (380 million boe, to be ratified by the Group Reserves Auditor, once SKN documentation has been received).

Planned organic proved reserves additions for 2003 are 867 million boe (56% RRR), this being heavily reliant on the delivery of Sakhalin, China W2E and Pinedale reserves additions. The total would rise to 1021 million boe (66%) if currently defined Option projects mature (principally Ormen Lange). Considerable uncertainty applies to these figures and at this stage actual organic performance could range between 40 and 100% depending mainly on the degree of success in maturing (and funding) option projects and on the approach taken to the booking of Sakhalin reserves. Sakhalin offers further flexibility to offset downward pressure on reserves replacement for 2003, subject to success in firming up LNG markets and to consideration of the planned dilution of our interests in the venture.

Additional potential sources of reserves additions have been identified via T&OE (100 million boe) and Strategic Options (some 500 million boe, risked), none of which are currently funded in the plan.

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The Reserves Opportunities Catalogue has been reviewed and updated (Appendix B). No items are considered to be deliverable during 2002, although several hold potential for 2003 and the following new items are being progressed at present:

- SPDC licence extensions: Nigerian legislation, supported by precedence, may allow automatic licence renewal rights to be claimed and incorporated in SEC reserves filings.
- Tax-paid PSCs: it may be possible to include production and reserves in recognition of tax paid on behalf of Shell by National Oil Companies.

The Potential Reserves Exposure Catalogue has been reviewed and updated (Appendix C). No debookings are considered to be necessary at this stage, apart from SNEPCO reserves (see below), pursuant to the 2002 SEC Proved Reserves audit. The same audit supported the proved reserves associated with waterflood in Bonga and Erha, which consequently have been removed from the inventory. Certain elements of the Enterprise portfolio are potentially at risk and have been added to the inventory pending ongoing audit.

Proposal

- Enterprise should be portrayed externally as a fundamental contributor to the Group's reserves growth for 2002.

- Possible major de-bookings:

SNEPCO	-133 million boe: see separate Note for Information.
New Zealand Pohokura	-55 million boe: technical revision ← what's new
Malaysia PSC effect	-39 million boe: lower cost, lower entitlement
Iran PSV effect	-28 million boe
Thailand WF projects	-27 million boe: uneconomic
Oman (GISCO) PSV effect	-23 million boe

- Possible major bookings:

Kashagan	380 million boe: justification in preparation
Angola Block 18 (incremental)	45 million boe: audit planned, November 2002
USA Brutus Phase 1	39 million boe: SEPCo internal audit in progress

– 11/11 : too many uncertainties?

– ↑↓ balance?

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Appendix A

Appendix A: 2002 Proved Reserves Additions Latest Estimate

Latest Estimate, Proved Reserves Additions — End-September 2002

Going

Worldwide?

Million Boe	↑↓	Proved Reserves Additions Plan	LE	Delta	Reserves Replacement Ratio Plan, %	LE, %
Organic						
Kazakhstan	Kashagan Declaration of Commerciality + Arman		384	384		27.3
USA	Mars WF/Auger/Glider/OSO Martin↑ Shawnee, Crossbones& others↓	139	145	6	9.8	10.3
Brunei		67	66	0	4.7	4.7
Canada		50	50		3.5	3.6
Angola	Block 18 FID ↑ Risked pending check with SEC rules	33	45	12	2.3	3.2
Denmark		24	34	9	1.7	2.4
UK	Carrack West/Curlew↑, Shearwater/Cormorant/NLS↓, Scoter deferred	68	33	-35	4.8	2.4
Venezuela	Not a gain: Plan figure was inadvertently omitted from EP total		25	25		1.8
Netherlands		30	21	-9	2.1	1.5
Syria		13	14	1	0.9	1.0
Egypt		11	11		0.8	0.8
Gabon		7	7		0.5	0.5
Australia (SDA)		0	4	4	0.0	0.3
Brunei (FCE)		3	3		0.2	0.2
Argentina		3	3		0.2	0.2
Germany	Changed / deferred drilling programme	17	2	-15	1.2	0.2
Australia (WPL)		0	0		0.0	0.0
Russia	Deconsolidation deferred	-92		92	-6.5	
USA (Asa Comp)	Aera included in USA LE	4		-4	0.3	
Bangladesh	Changed / reduced activity level	4		-4	0.3	
Pakistan	Bahdra-3 well result(↑). Query Plan figure.	10		-10	0.7	
Brazil	BS-4 deferred	41		-41	2.9	
Oman (PDO)	Production forecast exposure / uncertainty	76		-76	5.4	
Nigeria (SNEPCO)	Bonga SW deferred. Other additions zeroed, further reductions under review.	116		-116	8.2	
Namibia	Kudu appraisal	125		-125	8.8	
TOPCO NZ			0	0		0.0
Brazil (Pecten)			-3	-3		-0.2
Philippines			-7	-7		-0.5
Norway		7	-8	-15	0.5	-0.5
Oman (GISCO)	Virtual PSV / PSC effect		-23	-23		-1.7
Thailand	Reduction pending completion of studies Q3/Q4	4	-27	-30	0.3	-1.9
Iran	PSV effect		-28	-28		-2.0
Malaysia	PSV/PSC effect, Tiga Papan/Ubah/Ramin↓, D35/St Joseph↑	31	-39	-70	2.2	-2.8
New Zealand	Pohokura	4	-55	-58	0.3	-3.9
Total Organic		796	659	-137	56	47
Production	Includes ExCom adjustment	1419	1407	-13		
A&D						
	Adjust total RRR so far for effect of A&D production					-2.1
ENTERPRISE (KMOC @ 45%)	KMOC = 131 mln boe		1141	1141		77.4
Norway	~~Draugen~~		33	33		2.2
USA	Rockies		27	27		1.8
TOPCO NZ			9	9		0.6
UK	Goldeneye		7	7		0.5
DR Congo (Zaire)			-17	-17		-1.2
New Zealand	Portfolio rationalization + transfer to TOPCO NZ		-49	-49		-3.3
Iran	Farm out		-51	-51		-3.5
Total A&D			1100	1100		73
Total Organic + A&D		796	1759	963	56	119
Production Organic + A&D		1419	1474	54		
Strategic Options						
Whale		154		-154	10.9	
Namibia Gas (FLNG) incremental		145		-145	10.2	
Libya gas		90		-90	6.3	
Venezuela light oil		86		-86	6.0	
AIOC notional		81		-81	5.7	
Libya Block 47		21		-21	1.5	
Stephenson		13		-13	0.9	
Albelamola notional		13		-13	0.9	
OU projects		-2		2	-0.1	
Total Strategic Options		601		-601	42	
Grand Total		1397	1759	362	98	119
Production Grand Total		1419	1474	54		

Uncertainty in Latest Estimate

Million Boe		Proved Reserves Additions	Reserves Replacement Ratio %
Downside:			
Enterprise	Tempa Rossa, Skarv Area debooking	-136	-9.2
SNEPCO	Fully implement audit recommendations	-133	-9.0
Upside:			
Enterprise	Shell guidelines implementation upside	50	3.4
Whale	Deal secured in 2002: 50% Shell share, unrisked	450	30.5
Other SOs		33	2.2
Range	Minimum	1490	101
	Maximum	2292	156

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Appendix B: Reserves Opportunities Catalogue (November 2002)

Project	FID	PRA[1]	RRR[2]	Note
Licence Extensions:				
Nigeria SPDC (mostly expiring in 2019)		530	35%	[3]
Oman PDO (2012)		500	35%	[4]
Malaysia (various years)		450	30%	
Abu Dhabi (2014)		370	25%	
Denmark (2012)		80	5%	[5]
Norway (various years)		70	5%	
Venezuela (2013)		40	3%	
Syria (2009 – 2014)		10	1%	
Brunei (2003)		0	0%	[6]
Big Tickets and Strategic Options				
Quota increase, Nigeria		0	0%	[7]
Retain Sakhalin consolidated and/or more aggressive booking		600	40%	[8]
Venezuela Cretaceous	2003	410	25%	
Kuwait OSA	2003	400	25%	organic?[9]
Iran Azadegan farm-in	2003	110	7%	A&D
Russia Zapolyarnoye Neocomian	2004	760	50%	
Libya Gas (Block 6 devt.)	2004	440	30%	
Iran Bangestan	2004	300	20%	
Qatar SMDS	2004	300	20%	A&D
Venezuela LNG	2004	250	15%	
Saudi Arabia CV1	2004	70	5%	
Others				
T&OE: 2003 potential additions		100	7%	[10]
Tax-paid PSCs (2003, in definition)		>40	>3%	[11]
Ranked out of the Base Plan 2002				
Nigeria SNEPCO Bonga SW	2003	70	5%	
China Changbei Upstream	2003	55	4%	
Australia Sunrise	2004	340	20%	
Options and Strategic Options, 2003				
Norway Ormen Lange	2003?	160	10%	
Thistle(risked)	2003	300	20%	
Abu Dhabi Whale (risked)	2003	150	10%	A&D
Russia Salym (risked)	2003	60	4%	organic?

1 Approximate Proved Reserves Additions, million boe, unrisked.

2 Approximate contribution to Proved Reserves Replacement Ratio in the year of reserves booking, assuming annual production of 1500 million boe total for EP, OA basis.

3 Ongoing work suggests that SPDC might be able to claim automatic rights to production beyond licence expiry. If confirmed, this could be the key to lifting the reserves booking moratorium, with new bookings being tied to FIDs in future years. Reserves booking impact to be investigated.

4 Based on the currently reported post-licence Expectation Reserves (550 million boe). Reserves to be booked when there is certainty that a deal will occur with no risk of detailed negotiations de-railing it.

5 Not under Shell control: negotiation to be conducted exclusively by Concessionaires (A.P. Moller).

6 Reserves already booked assuming that BSP's rights to two 15-year licence extensions will be exercised. Any reserves upside would be in relation to the negotiation of further extensions beyond the 30-year window, but this may be offset by potential equity reduction in the first two 15-year extensions.

7 A quota increase is necessary in any case to enable production to grow and thereby enable the currently booked Proved Reserves to be realized.

8 Bookings should in principle keep pace with "reasonably certain" market development and preferably with actual LNG sales contract fixtures.

9 Cash-based Service Agreement with little exposure to oil price. Reserves bookings might not be possible.

10 Nominally 25 million boe from waterflood projects, 25 million boe from the T&OE Opportunities Catalogue and 50 million boe from V2V reviews.

11 Under investigation: in some PSCs tax is paid by the NOC on behalf of contractor (i.e. Shell). It may be possible to claim production and hence reserves in recognition of this.

Appendix C: Potential Reserves Exposure Catalogue (November 2002)

Asset (Year booked)	Reserves mln boe	Comment
Australia Gorgon (1997)	560 91.	Booked in 1997 in anticipation of imminent FID, subsequently deferred indefinitely by the downturn in Asian economies and the consequent reduction in demand for LNG. It is inevitable that a resource of this magnitude will be developed eventually.
SNEPCO		It is assumed that 133 million boe of potentially overstated reserves will be debooked at 31.12.2002 (SEC Reserves Audit recommendation).
Angola Block 18 (2000) Reserves potentially at risk estimated provisionally to be 75% of the current inventory.	up to 55	Reserves rely on the successful implementation of water flood in reservoirs that have limited local supporting analogues. Nevertheless, analogy with the Girassol field is invoked. Audit is planned before the end of 2002. Similar bookings by SNEPCO were considered acceptable during a 2002 reserves audit, being supported by extensive reference to analogy (although predominantly not with local reservoirs).
Norway Ormen Lange (1999, 2000)	109	Reserves have been partially booked ahead of VAR3 and FID, whilst it appears that there are issues that could prevent it proceeding. De-booking will be considered only when and if it becomes clear that development definitely will not proceed. FID planned in 2003 or 2004.
Enterprise	136	Certain elements of the portfolio may not satisfy minimum requirements for project maturity (Italy Tempa Rossa, Norway Skarv Area, possibly elements of KMOC). Audits are in progress.
Netherlands, Waddenzee (?)	25	Government-enforced moratorium on Waddenzee drilling, due to environmental concerns, could ultimately prevent development from proceeding.
Brunei legacy (Various)	20	Historical reserves bookings that can no longer be supported are inventorized and actively managed. It is expected that the remaining balance will be reduced to zero over the next two or three years, in consultation with national regulatory authorities.
Total	905	The total proved reserves balance at 1.1.2002 was 19100 MMboe.

In addition, reserves in some OUs would be at risk if planned production rate increases do not materialize. The OUs thus affected are SPDC Nigeria and Abu Dhabi. Furthermore, Oman PDO must sustain current production rates throughout the remaining lifetime of the licence to ensure production of the booked proved reserves.

The SEC provides no specific guidance on reserves disclosure for "novel" contract structures. Shell currently has four bookings in this category: the Venezuela service agreement, Iran buy-back contract, Oman Gisco and the booking of NGL reserves in connection with interests in Abu Dhabi GASCO.

Note: this inventory captures reserves bookings that are fully justified at present but which could come under threat of debooking, for example, should the SEC further clarify its rules to imply that more conservatism should be applied by Form 20-F registrants.

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Note for Information

Changes to Proved Reserves Additions

SNEPCO, Nigeria, November 2002

Proved Reserves Additions, million boe, Shell share

Plan	116	Bonga SW (92 mln boe) plus Erha Deep and Erha South E&A
Previous LE (end-Aug)	49	Bonga SW discounted, possible delay to VAR 3
Current LE	0	Bonga SW deleted, VAR 3 deferred. All potential E&A gains zeroed.
Proposed end-year position	-133	De-booking pursuant to 2002 SEC Reserves Audit.
Total impact on EP RRR	-16.9%	Relative to Plan

None of the activities incorporated in the SNEPCO plan for reserves additions in 2002 will materialize during the year. Furthermore, a recent SEC Proved Reserves Audit of SNEPCO found that proved reserves were overstated by 133 million boe at 31.12.2001:

(in mln boe SS)		31.12.2001	31.12.2002	2002 Delta	
Abo		33.4	28.9	-4.5	Apply Proved Area concept
Bonga	Oil/NGL:	366.2	290.4	-75.8	} Proved Area &
	Gas:	42.8	16.9	-25.9	} revised recovery factors
Erha		165.9	139.4	-26.5	Erha-3 and Proved Area ← Bosi
Total		608	475	-133	

- In Bonga, the revisions are due to the exclusion of reserves in unpenetrated reservoirs (the so-called In Field Opportunities, or IFOs), this being despite an increase in recovery that is now projected from the proved areas (FDP Revision 5).
- The revision in Erha reflects the results of the Erha-3 appraisal well (which removed significant in-place volumes from the model of the eastern fault block), and from the exclusion of reserves in an as-yet unpenetrated central fault block.

The bulk of these reserves were first booked in 1998 and 1999. Since then, Shell has introduced a revised interpretation of the SEC rules on the disclosure of proved reserves. This is explained on the following page.

So much debooking shift to 2003 (drilling)

total Nigeria reserves quality?!

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Clarification of SEC Rules

The SEC/FASB definition of proved reserves is, and always has been, strictly deterministic, being based on recovery from the so-called "Proved Area": the area of each reservoir that has been proved by drilling. This area is limited laterally by reasonable certainty over production continuity, and hence it generally stops at faults that could be sealing. It is limited vertically by the limits of hydrocarbons seen in wells, unless contacts outside this range can be inferred from pressure data acquired from the hydrocarbon and water legs of the same reservoir. In undeveloped or immature fields, the reporting of proved reserves for unpenetrated reservoirs is not consistent with the SEC rules.

Before the SEC introduced its rules in 1977, Shell had developed a probabilistic approach to describe uncertainty in reserves. Thereafter, until 1998, Shell continued to use its probabilistic approach, equating the 85% cumulative probability level to the "reasonable certainty" required by the SEC's rules. This could lead to the inclusion of reserves from outside the Proved Area, insofar as these areas were included in the probabilistic range. Also, in the case of Bonga, it lead to the inclusion of reserves from reservoirs that had not yet been penetrated (the IFOs).

Shell's probabilistic approach generally resulted in the over-reporting of proved reserves in immature fields, but this was (more than) offset by under-reporting in mature fields. In 1998, in order to correct the latter and curb excessive depreciation charges, the Shell guidelines were changed and brought more into line with the deterministic approach of the SEC. Approximately 1,200 million boe proved reserves were added to the inventory as a result. ?!

The Shell guidelines for immature fields were not finally updated until 2002, spurred by the issuance in 2000 and 2001 of guidance from the SEC which confirmed that their deterministic limiting criteria (i.e. the proved area) must be honoured even if probabilistic estimation techniques are used.

Work is ongoing to try and establish whether Shell is conservative or otherwise in its approach to the disclosure of proved reserves compared with competitors.

Opportunities will continue to be sought to engage the SEC in dialogue concerning modern industry practices. The main aim is to encourage the SEC to recognize technological advances that enable registrants to build confidence in "reasonably certain" recovery estimates without incurring the appraisal costs that are required to establish proved reserves according to the SEC's current rules.

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Unknown

From:	Van der Laan, Marian M SI-MGDWV/DIRMB on behalf of Van De Vijver, Walter SI-MGDWV
Sent:	15 November 2002 10:56
To:	Coopman, Frank F SIEP-EPF; Brass, Lorin LL SIEP-EPB
Subject:	URGENT: 2003 PLAN and Q1 IR

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—
Incoming mail is certified Virus Free.
Checked by AVG anti-virus system (http://www.grisoft.com).
Version: 6.0.567 / Virus Database: 358 - Release Date: 24/01/2004

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2/1/07

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2003 PLAN and Q1 IR

1) We finalized our plan submission and could easily leave the impression that everything is fine:
   - 3% UUOC reduction achieved
   - ROACE back to 15% by 2006
   - 3% growth (old base and with a bit of help from strategic options on new base) delivered
   - RRR> 100% can be done with license extensions

The reality is however that we would not have submitted this plan if we
1) were not trying to protect the Group reputation externally (promises made) and
2) could have been honest about past failures (business focus w.r.t. aspired portfolio, disconnects with reality, poor performance management, reserves manipulation)

The plan is therefore not a 50/50 plan but a real stretch.

On 19th November EP Plan presentation I want a simple chart of 50/50 vs stretch parameters which shows:
- do-ability problems with cost take-out <u>pace</u>
- "watchlist items" on production: Oman, Nigeria, US
- pain to be carried on past reserves bookings and vulnerability to new reserves bookings (Sakhalin etc.)
- prospect portfolio weakness in 2003/2004
- low PoS of strategic options
- major shift needed in technical/performance leadership
- breakthrough needed on partnerships
- challenge to deliver a sensible $ 1 b/n CE reduction with minimum earnings/production loss.

Other relevant points are welcome. I am also still awaiting the suggested family of new "watchlist items" for 2003.

2) On Q1 2003 IR we need clarity now on the key messages (balanced perspective) that we want to get out for EP. I have not seen any detail and this is becoming increasingly frustrating:

   - Group IR presentation will only have a 10 min (!) EP slot:
     - 2002 highlights
       - EP "back to basics"?
         (cost, T&OE, project delivery, capital efficiency, exploration)
       - Enterprise delivery
       - competitive edge?
       - **learnings**
         (RRR, globalisation need)

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- 2003 and beyond expectations
  (EP on the move?)

I want ideas now!

- What is the new EP story as aligned with the EP investment case? One page only!

I want this **done** and **discussed** by first thing Monday morning latest (this issue will no doubt come up on our 18/11 away-day). For me the passion, urgency and focus on the forward implementation and delivery is very important also as we do have tremendous scope for leveraging globalisation and level playing field operational excellence unlike EM and BP who have already done this.

Unknown

From: Van De Vijver, Walter SI-MGDWV
Sent: 29 November 2002 14:06
To: Pay, John JR SIEP-EPB-P
Cc: Brass, Lorin LL SIEP-EPB; Harper, Malcolm M SIEP-EPB-P
Subject: RE: Group Plan questions/reserves

John,

Indeed a difficult judgment call.Thanks for a very informative note.
We will have to get a storyline together not only to close our books but also for explaining to analysts (6 febr and end March) our RRR.Happy to be transparent about it to raise our overall credibility.

One other question: if we talk 5 year average RRR are we than still OK 1998-2002 and 1999-2003?

Regards,
Walter

-----Original Message-----
From: Pay, John JR SIEP-EPB-P
Sent: 22 November 2002 09:47
To: Van De Vijver, Walter SI-MGDWV
Cc: Brass, Lorin LL SIEP-EPB; Harper, Malcolm M SIEP-EPB-P
Subject: RE: Group Plan questions/reserves

Walter

I'm sure you realize that this is a difficult question to answer with precision. As a best estimate, I think it reasonable to say our RRR performance over the next 5 years will be depressed by some 25 points as the result (1) of taking accelerated bookings in the past and (2) of changing our internal reporting guidelines (partly as the result of the SEC clarification, but also of our own volition).

I would characterize the contributions as being:

15 - 20 points: aggressive booking, of which perhaps 5 points (i.e. 5% RRR) overlap with the 2001 SEC clarification.
5 - 10 points: the legacy effect of changing our booking practices in 1998

The following explains how I came to these figures:

1) What historical bookings did we make that we would consider more carefully today?
At 1.1.2002 we had some 3800 MMboe (actually 3769) reserves that had been booked pre-FID. Of these, I think about 60% can be categorized as definitely not subject to "leadership behaviour" at a Group level, whereas the remaining 40% (1400 MMboe) possibly were. 3800 MMboe is an attention-grabbing figure, and our 5-yr average RRR going forward would be improved by some 50 percentage points if we had left everything until FID. However, our performance during the previous 5 - 10 years would obviously have been reduced by a similar amount. Also note that it is not common practice in the industry to defer all bookings to FID - only bookings for major projects and frontier areas. I am sure (but cannot prove it) that our competitors adopt a similar approach to us for minor projects and infill type activities - they book when they feel the project is sufficiently defined, which could be well before project sanction.

Therefore I think that the 1400 MMboe is a more reasonable figure to talk about in this context - we booked it aggressively and had we not done so we might have been able to show a +/- 15 - 20% better RRR for the plan going forward.

There is more detail on this at the end of this message.

2) By how much would RRR performance be different if we continued to apply the bookings procedure in force pre-1998?
In 1998 / 1999 we changed our reporting basis and adopted a deterministic approach for mature fields that we believe to be consistent with industry practice. This gave us a one-off gain of 1200 MMboe. If we had left our

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practices unchanged, we would have trickled some of this gain in gradually and perhaps registered new bookings ahead of FID for some of our major upcoming projects (W2E, possibly Kashagan and Sakhalin and a few others). However, I would be very surprised if this would have yielded a total reserves balance higher than the one we have today - in other words, I do not believe that our old approach would have caused more than 1200 MMboe to have been added in the years since the new approach was introduced. As a rough estimate, you could say that it would have taken some 10 years to book the 1200 MMboe that we took as a one-off gain in 1998/1999, so performance might be depressed on average by 5 - 10% RRR during the period that we now find ourselves in the middle of.

3) What effect has the 2001 SEC Clarification had on our performance?
Following on from (2) above, it was noted at the time that we had corrected our under-reporting of mature fields, but not addressed our over-reporting of immature fields. The latter was only addressed by the new guidelines introduced this year, spurred by the SEC Clarification. We see the effects of it in the SNEPCO debooking, which is the biggest single effect. I see this as partially offsetting the 1998 gain - if we had addressed all of our procedures in one step instead of taking the good news first and the bad news later, we might have been looking at a net gain of, say, 900 - 1000 MMboe instead of 1200 MMboe. We are taking this hit now and we may see a small depression of RRR performance over the plan period. However, I do not believe that these effects are very significant - we must be talking about a few percentage points on the 5-yr average RRR at most - this is a subset of the reserves covered by (1) above.

Please let me know if there's more I can do to clarify these figures,

John Pay
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Detail on 1) above

The total volume of reserves booked pre-FID at 1.1.2002 was **3769 MMboe.** The following major components stand out:

Nigeria SPDC: 969 MMboe. For many years reserves bookings were influenced considerably by the Reserves Additions Bonus. This drove us towards early booking of reserves, but at the time this was not considered to be at odds with practice elsewhere in the Group and nor did it lead to undue concern about compliance with SEC rules. Indeed, the practice might be seen as a key enabler in helping Nigeria to claim additional OPEC quota share and consequently SPDC production growth. The problem is that we overshot a little - we reached a situation in which the Proved Reserves cannot plausibly be produced within the remaining licence period.

Oman PDO: 313 MMboe. Similar situation to SPDC, PDO revenue was linked to reserves additions. We now have a situation in which an external production promise has been made to the Omani authorities, with the corresponding reserves having been booked ahead of development activity identification. I trust that you are well aware of the efforts currently ongoing in PDO to build substance into delivery of the production promise.

Other Base Projects: 852 MMboe. Bookings which seem to have been made in line with the Shell interpretation of the rules at the time and which are difficult to dispute in hindsight, given that they are included in our current Base Plan. A large number of minor bookings, but with a few large items such as Troll further development (210 MMboe in total).

Other Option Projects: 197 MMboe. Bookings similar to above but which might now be questioned on the grounds that they rank only as Options. Again a large number of small projects, the biggest being Bugan (Brunei) - 50 MMboe.

Total so far: 2331 MMboe, 62% of the total. It is probably fair to say that, on balance, none of the above were the direct result of "leadership behaviour" in the context of your question, although obviously the SPDC and PDO bookings were part of a clear strategy at the time.

The remaining 38% of the bookings could be questioned with hindsight and some or all of them could be judged as being influenced by "leadership behaviour". I have not questioned those involved at the time, but I would not be surprised to find that each was the subject of management determination. All could be defended on the basis of the Shell interpretation of the SEC rules at the time, but might not be accepted under the revised / clarified interpretation.

Australia: 560 MMboe. Gorgon - the booking was made in the expectation that project would imminently be sanctioned.

Angola Block 18: 75 MMboe. Booked on the basis of a rather flimsy project definition - now firmed up and subtantially different to the basis on which first booking was made.

SNEPCO Erha: 166 MMboe - FID in 2002.

SNEPCO Bonga IFO: 130 MMboe - most to be debooked?

Denmark Sif / Igor / Halfdan Danian Gas: 19 MMboe. I include this because I made the booking myself under the influence of "leadership behaviour" and felt somewhat uneasy about it (also the larger booking for Halfdan Phase II oil development, now post-FID). The project was not well defined and, although there was no doubt that the resources are there, we did not have rigour in the audit trail to be able to defend against a serious challenge of the booking. There may be other examples in the 62% above that I have not captured.

Other Projects Ranked "Out": 489 MMboe. Bookings that might be seen as suspicious and possibly the subject of "leadership behaviour", on the grounds that the projects concerned do not rank for capital allocation as currently defined. Biggest items are Ormen Lange (109 MMboe), Venezuela further development (91 MMboe), Pohokura (71 MMboe, this figure being revised to only +/-20 MMboe at 1.1.2003).

Total: 1439 MMboe, 38% of total.

-----Original Message-----
From: Van De Vijver, Walter SI-MGDWV
Sent: 21 November 2002 01:01
To: Pay, John JR SIEP-EPB-P
Cc: Brass, Lorin LL SIEP-EPB; Harper, Malcolm M SIEP-EPB-P
Subject: RE: Group Plan questions/reserves

John,

Thanks.

Just to have it all together.
How much of the historic bookings (both aggressive/early) that constrain our proved reserves booking in 2001-2005,are related to"leadership behaviour" and how much are they related to new SEC rules/scrunity introduced in early 2001?!
Please clarify soonest to the best of your now vast knowledge of our reserves!
Regards,
Walter