the Regulations would be available in February 2004 and the Finance Leadership Team would then undertake a review. The matter would return to the Committee in March 2004. The Committee emphasised that it was clear that these requirements must be addressed in a timely manner.

Copy of Minute to: J Boynton.

5. IMPLEMENTATION OF INTERNATIONAL ACCOUNTING STANDARDS

Tim Morrison presented a paper on the implementation of the International Accounting Standards and said that the standards to be implemented were still being developed by the International Accounting Standards Board. The first phase of the Groups' implementation programme had been to analyse the differences between the IAS standards and the current set of Group Financial Accounting policies. This phase had now been completed based on the IAS Standards published at the end of September 2003. In the next phase the detailed impact on the businesses was to be analysed and the necessary changes to be drafted and agreed. This phase would run up to the end of March 2004 at which point the finalised IAS Standards should be available. It was essential that adequate resources were dedicated to this work and it was explained that the accounting research group had been strengthened and that the question of leadership of the project would be referred to the Committee when the matter was brought back before it in 2004.

Copy of Minute to: J Boynton.

6. FUNCTIONAL/BUSINESS PROCESS REVIEWS

Hugh Mitchell, Arjen Dorland, Guy Cowan, Mike Rose, Gustavo Guimaraes, Bruce Culpepper and John Hofmeister entered the meeting.

Hugh Mitchell introduced the Functional/Business Process Reviews item by explaining that separate papers would be presented on the Group ERP strategy, finance futures and HR futures. This would be followed by a description of integration issues and conclusions.

TT 000715

Arjen Dorland presented the paper on the Group ERP strategy. He explained that there were over 220 ERP systems in the Group and the Group ERP vision was needed to help realise further standardisation in Shell's businesses, to reduce costs, to enable shared service centres, to improve management information and to rationalise the IT portfolio. Mr Dorland explained that ERP rationalisation could not be justified on IT cost reduction only. SAP enabled business benefits were the key driver and there were economic cases yet to be developed. IT investment may need to be redirected. The optimal Group ERP vision was for minimum business models and maximum commonality which would drive further consolidation. There were 10 business models and 4 service and support models in existence. The aspiration was to combine the multiple business models into 3 to 4 ERP systems namely upstream, downstream, utilities and services. There would be three separate ERPs for HR, Master Data and Group Reporting. These plans would be examined in the ITBC, the FLT and EXCOMS during 2004. The Committee agreed that simplification of the ERPs driven by the business models was the correct step and commented that flexibility of the systems was also important to cope with acquisitions and divestments. There should be maximisation of commonality and consolidation. The Committee supported the fact that there was a SAP centric approach. The existing roll-outs in CH, EP and HR would be continued and there would be common benefits tracking across the Group. So far as the common benefits tracking was concerned the Committee added that this was one element which should be addressed by Hugh Mitchell in the overall view. There would be a number of items to be considered at the end of Q1/2004 and these included the OP Streamline SAP business case, the ERP strategy for Utilities business, the ERP strategy for services and any synergies which could be found between these items. It was agreed that the positioning of Trading in the downstream and /or utilities model needed clarification and that Finance systems architecture was additional to the business ERPs. At the end of Q1/2004 the optimal approach on the Master Data would need to be reviewed. Finally it was agreed that the approach on the way forward for JVs and further convergence opportunities for CH and Trading would be reviewed later. The Committee thanked the team working on the Group ERP strategy for the clarity and professionalism of the work produced.

Guy Cowan gave a presentation on the Finance Futures Review. He explained that this was a joint FN and HR recommendation on Shared Services Centre locations. The focus had been on the cost of the locations and the processes to be transferred there. Guy Cowan explained that the transfer of suitable processes to Shared Service Centres could lead to some 2,400 full- time employees being located there. The three existing Shared Service Centres were in Guatemala, Scotland and Malaysia and there were 700 people working there. The two new Shared Service Centres were proposed to be located in Poland and the Philippines. A total of 1,700 FTE's jobs would migrate to the Shared Services locations. A comparison between the Philippines, India and Malaysia was explained and the European location review had considered Krakow Poland, Lodz, Poland and the Czech republic.

Consideration was then given to the various processes which could migrate to the Shared Service Centres , their phasing and the number of FTEs currently employed in such processes. It was explained that the data had been gathered with regard to 7 processes in the first tranche but that data in relation to the other processes was not yet complete. The Committee queried whether in the initial phase there was a common approach across the businesses. It was important that reassurance was given that there would be a common end state. The Committee required clarity by the end of Q1/04 on which processes should be transferred to the Shared Service Centres. In terms of cost savings it was noted that a significant area was in wage arbitrage. Payback would be achieved in 2006 following payments in respect of redundancies, retention bonuses and start- up costs. The Committee queried whether the redundancy figure was included in the Plan and it was confirmed that this was the case. Risks foreseen related to communication to staff, reputation and business principles issues. So far as operational control was concerned it was very important to manage any potential control failures during the migration stages. It was vital that there was business continuity together with ownership and commitment from the businesses. The timetable for implementation was reviewed and it was explained that by the end of Q1/2004 there would be a detailed plan for the project which would include governance issues. The time for GSSE start up was planned for July 2004. The Committee commented that it was important to ensure that the Advisory Board included an individual who was not a Finance person and suggested that someone from one of the businesses would be appropriate. The Committee also suggested that the Malaysian Country Chair should be involved to ensure that learning from the existing Shared Service Centre there was captured. The Committee endorsed the recommendations on the Global Shared Service Units and supported the locations and configurations. It was explained that consultants had reviewed the possibility of obtaining labour arbitrage if there were a Shared Service Centre in North America but this was not found to be a viable option. The plan was to transfer the existing SSCs to the new organisation by 1 July 2004. A Management Team of some 10 people would be created and the governance structure would be established by the end of January 2004. The Committee supported the continued work on the Common Master Data and commented that it was necessary to synchronize this work with Streamline. The Committee supported the continued work on the ERP Road Map and Finance systems architecture which would be brought back to it at the end of Q1/2004. The Committee complemented the team on the great progress which had been made on this very significant issue.

John Hofmeister explained that for the first time in Shell all HR data had been captured. He said that there were 120,989 staff receiving a full HR service with an additional 13,479 receiving a partial service. Benchmarking exercises suggested that Shell was well below the median particularly in Northern Europe but added that many of the Global Businesses were supported from this Region. Mr Hofmeister explained that it was necessary to establish which HR activities could be delivered through a Shared Service Centre. He explained that the OP and EP businesses would be working together during Q1/2004 to find the right formula and that this would then become the Group's standard for HR. It was proposed that there would be Shared Service Centres based in Eastern Europe and in Asia. He explained that HR costs totalling $450 million per year at the end of 2002 should reduce to less than $300 million per year by 2008. The savings would be achieved by measures including standardization, the setting up of the Shared Service Centres and the labour arbitrage associated with that. In addition he explained that the new HR operating model contained a significant element of self-service. Looking at the new HR operating model John Hofmeister commented that it had been decided that it was still necessary to retain general HR advisers within the businesses but that other HR matters would be handled at different tier levels ranging from self-service to expert centres. The Committee stated that it was important that this step was taken at the right time while recognising that Shell had an unusual population, being truly international. It should not be assumed that the end state of one HR person for one hundred individuals was correct and the Committee expressed some concern regarding the element of self-service contained in the model. It was agreed that the matter would be returned to the Committee at the end of January 2004 with a view to considering which processes would be standardised. By the end of Q1/2004 further work would be done on the whole plan including detail on the employee portal and Shell People. The matter would be brought back again to the Committee at that time. Finally, in June 2004, the whole project would return to the Committee with a complete business case. The Committee supported this process and a full time team of 8 - 10 people would be working on it.

Hugh Mitchell commented on the overall review process and said that there had been improved focus. Pending work included the Group net benefits

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matrix which was still incomplete and detailed figures on the impact on people. He added that there was still a significant potential for double counting but noted that the ERP work was an enabler. The Committee requested a comparison with the other major oil companies, reviewing what had been done with regard to processes. Mr Mitchell went on to explain the priorities for pursuing added value noting the importance of the Group ERP strategy, that opportunity was found in the locations and configuration of the Shared Service Centres and that risk was identified in respect of people, reputation and the realisation of net benefits. On the people side Hugh Mitchell explained that there were a number of change management consultants being utilised and the Committee requested this particular issue be returned to it in January 2004. At that time there should be an awareness of how much change management was currently being carried out by consultants in the Group and whether there was a Group model for doing the work in house as an alternative Next steps were to report back to the Committee once OP Streamline and the ERP business cases had been developed and the Service Centres implementation phasing and timeline was established. Double counting risks would be itemised. A coordinated process would be introduced on people communication. The Committee said that it was important that there was co-ordination over all the different reviews and that an overview paper (ultimately for Conference) was the right approach. In particular the completion of the Group net benefits matrix was important together with constant review of the "rules", opportunities and risks. . In addition by the end of January 2004 it was necessary for there to be a one page draft statement for Shell staff and for the external world. The Committee expressed their thanks to the review teams and praised their alignment and co-ordination.

Copy of Minute to: H Mitchell. Extract on Group ERP to A Dorland. Extract on Finance Futures to G Cowan. Extract on HR to J Hofmeister

7. CORAL STRATEGY UPDATE

Mark Hanafin and Ann Pickard entered the meeting. They gave a presentation on Shell Trading Gas and Power in North America explaining that the business environment was challenging but opportunities were emerging. In Power it was explained that reserves margins were peaking, deregulation was slowing and spark spreads were low. For gas there was a tightening of demand with continued price volatility and LNG set to fill the gap. On the legal and regulatory front challenges continued but progress was being made. The core commercial strategy for STGP related to customers, opportunity, resources and execution. US $ 100 million NIAT should be generated in 2004 (excluding tolls). Looking at customers, the commercial strategy included growth in profitable customer segments across the company and the development of marketing plans for each segment. Opportunities included selectively acquiring portfolio and enhancing contracts and providing access for LNG to North American markets. In addition, production and execution of an effective lobbying plan was beginning to have an effect. In terms of resources it was important to maximise return on risk capital, to hold costs at the 2003 level and to optimise portfolio options on tolls while continuing to invest in upgrading skills. For execution, important factors were marketing and trading in GP regionally and co-ordinating by segment across North America. Important for tolling was operational excellence and portfolio options. The priority drivers were ,first, value preservation then cash generation and CE reduction. Mark Hanafin went on to explain the alignment in North America where in LNG there had been movement from unclear accountability to a single interface with STLS, transparency and tight integration and the same approach was being taken in respect of InterGen. The Committee commented that this improvement in alignment and cooperation was very important and Mark Hanafin explained that the new organisation would be in place by the middle of 2004. The organisation would comprise a new management team where the trading culture was still very strong but there was the ability to deal with the customer base required to feed trading activities. Turning to Power, the Committee asked about strategy and it was explained that the strategy for the Power business included a range of possibilities including trading blocks of power or a fixed shape of product The aim was to test providing power on a full customer requirements basis to see whether the increased sales justified the costs involved. The Committee complemented the team on the quality of the materials.

Copy of Minute to: M Brinded, M Warwick.

8. CONTRACTING AND PROCUREMENT (CP) IN SHELL

Kees Linse entered the meeting. He explained that on-line bidding had produced value since 2001 with over 4,500 bids taking place with average savings of 15%. Advantages were that on-line bidding disciplined the tender process, provided increased transparency as well as delivering savings. The way in which savings were measured was by comparison to the last contract entered into. The Committee queried why more on-line bidding was not carried out and Kees Linse explained that it was necessary to educate suppliers and Shell people in this process and that there was some degree of push- back in Shell. In addition there was some supply resistance if the bidding related to a special market. The focus of CP activity was on savings and value improvement leading to sustained competitive advantage ensuring full business collaboration. It was also important that there was proximity to the internal customer. Mr Linse gave an overview of the talent in CP noting that the talent pipeline needed improvement and that there were a number of individuals without headroom causing a significant block in the system. Key CP challenges related to systems, behaviours and processes and these items was being worked on and it was important to build on experience and learning from elsewhere including from acquisitions. Kees Linse explained that on the people side, over the next 3 to 4 years, it was important that the right people were recruited into the CP organisation who could be trained at the Supply Chain Academy. As for delivery, it was agreed that the matter would be returned to the Committee with a full update at the end of Q2/04 with delivery of the new processes targeted for Q3/04- 2005.

Copy of Minute to: W van de Vijver

9. GAZPROM ALLIANCE - STATUS AND WAY FORWARD

Michael O'Callaghan, Lorin Brass, Martin Bachmann entered the meeting. They gave the background and status of the Gazprom discussions and noted that current developments in Russia re-enforced the Gazprom position. Wider discussions with Gazprom had been established encompassing the possibility of European pipeline gas swaps and possible Atlantic LNG interests in particular Schtokman. There had been agreement on certain elements relating to Zapo-N/Sakhalin II but an impasse had been reached over the Gazprom aspired shareholding in Sakhalin II. The Gazprom position was that they aspired to 25% whereas Shell's aspiration was for 5-10%. It was thought that there was a perceived "window of opportunity" to reach agreement in the coming 2-3 months. The possible deals which could be done were outlined .In Atlantic LNG a deal on Shtokman would provide Gazprom with LNG expertise and in respect of North American Regas, Gazprom could achieve market access and Shell would gain value chain alignment. Looking at the proposed Shell position Michael O'Callaghan explained that the first step would be in approximately 2006 at the time of Zapo-N FID when there could be an acquisition of 50% of Zapo-N by Shell for up to 10% in Sakhalin II. A second step in approximately 2009-2012 could be a swap of up to 10% of Sakhalin II for equivalent value assets which could include Shtokman or additional reserves. This second step would be subject to Trains 1 and 2 start-up with project finance completion, Sakhalin II Train 2 being fully sold and FID on Train 3. Another important issue was the MiMi participation in any dilution to Gazprom which was recognised as being challenging. Consideration was given to the possible ways in which MiMi could be involved in the two steps noting that a fallback position would be that the first step was one taken by Shell alone with a commitment from MiMi to participate in the second step. MiMi had been informed that talks were taking place and this would be followed by detailed discussions if Gazprom appeared to be interested in the proposal. Tripartite discussions could be an eventual aim. The Committee queried how much confidence there was in Gazprom's ability to deliver in the upstream. Michael O'Callaghan explained that this was a difficult issue and was one of the reasons why it was necessary to have a high level meeting with Gazprom. The Committee commented that Sakhalin was less sensitive to hydrocarbon prices compared to Zapo. It was also added that timing was very important because of the fact that Zapo would be later than Sakhalin. It was important that this was addressed in the negotiations. The Committee supported the proposed way forward for a discussion with Gazprom on the Shell proposal on the 11 December followed by a top level meeting in January or February 2004 with detailed discussions with Gazprom and MiMi thereafter. The hope would be for a signature on the updated alliance agreements in Q1 or Q2 2004.

Copy of Minute to: none.

10. PROJECT ROCKFORD

Tim Morrison and Beat Hess entered the meeting. It was explained that internal fact finding work was being carried out on this issue and the internal legal review was being progressed. This involved careful consideration of all the documents paying particular attention to disclosure obligations. The Chairman stressed the importance of full disclosure and transparency of the facts and thorough legal analysis. Urgent attention was required as time was of the essence. A programme of future meetings was agreed.

Copy of Minute to: none.

11. ENTERPRISE REVIEW

Lorin Brass and Paul Welford entered the meeting.

Key issues in the end 2003 assessment of the Enterprise acquisition included integration, synergies, production, base value, exploration and options/upsides. Using a traffic light system the only item which was not green was production with an amber light which represented the fact that production was 50 kboe/d lower than the pre-deal estimate over the Plan period but higher thereafter. Synergies were substantially in excess of the post deal commitment with a $356 mln run rate by the end of 2003 and 355 mln "cumulative" by the end of 2003. On value the pre- deal assumptions had been confirmed. The hydrocarbon resource base was very solid with a total resource estimate at 31 December 2003 of 2.2 bln boe. Production was lower in the short-term but growth was at 5% per annum. NIBIAT was in line with estimates carried out at the end of 2002 noting the extreme sensitivity to the oil price. Cumulative cash flow from operations at the end of 2003 was good and it was commented that Shell had benefited from additional cash because of the oil price. A review then took place of the options and upsides noting that they were maturing but were maintained at pre-deal levels. Particular attention was paid to the UK options and upsides which were being matured to base value, to the progress on Phase 1 of the Clair Field and the Pierce WI upside. It was explained that with regard to the maturation of options and upsides in value in Italy, the total value potential exceeded the pre-deal figure. Key external messages with regard to the Enterprise acquisition were that integration was complete and synergies were on course to deliver $375 mln by Q1/2004. Overall value delivery was ahead of pre-deal estimates and over $2.1 bln in cash from operations had been generated since the purchase. The portfolio had now been thoroughly evaluated and was a good fit but had been updated through the divestments of KMOC and North Sea assets. On the projects the Bijupira-Salema was currently producing 50 kboe/d in Brazil. The Pierce water injection projection was in execution phase for start up in late 2004 and Clair Phase 1 was on schedule. It was important to note that these good results were not just because of a high oil price. This acquisition provided Shell with benefit on the upside. It was confirmed that for the announcement on 5 February it would be stated that the Enterprise deal was complete and had been absorbed into Shell's normal business. It was further ahead in delivery of synergies than had previously been thought possible at the time of acquisition and even though there had been disappointment in respect of the planning permission on the Corrib Field, Shell was still was positive regarding this project.

Copy of Minute to: W van de Vijver.

12. OP ACQUISITIONS OVERVIEW

Leslie van de Walle, Lynn Elsenhans, David Pirret and Ron Blakely entered the meeting.

Leslie van de Walle gave an overview of the position with regard to the DEA acquisition. He explained that the key approval assumptions had all been exceeded with the exception of exchange rate issues. For refinery and retail margins it was estimated that there would be upsides in 2004. In terms of market share Shell now had 20% of the fourth biggest retail market in the world with BP having 22%. Volume was growing and it was anticipated that the market share would be 22% in 2005-2006 and Mr van de Walle added that V-Power was contributing considerably to this increase in volume. It was noted that this was a successful acquisition which had been seamlessly integrated into Shell. Of particular note was the cohesion and focus of the German team which was outstanding. It was anticipated that ROACE would be 22% in 2003 but somewhat less in 2004 because of a pensions issue. The VIR was currently at 0.7 although it was hoped that when the full PIR was carried out it would be found to be closer to 1.0. It was hoped that the NPV would be $1.2bln. In terms of the external message DEA was a successful acquisition for Shell with all promises exceeded. It provided a strong growth platform for Shell to be a large player in Europe's biggest market. It was confirmed that the integration of this company was fully complete

Lynn Elsenhans gave a presentation on the Texaco acquisition and explained that key actions following the acquisition of the Texaco assets had been completed. The premise for synergies was $400 mln and to date $605 mln had been delivered. Progress with rebranding Texaco sites to Shell was on track and the US was aligned with the global OP structure. However, there were a number of areas where progress had not been as good including refinery reliability where there had been 7.5% unplanned downtime in the year-to-date, 2003 with a plan of 4% in 2004. In addition transportation revenue and earnings growth was lower as was retail volume. There was an increase in employee costs in particular pension funding and post retirement benefits. Looking at the 2003 figure for SOPUS ROACE normalised to reference conditions, the 2003 approval figure was 12.5% but the latest estimate for 2003 was much lower taking account of the Project Mission write down of $180 mln. The figure for 2004 Plan was 10.2% ROACE. Lynn Elsenhans explained that this figure of 10.2% was challenging but hopefully still achievable. The way forward was to continue retail momentum and to accelerate refining reliability initiatives while continuing to aggressively address costs. The transportation portfolio needed to be reviewed together with the structural cost issues. A continued reduction in costs together with delivery of the divestment programme commitment was important. Finally the talent base in the organisation required refreshment. Suggested external messages were that the US continued to make progress to reach the 12% ROACE target. Aggressive actions were being pursued with additional cost reductions, work force reductions, base oil plant closures (which were now completed) and the closure of Bakersfield Refinery announced in the Q4 2003. The overall view was that Shell was confident that the US would deliver improvements. The Committee commented that it was important to make clear the contrast between the Plan and the shortfall and to list the achievements and the actions taken. It should also be stated that 2003 was the best year ever for Shell in the United States (before the Bakersfield Refinery charge). A further point of note was that the initial cash outlay for the Texaco assets would be recovered in five years. The main message was that this acquisition gave Shell a strategic position in the US market. A lot of work had been done since the acquisition and some difficult actions taken including, for example, the announcement of the closure of the Bakersfield Refinery. There were problems which had to be acknowledged but further aggressive actions were planned.

David Pirret gave an overview of the position following the acquisition of Pennzoil Quaker State. The acquisition synergies were on track with a plan for 2004 of US $187 million. Also on track were workforce reductions , earnings targets and cash flow. Areas with ongoing issues included the US Lubes business in respect of incremental earnings and ROACE. Comments made to analysts on 26 March 2002 had been that there would be earnings of $250 million for US Lubes and the plan for 2004 was now US$217 million. At the same time the statement relating to US Lubes ROACE was that it would be 9-

10% in 2004 whereas the Plan for 2004 was 7.1% (9.7% when normalised for base oil reference conditions and allocated costs/capital employed). Looking at the US Lubes 2004 NIBIAT it was explained that the March 2002 view was $262 mln with a $265 million in the Plan for 2004.

David Pirret went on to explain that it was now clear that this business could add real value to the Group outside the US and it was planned that some of the cost base could be taken out when the business became a Global one. It was acknowledged that this deal had been finalised fairly recently but that on the 5 February 2004 it would be stated that the acquisition of PQS had provided Shell with a strategic position in the US for a global lubricants organisation. There had been delivery of synergies, the integration of the work force and the Excel sale had been achieved. Also worth mentioning was the proposed Jiffy Lubes deal in China.

The Committee commented that it was important that the learning from the acquisitions described was utilised. It was vital that for future divestments there was a designated centralised group with appropriate internal and external expertise.

Copy of Minute to: R Routs.

13. MANDATE TO NEGOTIATE QATAR LNG PROJECT

Malcolm Brinded gave an update on the position on the Qatar LNG Project. The Committee commented that the proposed VIR target of 0.25 for an integrated project was relatively low but Malcolm Brinded explained that it was being proposed as acceptable because of the strategic importance of Qatar LNG and the significant upsides at higher gas and oil prices (at Henry Hub US $4/MMBtu an integrated VIR of 0.40 was achieved).

Copy of Minute to: none.

14. HAZIRA

Malcolm Brinded reported that Shell had "shaken hands" with Total on the proposed deal which it was hoped would close by 31 December 2003.

Copy of Minute to: none.

15. BAJA

Malcolm Brinded reported that negotiations with Sempra on the 50/50 deal had collapsed but later reopened. The outstanding issue concerned the negotiation of the Capacity Agreement which was needed by Shell for its fall back position. Efforts were continuing to try to resolve the issue. On the potential 100% deal, Malcolm Brinded reported that he was concerned that there could be other companies interested and that Shell could not afford to waste much time if it were interested in pursuing this deal.

Copy of Minute to: none.

16. BENGAL

Walter van de Vijver reported that he had spoken to Eugene Shvidler. The focus for Sibneft was currently the issue of the possible demerger from Yukos and that there would be a meeting held in this regard on 16 December. Sibneft was still content to complete the deal with Shell but it was clear that it was necessary for there to be joint announcement which was not possible at the present time.

Copy of Minute to: none.

17. OMAN - FATALITY

Walter van de Vijver reported, with regret, the death of a third party near Marmul Airstrip on 27 November 2003. The third party vehicle was overtaking a second vehicle and collided with a PDO contractor truck. The third party vehicle had 6 people on board, 2 died at the scene and 4 were injured (one of whom being critical). The matter was being investigated.

Copy of Minute to: W van de Vijver.

18. NIGERIA - INCIDENT

Walter van de Vijver reported that on 26 November 2003 at the Cawthorne Channel Houseboat, a Naval Officer who was attempting to cross a pontoon slipped and fell overboard. The Naval Officer was still missing.

Copy of Minute to: W van de Vijver.

19. PAKISTAN - FATALITIES

Rob Routs reported, with regret, the death of two staff at a Shell retail dealer owned and operated site and Bahria, Pakistan. The fatalities occurred following an explosion on 3 December 2003. The incident was being investigated.

Copy of Minute to: R Routs.

20. DOW LITIGATION

Jeroen van der Veer reported that there had been an approach to settle in the Dow litigation. A legal team was working on the matter with input from the business and a review of the case should be finalised by the end of 2003.

Copy of Minute to: none.

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21. 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
2003 Group and Business Appraisal
Divestment of Shell Share in Rosetta Concession (Project Macallan)
Geelong HDS Cost Overrun – Request for Additional Funds
Mandate to Negotiate: Qatar LNG Project

ITEMS FOR INFORMATION

Brunei Shell Petroleum (BSP) – 2003 License Extension
EP: Divestment of Thai Shell E&P (TSEP)
Project "Velvet"
Relationships with Fenceline Communities
Status EP-Divestments 2004

From:	Watts, Philip B SI-MGDPW
To:	Loader, Adrian A SI-PX; Hess, Beat W SI-LG; Frasier, Curtis R SI-LSEP; Darley, John J SIEP-EPT; Boynton, Judith G SI-MGDJB; Morrison, Tim TDR SI-FC; Jacobi, Mary Jo SI-PXX
CC:	Van der Veer, Jeroen J SI-MGDJV; Van De Vijver, Walter SI-MGDWV; Brinded, Malcolm A SI-MGDMB; Boynton, Judith G SI-MGDJB; Routs, Rob J SI-MGDRR
BCC:	
Sent Date:	2004-02-02 09:42:44.000
Received Date:	2004-02-02 09:42:45.000
Subject:	FW: Rockford Co-ordination Team
Attachments:	Project team Org Chart v71.ppt

Our first meeting is at 1530 hrs. today (24th Floor Boardroom). I will kick off this first one and Adrian will chair thereafter. Attendance of yourself or alternate is essential - actually, obligatory!

We will keep it to within 30 - 45 minutes.

Thanks.

Phil

-----Original Message-----
From: Watts, Philip B SI-MGDPW
Sent: 29 January 2004 16:45
To: Van der Veer, Jeroen J SI-MGDJV; Van De Vijver, Walter SI-MGDWV; Brinded, Malcolm A SI-MGDMB; Boynton, Judith G SI-MGDJB; Routs, Rob J SI-MGDRR
Cc: Loader, Adrian A SI-PX
Subject: Rockford Co-ordination Team
Sensitivity: Confidential

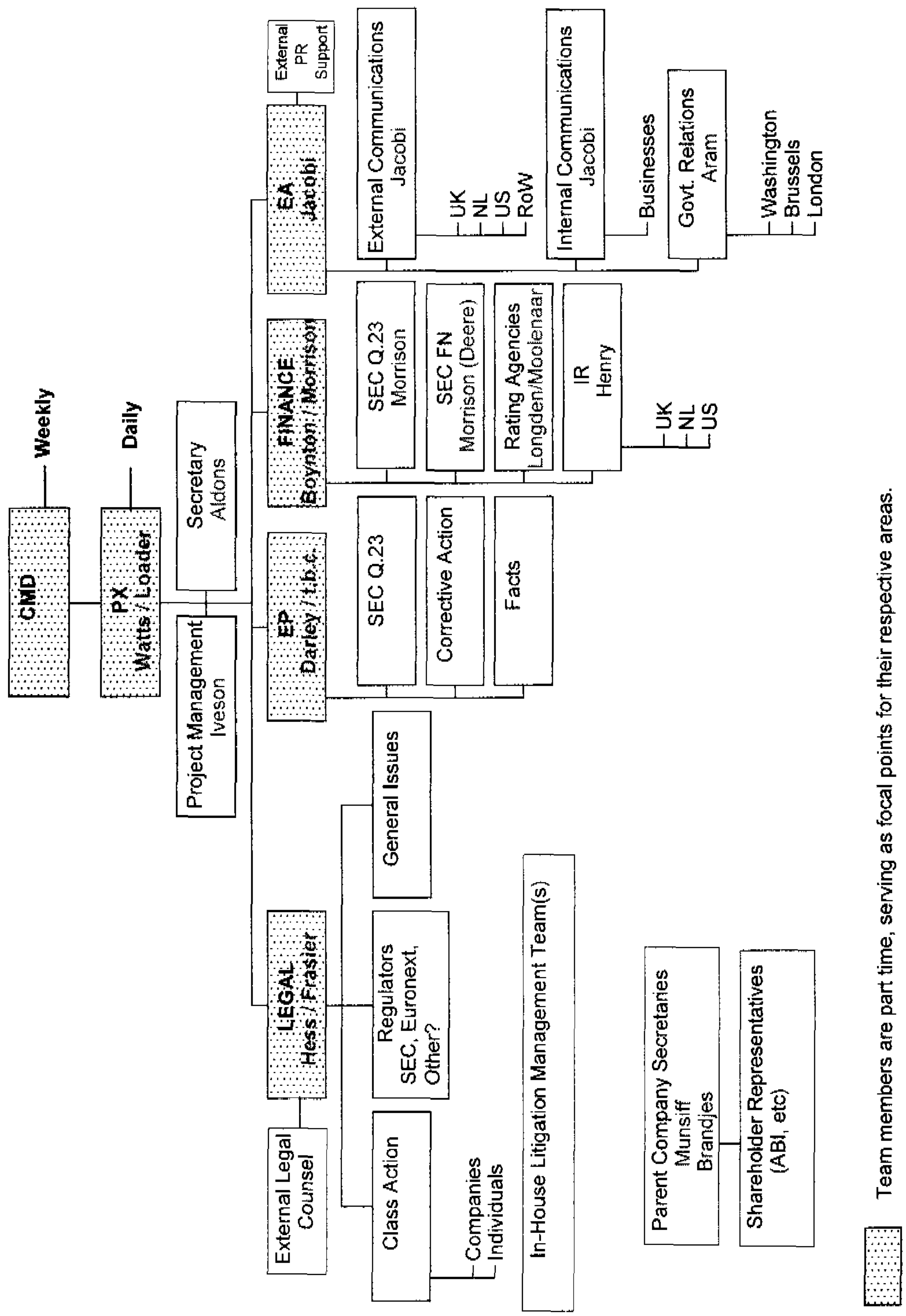
Further to Adrian's message of 28-1, please find attached note on which I would appreciate your urgent comments

The first meeting of the team will be on Monday next week at 15:30 hrs.

Phil

Sir Philip 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

EXHIBIT
Van der Vijver
42
2/2/07


CMD
Weekly
PX
Watts / Loader
Daily
Secretary
Aldons
Project Management
Iveson
LEGAL
Hess / Frasier
External Legal
Counsel
Class Action
Companies
Individuals
Regulators
SEC, Euronext,
Other?
General Issues
EP
Darley / t.b.c.
SEC Q.23
Corrective Action
Facts
FINANCE
Boynton / Morrison
SEC Q.23
Morrison
SEC FN
Morrison (Deere)
Rating Agencies
Longden/Moolenaar
IR
Henry
UK
NL
US
EA
Jacobi
External
PR
Support
External Communications
Jacobi
UK
NL
US
RoW
Internal Communications
Jacobi
Businesses
Govt. Relations
Aram
Washington
Brussels
London
In-House Litigation Management Team(s)
Parent Company Secretaries
Munsiff
Brandjes
Shareholder Representatives
(ABI, etc)
Team members are part time, serving as focal points for their respective areas.

Unknown

From: Van De Vijver, Walter SI-MGDWV
Sent: 02 February 2004 13:19
To: Watts, Philip B SI-MGDPW
Cc: Loader, Adrian A SI-PX; Van der Veer, Jeroen J SI-MGDJV; Brinded, Malcolm A SI-MGDMB; Boynton, Judith G SI-MGDJB; Routs, Rob J SI-MGDRR; Hess, Beat W SI-LG
Subject: RE: Rockford Co-ordination Team

Sensitivity: Confidential

Phil,

I note that no change has been made based on my comments,at least had expected a discussion at CMD before this was issued.
In order to "contain" the overall senior management on this within EP,Curtis will act as alternate to John if he is somehow unable to attend.
John is getting dedicated resources underneath him to manage this activity.

Regards,
Walter

-----Original Message-----
From: Watts, Philip B SI-MGDPW
Sent: 02 February 2004 10:45
To: Van De Vijver, Walter SI-MGDWV
Cc: Loader, Adrian A SI-PX; Van der Veer, Jeroen J SI-MGDJV; Brinded, Malcolm A SI-MGDMB; Boynton, Judith G SI-MGDJB; Routs, Rob J SI-MGDRR; Hess, Beat W SI-LG
Subject: RE: Rockford Co-ordination Team
Sensitivity: Confidential

Walter,
Thanks. Who is the alternate to John Darley?

You will see my message this morning about kicking off the first meeting this afternoon.

Phil

-----Original Message-----
From: Van De Vijver, Walter SI-MGDWV
Sent: 30 January 2004 05:39
To: Watts, Philip B SI-MGDPW; Van der Veer, Jeroen J SI-MGDJV; Brinded, Malcolm A SI-MGDMB; Boynton, Judith G SI-MGDJB; Routs, Rob J SI-MGDRR
Cc: Loader, Adrian A SI-PX; Hess, Beat W SI-LG
Subject: RE: Rockford Co-ordination Team
Sensitivity: Confidential

Phil,

I thought the idea was to delegate day-to-day management to a group of very senior and capable leaders in our organisation below CMD and hence was very supportive of an overall coordination effort by Adrian Loader with weekly updates to the CMD.
Obviously the leaders in the various areas would consult with the relevant CMD member as considered relevant at any time.
The proposal put forward still has several CMD members on the actual team and I would advise against that to ensure adequate delegation,balance and ownership.
John Darley will continue in the lead EP role.At the EP Exec today we will consider additional support to him and a possible alternate similar to the Beat/Curtis construct.
It may also be appropriate to check the final construct and modus operandi of the Rockford coordination team with our new external defense counsel.

Thanks,
Walter

EXHIBIT
Van der Vijver 40
2/2/07

FOIA Confidential
Treatment Requested

BRINDED 0119

V00370504

-----Original Message-----
From: Watts, Philip B SI-MGDPW
Sent: 29 January 2004 17:45
To: Van der Veer, Jeroen J SI-MGDJV; Van De Vijver, Walter SI-MGDWV; Brinded, Malcolm A SI-MGDMB; Boynton, Judith G SI-MGDJB; Routs, Rob J SI-MGDRR
Cc: Loader, Adrian A SI-PX
Subject: Rockford Co-ordination Team
Sensitivity: Confidential

Further to Adrian's message of 28-1, please find attached note on which I would appreciate your urgent comments

The first meeting of the team will be on Monday next week at 15:30 hrs.

<< File: Project team Org Chart v7.ppt (Compressed) >>

Phil

Sir Philip 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

BRINDED 0120

Van De Vijver, Walter SI-MGDWV

From: Van De Vijver, Walter SI-MGDWV
Sent: 28 December 2003 21:48
To: Coopman, Frank F SIEP-EPF; Darley, John J SIEP-EPT
Subject: RE: Rockford

Frank/John,

Useful document,thanks.

A few comments that need to be incorporated:

97 or later

- are we sure that SEC has never challenged anything on our reserves until 2002?
- shouldn't we add that we had the uncomfortable PD/PUD ratio in SPDC and the automatic linkage between expectation and proved updates through the probabilistic method until 98/99.
- little text on what has happened since 2001 on internal strengthening of technical discipline and T&OE focused initiatives plus the major drive to understand the portfolio in Oman and Nigeria.
- consistency with business plan not just for commitment but also to close the loop between business plan longterm production outlook and ARPR.
- SEC first issued guidance for review on web in 2000 (not just in 3/2001)

We still need to come to a landing on our 10/03 Shell guidelines:

- Given the fact that we will have to go to stricter SEC compliance (ie keeping the high ground when dealing with the SEC without having to be become defensive or perceived "smart ass" as we know better),what is the remaining logic to have our own guidelines rather than to clarify the SEC rules to our staff?! I understand this is a very sensitive issue but we need to come clean on this one.

Regards,
Walter

-----Original Message-----
From: Coopman, Frank F SIEP-EPF
Sent: 28 December 2003 12:33
To: Darley, John J SIEP-EPT; Van De Vijver, Walter SI-MGDWV
Subject: RE: Rockford

Walter,John,

I re-edited the "Full Story line" .which is attached.

It is still a draft with room for improvement (too long?).
We may need a shorter version for the GAC (what has changed since Oktober?)
Control learning will be done this evening.
I am available later this afternoon (after 16.00 hrs) if you wish to meet.
Monday is reserved for preparation for Tuesday.

<< File: Storyline-Full.ppt (Compressed) >>

-----Original Message-----
From: Darley, John J SIEP-EPT
Sent: 27 December 2003 19:38
To: Van De Vijver, Walter SI-MGDWV; Coopman, Frank F SIEP-EPF
Subject: RE: Rockford

Walter,

I have the first draft of the data sheets - will review this evening / tomorrow am

Will draft the CMD notes - ditto.

EXHIBIT
Van der Vijver
44
2/2/07

Will let you have a package by mid-day Sunday , and am available for further work Sunday evening / Monday am , in order to submit to Beat by th noon Monday deadline

give me a call if necessary

john

-----Original Message-----
From: Van De Vijver, Walter SI-MGDWV
Sent: 27 December 2003 15:23
To: Darley, John J SIEP-EPT; Coopman, Frank F SIEP-EPF
Subject: Rockford
Importance: High

John/Frank,

When can I expect to receive the following for review:

- Control learning (work by Frank/Anton)
- Individual data sheets (in Tim's format) on the various exposure areas
- Draft CMD notes (summary section/attachment)

Hope you had some time for relaxation!

Regards,
Walter

Walter van de Vijver
EP CEO and Group Managing Director
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HAG00205770

- what to do with 10/03 Shell guidelines?

Summary

. SEC interpretation and clarification of FASB rules (2000-2001) belatedly and gradually implemented in Group guidelines

- exceptions : PSC's , LKH , one well offset rule and Gorgon

• Aggressive drive for additional proved reserves (1997-2000) under originally 'vague' Group guidelines has led to 'exposed' undeveloped volumes under current guidelines and SEC rules, requiring de-booking

detail

• Lapse of discipline in the application of PE basic skill sets in the OU's when filing proved reserves returns.

Full Storyline (1)

- Since 1973 the Group has applied its own internal guidelines for 'proven' (and expectation) reserves estimation
  - Based initially on probabilistic procedures for all fields
  - Different from petroleum industry which used 'deterministic' methods
  - In 1998 amended to deterministic estimation for mature fields

- In 1979 (SEC's ASR-257) the Group declared that its internal 'proven' estimates were equivalent to SEC 'proved' reserves
  - SEC/FASB 'proved' reserves definitions were sufficiently flexible to make this proposition largely valid
  - Exceptions (e.g. 'proved area', PSCs) recognised but not seen as material
  - Nature of Group's guidelines was known in industry (via SPE)
  - ? Group 'proved' reserves were never challenged by SEC until 2002/3

- Loss of proved reserves discipline and audit trails in SPDC (1998-2003) and PDO (2000-2003) now require major de-bookings

Full Storyline (2)

- In 1998 the Group revised their Reserves Guidelines for mature fields
  - Proved developed reserves should be close or equal to expectation
  - Proved undeveloped reserves should be based on deterministic (not probabilistic) evaluations
  - Net result is a significant increase in Group proved developed reserves (+900 MMboe over 1998-99)
  - Proved undeveloped reserves remained largely unchanged
- Guidelines Changes were part of a significant drive towards increasing proved reserves during1997-2000
  - Proved reserves targets in score cards resulted in e.g. aggressive attempts at booking additional reserves (e.g. Gisco, Angola, SNEPCO)
  - Pressure on staff to obtain a proved reserves replacement ratio (RRR) of 100% (particularly in 2000)

Full Storyline (3)

- SPDC:
  - Additional proved reserves booked by SPDC (+1000 MMbl in 1998-99) relied on aggressive assumption of doubling of production (to 2 MMb/d) before licence expiry in 2019
  - Proved liquids reserves were 'frozen', not de-booked, when aspired production increases did not materialise
  - This 'freezing' detached the SPDC corporate proved reserves from individual field proved reserves, thereby removing the audit trail
- PDO:
  - Aggressive additional reserves booking in 2000, reflecting the then prevailing view of a continued plateau production at 850 Mb/d (in hindsight too optimistic)
  - Proved liquids reserves were 'frozen', not de-booked, when severe production decline set in during 2001
  - As in SPDC, this 'freezing' detached the PDO corporate proved reserves from individual field proved reserves, thereby removing the audit trai.

Full Storyline (3b)

- SOC applies SEC rules consistently. WOUSA more relaxed.
- SPDC and PDO Oman hunting for Reserve Addition Bonuses in the Nineties. Increase in expectation reserves led to immediate increase in proved reserves (probabilistic method)
- Focus on Expectation rather than Proved reserves.
- Lack of quality technical work.
- Optimistic production forecasts.
- Top down pressure to book reserves.
- "Risky" FRD and 98 guidelines.
- Compliance audits only once every four years.
- Weakened oil governance and asset-based organisation in OU's

Full Storyline (4)

first wid 2000 for review

- SEC issued 'Guidance' in 2001, clarifying their (re-)interpretation of existing SEC/FASB rules
  - No recognition of significant technology progress since 1979 (e.g. wireline testing, seismic, simulation)
  - Significantly stricter interpretation of rules in several areas:
    - Wireline formation tests not seen as sufficient proof of producibility
    - Requires absolute proof of producibility in large sparsely appraised fields ('proven area', 'continuity of production')
    - Requires project 'commitment' (DOC, AFE, FID, etc) before proved undeveloped reserves can be booked

- This Guidance was followed by correspondence between SEC and Shell during 2002-2003 expressing even stricter views:
  - 'No proved reserves below LKH under any circumstances' (arguably not in agreement with 2001 Guidance)

Full Storyline (5)

- Group reserves guidelines were updated only gradually after 2001
  - Severe discontinuity of staff in Reserves Coordination during 2001-2002, making 2001 a 'lost' year
  - Tighter guidelines issued in early 2003
  - "Project commitment" now interpreted as FDP/VAR3/FID for small/medium/large project

- Full magnitude of exposure of Group proved reserves to stricter SEC interpretations did not become apparent until November 2003
  - Some exposures identified earlier and flagged in 'Exposure Register' (Excom informed)
  - De-booking held pending (also to avoid reducing RRR!)
  - Reserves audits and follow-up work in SPDC, PDO in late 2003 showed significant exposure vav maturity of future development projects (lack of progress towards FDP/VAR3/FID)
  - Yearend 2002 position in line with SEC rules based on the information available at that time.
  - Total of exposed Group proved reserves volumes now seen as untenable

SEC Milestones (1)

1978	FASB issue definitions of 'Proved Reserves' (FAS25); SEC issue 'Regulation S-X' (identical to FASB definitions) and ASR-257 - disclosure of 'proved' reserves SEC/FASB definitions address subsurface uncertainties only
1980-1999	No challenge of Group proved reserves submissions by SEC SEC focus mostly on Initial Public Offerings
1999	SEC take interest in proved reserves matters Hire two petroleum engineers Enquiry letter to Shell – replied through face-to-face discussion
2000	First of annual SPEE Reserves Evaluation Meetings Contacts and challenges between SEC and Industry staff

SEC Milestones (2)

2001	SEC issue 'Guidance' on 'Regulation S-X' proved reserves definitions First published in 2000, for comments by industry Perceptible 'tightening' of SEC interpretation of FASB definitions First-time insistence on <u>'commitment' to develop</u> (e.g. FID) before undeveloped reserves can be booked ('Regulation S-X' only mentions 'reasonable certainty' of reserves)
2002	Start of series of letters between SEC and Group Ultimately ending in statement that SEC do not accept proved reserves below lowest hydrocarbons seen in wells ('LKH')
2002	Similar correspondence between SEC and other industry majors on varying topics – details not known

Group Reserves Milestones (1)

1973	Group introduce probabilistic reserves estimation Addresses <u>subsurface</u> uncertainties only (i.e. no project uncertainties) 'Proven' = 85% confidence level ('P85')
1979	Group adopt ASR-257 'P85' = 'Proved' ('Reasonably certain, within context of SEC requirements') This view endured unchallenged, either internally or by SEC;
1993	Group reserves guidelines require 'project' definition of undeveloped reserves 'Projects' to be based on identified activities, with robust economics 'Projects' can be notional or analogues, with timing not specified (or even certain)

Group Reserves Milestones (2)

1998	Group proved reserves made closer / equal to expectation reserves
	Group reserves in mature fields seen to be below those carried by competitors (e.g. Exxon)
2000-2003	Group guidelines gradually 'tightened' wrt project maturity needed for (proved) reserves booking: No restrictions before 2000 Now requires FID/VAR3/FDP for Large/Medium/Small projects In response to SEC guidance 2001 Also in response to over-aggressive booking attempts by OUs
2003	Group guidelines now seen as SEC compliant, except for: LKH; PSC price assumptions; Sparsely appraised fields (e.g. Kashagan); Improved recovery in frontier areas (e.g. Sakhalin), offset by: Gas Fuel & Flare; PSC royalty & Tax; (too rigorous) VAR3 requirement in Group guidelines (?)

SEC Rules – Considerations

- Present SEC interpretation is seen as unduly conservative:
  - Ignores wide-spread industry practices (e.g. pressure information below LKH)
  - Ignores advances in industry technology (seismic, simulation, laboratory techniques)
    - Does not accept pressure/seismic evidence in LKH situations
    - Seems to prefer antiquated recovery factor correlations over modern detailed simulation models
  - Restrains proved reserves to levels that are considerably below those needed / used for investment decisions
  - Will require the industry to spend more pre-development funds:
    - Unnecessary appraisal wells (where e.g. seismic can provide sufficient information)
    - Pilot water injection in frontier areas (where laboratory tests can yield most or all of the information)
  - Cannot be seen as in the best interest of the investment public
- Insistence on project commitment will affect long-term proved reserves in some Group areas (e.g. Nigeria)

Group Proved Reserves vs SEC

- Original Group probabilistic reserves estimates, compared with SEC 'Regulation S-X' tended to be:
  - Less conservative (and more realistic!) in immature / unappraised / undeveloped fields and reservoirs,
  - More conservative (but less realistic) in mature fields / reservoirs with considerable cumulative production

plus!

- The 1998 Group reserves changes addressed and corrected the second of these imbalances, but not the first!

- The perceived non-compliance with SEC's interpretation of 'Regulation S-X' relates almost exclusively to the first of these imbalances (undeveloped fields and reservoirs)
  - Immaturities / uncertainties in projects are now a major hurdle, not captured in previous reserves estimates

Proved Reserves - Group vs Industry

- Awareness / concern over SEC 'Regulation S-X' has traditionally been low in the Group subsurface community outside USA

- SOC/SEPCo have traditionally followed their own guidelines
  - Adhering to American industry practice, based on SEC/FASB definitions
  - Strict annual audit procedures since major de-booking in 1986
  - Traditional insistence on plan maturity (FDP for brownfield, FID for frontier projects) now seen as compliant with SEC requirement of 'commitment'

- US Consultant firms (GCA, D&M, M&L, Ryder-Scott, etc) tend to focus on subsurface uncertainties only (c.f. Sakhalin)
  - Do not verify status of project maturity / commitment

Group Reserves Guidelines

- Group Reserves Guidelines were the only proved reserves standard disseminated in the Group

- Group Guidelines have always been based on the Group's interpretation of 'Regulation S-X'
  - Some exceptions known but considered immaterial:
    - PSC price assumptions
    - Large sparsely appraised fields (hardly any in portfolio before Russian fields were added)
    - Improved recovery in frontier areas (Group VOI approach considered overriding)
  - Discrepancies recognised with SEC 2001 Guidance
    - Addressed through adaptation of Guidelines in 2002, 2003

- Reserves audits were carried out with reference to Group guidelines

Group Reserves Audits

- **Traditional Reserves Audit duration and frequency (2-5 days, once per 4 years) are now seen as too low:**
  - Audits addressed in first instance reserves estimation / collation procedures

- **Basic technical flaws at OU level;**
  - Reference to detail by way of example (depending on size and complexity of company)
  - Consistency with Business Plan not really verified (now important for showing 'commitment') and consistency check between reserves & longterm forecasts
  - Major swings in OU procedures can and do happen within a short time span (usually related to strength of OU reserves coordinator)

- **Our T&OE drive started in qtr 1 2002 is "refreshing" the overall competence and compliance technical integrity of reserves maturation processes.**

- Own campaign support effort 2002/2003
- New operational model strengthens technical function

CMD 15 JANUARY 2002

IR PLAN FOR 2002

EXHIBIT
VanderVijver
45
2/2/07

Confidential

Note for Information

IR Plan for 2002

A comprehensive IR Plan would include:

1. Key Messages
2. Target Audiences
3. A well thought through delivery mechanism, and
4. Linkage to and reinforcement by other corporate communications efforts both internally and externally

IR has developed a proposal for the first three elements of a 2002 Plan based on the December Group strategy reviews and feedback from other IR events throughout 2001. Input was also received from an US investor perception study conducted in Q3 2001 and advisors, Fergus Macleod and Finsbury.

A summary of the proposed key messages and programme contents is attached for CMD review and input. It is intended that the examples illustrating key messages be updated quarterly, or more frequently based on significant events. The programme timetable would also be reviewed and updated quarterly to incorporate decisions on discretionary events.

If the general direction is supported, IR will work with PX to integrate the messages and approach with other internal and external communications. A complete Group Reputation package is scheduled for review by CMD in February.

Phil Watts
9 January 2002

Key IR messages: beginning 2002

Context re investor concerns…Your stock declined 19.1% in 2001 (US) and was the worst performer in the energy sector – what are you going to do differently in 2002? Why should I own Shell vs others?

Shell strategic direction – value growth through robust profitability and competitive edge

Messages	Examples
Theme – continuing to deliver	
Tough roadmap goals achieved	Cost savings $5.0 bln, 14% ROACE at $14/bbl
Embedded capital discipline, portfolio management, cost leadership	All capital projects cost of capital at $10 Brent…40% of Chemicals disposed… Tejas gas pipelines sold… EP unit opex and UFDC leaders in external surveys
Returns discipline maintained	EP -- 18% at reference conditions for 2002/03…established businesses capable of delivering 15% at reference conditions…Group in range 13-15%, towards top of range in next 2 years
Balance sheet and cash generation resilient	Cash and unused borrowing capacity over $20 bln…desired gearing between 20-30%
Dividends and buyback policies maintained	>$5,0 bln dividends per year, dividends in line with inflation…$4 bln in share buybacks in 2001…50% more cash to shareholders 2001-2005 compared with 2000
Theme -- building on firm foundations	
Clear strategic direction	Growth - but only at stated return rates…long-term projects limited to 10-20% of capital investment… portfolio segmentation completed… highlighted $7 bln for special attention… application of competitive edge (customer focus, technology, brand, reach, reputation, people, sustainable development) to create value
Shift portfolio to EP and GP	Move to > than 50% of the portfolio
Investing about $12 bln through the cycle	$7.5 in EP…$2.8 in OP…$0.8 in GP…$0.8 in Chemicals…$0.3 in new businesses… growth in capital employed around 5% p.a.
3% hydrocarbon growth	Have achieved 4% 1998 to 2001… exploration success in 2001 added 1.5 bln bbls resources… Focused on deepwater, Nigeria and major resource holders
Oil Products earnings growth	US OP to be a $1 billion business… retail earnings growth 4% p.a. …30 US cents per barrel across global refining network
6% LNG contracted sales growth	3 expansions currently underway in Nigeria, Australia and Malaysia…green field site in Sakhalin… securing access at Cove Point and Elba Island… import terminals at Altamira in Mexico, Hazira in India…short term volumes secured from Australia and Oman… four new LNG ships between 2003-05
Investing in new income streams	From new businesses like Shell Capital, Internet Works, Renewables – up to $300m impact (loss) p.a. on P&L… also potentially from Global solutions, GTL, EP tech ventures etc.
Theme -- committed to targets	
Group ROACE at 13-15% at reference conditions	EP – 18% 2002-2003…OP – return to 15% by 2004…Chemical – 15% at mid-cycle
Cost improvements totalling around $500 mln p.a.	Unit cost to reduce 3% p.a. for next 2 years in main businesses, progress reported twice per year… $400 mln from US OP by 2004…Euro 250m from Basell by 2003…$150m from DEA
$7 bln of assets identified for priority attention	Forestry for sale…Basell improvements being implemented…Tejas pipelines sold to Kinder Morgan

…in an uncertain environment we are committed to deliver good returns, and are well placed to take advantage of opportunities that may arise…

IR Programme 2002

9 January 2002

This proposal is based on feedback from various IR events during 2001 and the results of an 'IR perception study' conducted amongst US investors during Q3. The developing needs of the various disclosure regimes are also considered. It contains several proposed changes to the programme of recent years, and is presented for CMD input.

Each of the various elements of the communications strategy is considered separately. The underlying shift in emphasis is from major set piece presentations to face to face time direct with investors. This reflects market feedback and two current trends

- Increasing specialisation and knowledge of the major buyside analysts, and the move in Europe towards an equity culture, both create potential advantage from direct to investor communications
- Perceived 'bang for the buck' from presentations to sell side analysts is limited if the news is not new. However, sell side influence over buy side remains strong in the UK.

It should be recognised that the communications programme is not independent of events as the year progresses, and several elements of the programme need to be responsive to this. In particular, specific transactions, where material to the Group, will need to be well positioned and coordinated with the rest of the programme.

All events will be scheduled, coordinated and attended by IR staff using resources listed in Attachment 1. The overall objective of the programme is to ensure that the parent companies' share prices fully reflect the intrinsic value of the Group.

Group & Business Strategy Presentations

Objective: Regular update of strategy, targets, performance and key success factors in the business, emphasis on profitability, performance delivery, value creation, competitive position.

Recent practice: 2 business strategy presentations (in 2001 Q2 Chemicals / Renewables, Q3 EP) and one Group strategy presentation (December). Presentations broadcast to website and fund managers live on video, repeated in New York. Stock exchange and press releases made. All material, with the exception of the webcast, is made available on the website for an indefinite period.

2002 proposal

Reduce the number of set piece presentations to at most two a year, a business presentation and the Group strategy presentation. Each presentation given in two locations. The timing of the presentations will be flexible and dependent on when appropriate content is available. Video web cast only the Group presentation, with audiocast for business presentation. Businesses that are 'due' for exposure are OP and G&P, and if the news flow is sufficient we could safely combine. Timing could be June or September. Trigger(s) would be progress in delivering synergies from OP deals, or major transactions in either business (acquisitions, divestments, new Greenfield announcements). One alternative for OP would be to combine presentation with a US field trip for analysts. If there is no major news from either business, presentations would be deferred.

For the Group Strategy presentation the recommendation is to either move from December to November, as was the case until the late 1990s or to March/April after year end presentations. See Attachment 2 for options and rationale.

LON00940598

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Industry Conference representation

Objective: Representation in industry events, using the opportunity to get simple Group messages to a wide audience for relatively low effort. Also useful to give market exposure to senior managers below CMD, and to provide valued support to supportive brokers.

Recent Practice: Regular but ad hoc presentations on request from major brokers. Topics are usually relatively specialist rather than general Group themes. Audiences usually consist of fund managers or buy side analysts with a specific interest in the energy sector. Presenters vary from MD, through business CEOs to members of Excoms, depending on event profile and subject. Usually simultaneously offer a number of one on one meetings to conference delegates. In 2001 we presented Deutsche Bank (NY), NAPIA (Singapore), CSFB (London), UBS Warburg (Trinidad) and Euronext (Paris), but chose not to present at Merrill Lynch, Lehman and US retail conferences.

2002 proposal:

Continue as before, selective approach to maximise relevant exposure. Recommend maximum of 6 events, no more than 3 with MDs. Already received some requests and compiling a likely programme.

Quarterly reporting

Objective: Accurate representation and explanation of actual reported results against both prior performance and externally stated targets. Also a primary means of communicating information to sell side analysts for modelling and valuation purposes.

Recent Practice: Q1 and Q3, analyst telecons with web audiocast, hosted by FI, occasional appearances by CFO. Q2 and Q4 analyst presentations in London only, hosted by MD or CFO. Press conferences with presentations are held in London and The Hague in both Q2 and Q4.

2002 proposal

Q1, Q2, Q3 quarterly telecons hosted by FI with live audio webcast and synchronised slides where appropriate, occasional appearances by CFO as required. CFO to present live the full year results to analysts in February, London & web audiocast with synchronised slides only. Other set piece presentations only if there is a major news item or issue.

Continue with Q2, Q4 press conferences, material from IR but meetings owned by PX.

The external reporting dates will remain unchanged during 2002 although internal processes will be developed to allow accelerated reporting (by 1 week) from Q1 2003. BP is definitely intending to accelerate during 2002, so Shell will be the last of the UK / US majors to report, although still ahead of TFE and other Europeans.

No pro-active move to an additional quarterly Trading statement.

Direct interface meetings with fund managers

Objective: Two way interface with the decision makers in the investment community – to communicate the important elements of Group messages to them, and hear their questions and concerns about the Group's performance and prospects.

LON00940599

Recent Practice:

- Traditional roadshows by MDs or CFO (Celtic 2 days, Europe 5 days, US East & West coast 5 days) one on ones and lunch presentations. Covers maybe 50-60 meetings. UK, Ireland & US arranged by IR, Europe coverage based primarily on broker arranged meetings.
- Targeted one on ones to follow up presentations or events. MD / CFO plus IR representative. London & UK market covered through 1-2 days per main event. Top 15 US covered through IR tours or immediate presentation follow up. Netherlands 1 day follow up to events. Approx. 50 meetings, 10 days MD / CFO plus IR representative.
- Regular, albeit ad hoc, presentations by IR team to broker sales force or client groups, maybe 5 times / year, and 1-1 meetings with 'lesser' fund managers. Currently primarily a UK activity.
- Investor ad hoc visits to IR offices, at investor request.

Limited 'prospecting'.

A list of the largest US and UK shareholders and the last contact dates are provided in Attachments 3 and 4 for reference.

2002 proposal

More targeted & structured approach to investor base. Target:

- Top 5 investors in UK, US, EU, meet twice a year preferably at least once with Chairman or President RD. This covers an estimated 12-13% of total stock.
- Next 45 or so in each market, meet at least 80% of the active funds (i.e. not index trackers) once per year. MD or CFO. This covers a further estimated 25%+ of total stock, could be higher. NB In US and UK, these investors all hold over $100m of stock each.
- Next 50 or so in each market, meet or include at least 80% of active investors in IR tour presentations at least once a year. IR representatives to handle. A further 5-10% of stock.
- IR team to visit or present to at least 10 (potentially significant) fund managers per year in UK and US who currently either do not hold stock or are clearly underweight in the Group relative to the sector or index. Few significant funds hold no Group stock, but active research is required to identify best prospects.
- Based on specific third party market survey, identify best prospective shareholders in Continental Europe and target
- Use tours and sales force presentations to support this targeting. NB MD or CFO presentations to sales forces are well received and we offer to supportive brokers.

Above is aspirational and needs further work to target discretionary investors rather than those who are index trackers, and to identify genuine prospects.

This would require an estimated 40 days commitment to IR 'face to face' time from MDs and CFO, including some presentations to Groups. Suggested split would be 8-10 days for Chairman, President RD and CFO, 5 days for other MDs.

Note the development of disclosure rules particularly in the US needs continual review to ensure content and style of these meetings remains appropriate.

LON00940600

Sell side analyst contact communications

Recent Practice: Set piece presentations including quarterly reporting, telephone follow up of all news items, broker meetings / lunches

Regular informal contact with IR team, and occasional contact with senior management through brokers lunches or events. Brokers lunches are primarily targeted at the buyside guests and are arranged with supportive sell side brokers.

Care always required regarding disclosure rules.

2002 proposal

No changes.

Use of the IR website communications

Objective: To provide an easy to access and timely source of relevant information to Group shareholders and the interested investment community, and to follow best practice with the disclosure requirements of different stock exchanges, providing immediate dissemination of all share price sensitive information on the Group.

Recent Practice: Web site maintained in English aimed at institutional investors. Limited Dutch language site maintained, aimed primarily at retail investors. No share price tracking or other retail investor tools. Site is highly regarded by the target audience, although lacks some basic functionality e.g. email alerts and a working search function.

2002 proposal

Upgrade current site to cover some basic functionality including email alerts, including capture of information about users in order to provide an on line tailored communications service. Heavily dependent upon the new technical platform, which is the responsibility of Shell Internet Works.

No move to a retail investor focused site until further research carried out.

Internal communications

Objective: To ensure all staff have access to recent market information and total shareholder return, and that drivers of performance are communicated on a regular basis to various levels of management.

Recent Practice: Minimal effort. Ad hoc production of market information reports as requested by senior management. Provision of analysts' reports on request for training or internal purposes.

2002 proposal

Provide regularly updated data on share price, market drivers, TSR. The method of distribution will be electronic (possibly Livelink or Intranet site) with regularly updated data on share price, market drivers, TSR. Augment with occasional communications by IR staff at selected events .e.g. Finance Conference or training events.

Miscellaneous

Recent Practice:

Support for M&A transactions that are significant at a Group level, approximately $1 billion plus. Support can be material in terms of IR resources required.

Occasional (biennial) meetings with 'socially responsible' investment community. Note regular requests received to update individual funds or interest groups in this area.

Field trip for analysts to a major Shell location, once every two years

Annual meetings (x4) with Dutch retail investors.

2002 proposal

Hold an SRI investor seminar in early April to coincide with the release of the 2002 Shell report. Joint effort with PX.

No field trip budgeted for 2002 as 2001 included a planned trip. This was cancelled as a result of the September 11 incidents, and a mini trip may be considered for 2002 depending on events. Budget for a full trip is $150-200k.

Dutch retail meetings to continue as normal.

Emerging communication channels also include Financial TV (CNBC, Bloombergs TV etc.) and web based interviews as offered in the UK by amongst others Cantos. These should be considered on a cost benefit basis as the year progresses, based on feedback from investors.

Attachment 5 provides a timing overview for all proposed 2002 IR events. If the proposal is accepted in general terms, specific dates and meetings will be set where appropriate.

Attachment 1

IR Resources

London	The Hague	New York
Staff		
Head of Group IR	IR Manager – Europe	IR Manager – US
IR Manager UK & Ireland	IR Support position (JG3/4)	Management assistant
IR Support position (JG3/4)	Management assistant	
IR Support position (JG5/6)		
Management assistant		

In addition Fergus Macleod is retained on contract as an adviser for presentations and transaction communications. Fergus's services are available to other parts of the Group and if requested are expected to be recovered from the requesting department.

Budget

The budget for IR activities is not clearly delineated, as in the Netherlands is it is part of the Royal Dutch office budget and in the US it is part of the Shell Oil communications budget.

In the UK the sterling budget for 2002 is:

Staff	£0.7 million
Other	£1.0 million

$US equivalent is $2.4 million. Other covers the majority of the overall budget for presentations and communications, including maintenance of the website.

LON00940603

Attachment 2

Group strategy presentation

For the past 3 years this has been held in London and New York during the 3rd week of December, effectively the last working week before the Christmas break. This has led to both lower audiences and less follow up research coverage than is obtained by some competitors and makes immediate follow up from 1-1 meetings with media or investors more difficult. On return to work in January, from a news perspective, the story has gone cold.

The December timing has been driven by the desire to link the presentation to the Group Plan that is approved by Conference and is communicated to the senior management in the December GLM. In part this is due to concerns that if the Plan is known internally, it should – for disclosure reasons – be communicated externally as soon as possible.

In practice competitors spread their meetings through the year and do not stick to specific dates. Recently Exxon have presented strategy in April, BP in June or February and TFE and British Gas in September. Sometimes it is linked to quarterly reporting, sometimes not. Recently competitor dates have often been linked to timing of major mergers – e.g. ChevronTexaco in November.

It is recommended to change the presentation date in 2002 to the last week in November (giving timetable space for appropriate follow up communications) or alternatively to move it to the Spring. The pros and cons of these approaches are listed below. In any case, the meeting date will be determined and communicated as late as possible prior to the intended events to assure appropriate content.

Timing	Pros	Cons
Late November 2002	(Just) linked to Plan	Plan approval process would need to be considered. Acceleration could be difficult
	Between quarter ends, preparation possible	Limited possible comment on current year results
	Limited competition for news	
	Good timing for follow up	
February 2003 (link to full year reporting)	Merge with full year results	Difficult to separate year end and strategy messages, so both may be diluted.
	Additional preparation time from Plan	Gap from Plan could create disclosure issues
	Follow up would cover results and strategy	Preparation a challenge as many relevant staff involved in year end work
April 2003	Additional preparation time	Close to AGM (mid May) and Q1 reporting (early May)
	Clearly a separate exercise from Plan and actual results	Large time gap from Plan, disclosure issues
	Follow up easier, but would be duplicate with year end	Likely to be more competitors presenting in this period

LON00940604

It should be noted that the disclosure issue could be addressed with a separate pre Christmas press and or stock exchange release covering limited details of the Plan that are of interest to investors. Specifically this is the capital investment programme and any updates to existing targets or frameworks such as cost reporting or share buybacks. In the absence of material changes a simple release on investment levels would likely suffice.

Largest US Shareholders (RD)

Attachment 3

Rank	Institution	Visited By	Position	% O/S	Pos Chg (from prev filing)	% Change	Style	Equity Assets ($MM)	Turnover	City	Filing Date	% Portfolio	Value ($MM)
1	Barclays Global Investors	Do not visit -- index fund	50,889,400	2.39	-680,541	-1.09	Index	371,748	Mod	San Francisco	30/06/2001	0.80	2,965
2	State Street Global Advisors	David in February, Jeroen, Judy, Simon and David in September (not really an index fund)	32,134,762	1.51	71,850	0.22	Index	286,942	Low	Boston	30/09/2001	0.56	1,615
3	Capital Research & Management	David in January, David in February, Phil in mid year (London) Judy and Steve and David in August, Phil and Simon and David in September	28,857,000	1.36	110,000	0.38	Core Value	224,686	Mod	Los Angeles	30/06/2001	0.75	1,682
4	Fidelity Management & Research	David in February, Judy and Steve and David in August	28,614,075	1.35	-1,120,217	-3.77	GARP	497,957	Mod	Boston	30/06/2001	0.33	1,667
5	Putnam Investment Management, Inc	David in February, Jeroen, Judy, Simon and David in September	27,547,440	1.3	-146,585	-0.53	Core Growth	209,156	Mod	Boston	30/06/2001	0.77	1,605
6	Vanguard Group, Inc.	Do not visit -- index fund	27,252,224	1.28	-133,425	-0.49	Index	168,066	Low	Malvern	30/09/2001	0.81	1,369
7	Deutsche Asset Management Americas	Do not visit -- index fund	19,397,308	0.91	-243,618	-1.24	Index	134,500	Low	Piscataway	30/06/2001	0.84	1,130
8	Mellon Bank (Private Asset Management)	Do not visit -- index fund	12,382,121	0.58	995,744	8.75	Index	84,525	Low	Pittsburgh	30/09/2001	0.74	822
9	Lazard Asset Management Ltd.	Walter and Dominique and Simon and David in September, David, Bart and Jan in November	10,870,960	0.51	4,656,733	74.94	Core Value	38,052	Mod	New York	30/06/2001	1.66	633
10	Northern Trust Global Investments	Come to meetings in 2001 but no formal 1 on 1 meeting...setting up meeting in January 2002 on our IR trip	9,934,000	0.47	432,166	4.55	Core Growth	58,709	Low	Chicago	30/09/2001	0.85	499
11	Fayez Sarofim & Co.	David in December	8,701,765	0.41	-64,921	-0.97	Core Growth	42,518	Low	Houston	30/06/2001	1.19	507
12	Wellington Management Company, LLP	David in February, Jeroen and Judy and Simon and David in September	8,618,240	0.41	2,119,600	32.43	Core Value	156,482	Mod	Boston	30/06/2001	0.32	502
13	Teacher Retirement System of Texas	Come to meetings in 2001...will try to see in December	8,316,000	0.39	-396,000	-4.55	GARP	52,393	Low	Austin	30/06/2001	0.92	485
14	Zurich Scudder Investments, Inc.	David in August	7,684,509	0.36	-370,708	-4.6	Core Value	71,064	Mod	New York	30/06/2001	0.63	448
15	Smith Barney Asset Management	Harry and David in February	7,504,305	0.35	-1,245,574	-14.24	GARP	153,042	Low	New York	30/06/2001	0.25	437

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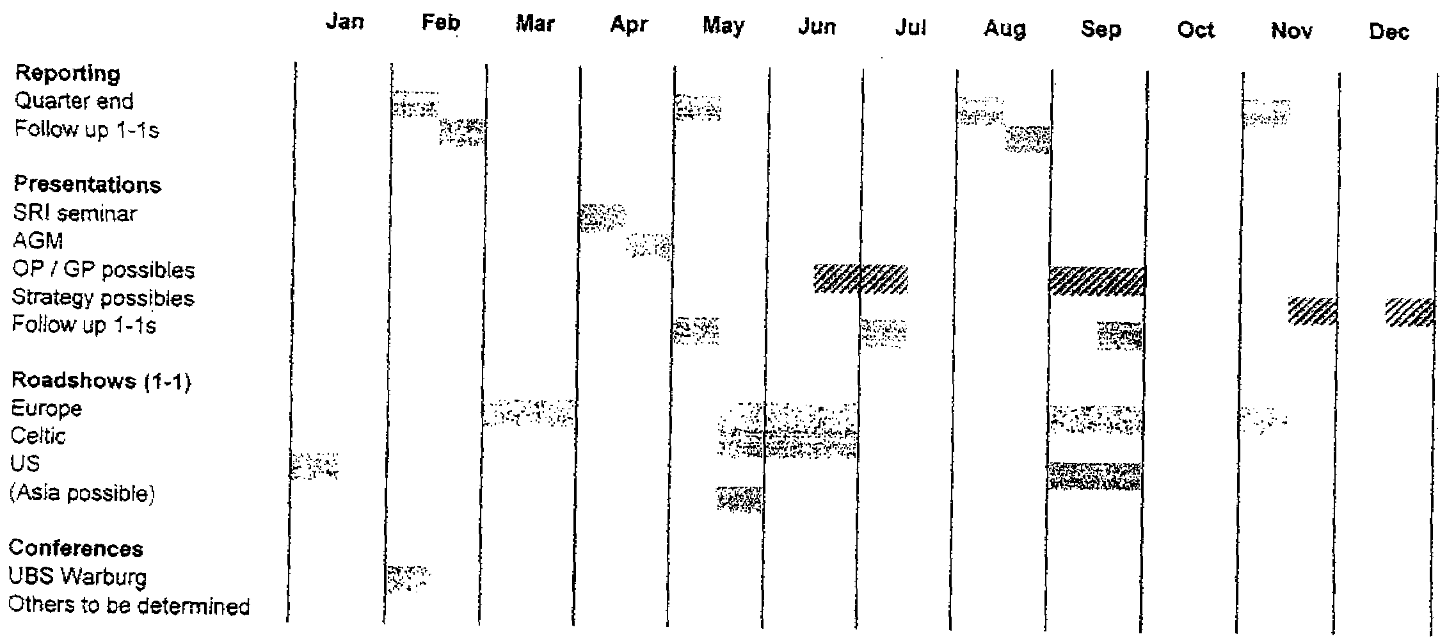
Largest UK Shareholders (STT)

Attachment 4

	Holding	% Issue	Who	When
M & G Investment Management	291,323,740	2.96%	MGDPS	28/09/2001
Legal & General Investment Mgt	289,496,468	2.95%	MGDWV	28/09/2001
Morley Fund Management	258,177,504	2.63%	MGDPW	12/02/2001
Scottish Widows Investment Part'shp	239,691,170	2.44%	SMGH	29/06/2001
Merrill Lynch Inv Managers	233,895,495	2.38%	MGDPS	24/09/2001
Barclays Global Investors	225,867,075	2.30%	MGDMS	08/08/2000
Standard Life Investments Ltd	205,117,051	2.09%	MGDPS	24/09/2001
AXA Investment Managers UK	172,970,513	1.76%	MGDPW	12/02/2001
Schroder Investment Management Ltd	162,021,863	1.65%	MGDWV	28/09/2001
Henderson Investors	161,632,992	1.64%	SMGH	12/02/2001
Deutsche Asset Mgt Ltd	157,915,840	1.61%	MGDWV	28/09/2001
Zurich Scudder Investments	145,397,575	1.48%	MGDPW	12/02/2001
Clerical Medical Investment Group	141,905,877	1.44%	MGDJV	06/08/2001
HSBC Asset Management Europe Ltd	116,007,666	1.18%	MGDJV	06/08/2001
Aegon Asset Management	110,964,791	1.13%	SMGH	29/06/2001
Gartmore Investment Management	108,564,069	1.10%	MGDPS	08/10/2001
Co-operative Insurance Society Ltd	99,626,922	1.01%		
Hermes Pension Management Ltd	95,947,571	0.98%	MGDPS	15/08/2000
Royal & Sun Alliance Investment Mgt	86,126,395	0.88%	MGDJV	06/08/2001
Gerrard Limited	85,193,685	0.87%		
Friends Ivory & Sime plc	81,358,008	0.83%		
Dresdner RCM Global Investors (UK)	74,607,120	0.76%		
Lloyds Private Banking	74,351,120	0.76%		
JP Morgan Fleming Asset Mgt	66,215,992	0.67%		
UBS Asset Management	62,250,163	0.63%		
Britannic Asset Management	57,921,567	0.59%		
Fidelity Investments Ltd	57,316,616	0.58%		
Rathbone Investment Management	57,303,839	0.58%		
Newton Investment Management Ltd	57,197,055	0.58%		
Universities Superannuation Scheme	57,171,833	0.58%		
State Street Global Advisors	51,907,928	0.53%		
Deutsche Bank AG	50,874,057	0.52%		
Goldman Sachs Asset Management	49,321,929	0.50%		
Robeco Intl Asset Managers	47,570,375	0.48%		
Shell Pensions Management Ltd	46,870,327	0.48%		
Deka Deutsche Kapitalanlage GmbH	43,738,983	0.45%		
Cazenove Fund Management Ltd	42,628,106	0.43%		
NFU Mutual & Avon Insurance Group	40,657,955	0.41%		
Aerion Fund Management	32,298,192	0.33%		
BA Pensions Investment Management	31,900,440	0.32%		
Bank of Ireland Asset Mgt Ltd	31,426,083	0.32%		
British Petroleum Pension Fund	31,024,080	0.32%		
SLC Asset Management	29,475,363	0.30%		
Quilter Investment Management	29,407,911	0.30%		
SIS SEGAIntersettle AG	29,004,916	0.30%		
Royal London Asset Management Ltd	27,078,380	0.28%		
Unibank Investment Management	26,771,435	0.27%		
Brewin Dolphin Securities Ltd	26,009,036	0.26%		
Scottish Mutual Portfolio Managers	25,478,029	0.26%		
Aberdeen Asset Management	25,268,740	0.26%		

Attachment 5

IR Programme 2002: Timing overview



Notes
OP / GP and Strategy presentation timing to be determined
European programme subject to definition following study

From:	Henry, Simon S SI-FI
To:	Frank Coopman; Gary Steel; Guy Outen; Ken Dean; Neil Gaskell; Patrick Ellingsworth; Peter Hillman; Ronald Blakely; Rosemarie Mecca; Tim Morrison; Veronica Carter
CC:	Boynton, Judith G SI-FN
BCC:	
Sent Date:	2002-08-30 17:45:01.000
Received Date:	2002-08-30 17:45:04.000
Subject:	CMD Note
Attachments:	CMD enhancement status 030902.doc

As discussed today, please find attached the note that went to CMD yesterday detailing work done in enhancing the IR activity this year. Thanks for the feedback today which quite correctly highlighted that all of this effort has limited effect if the story content, and style of delivery, are not equally robust. Each of these is also acknowledged and will be worked on, the former as part of the planning process and the latter through development training and constant feedback.

Any other feedback on reflection would also be very welcome, Simon

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Note for Information

Investor Relations Programme Enhancement: Status update

In the light of Q2 results reporting and recent press coverage it is timely to update CMD on the status of the IR enhancement programme that was first discussed with CMD in January this year.

The attached Note covers progress to date and also highlights items either still in progress or where further action will be required as we seek to achieve best practice in the area of investor communications.

Ongoing input to our enhancement programme includes

- Lessons learned from the Q2 results process and subsequent external reactions. (A joint paper from FN/PX will address this in a focussed note for CMD on 10 September)
- Recommendations from the best practice audit carried out by Finsbury as part of the original programme
- Feedback from the investment community while following up the Financial Times articles

Philip Watts

August 29th 2002

Note for Information

Investor Relations Programme Enhancement: Status update

This note includes an overview of the status of the key action items in the IR programme enhancement process originally presented to CMD in January. Improvements have been reflected in the IR programme and have also been integrated with the financial media communications programme and PXX activities.

Several action items are still in progress and other issues have now risen in priority as events have developed.

Key events in the year affecting the IR programme have been the new strategic direction announced in December 2001, the acquisitions of Pennzoil and Enterprise in March and April, the deletion of Royal Dutch from the S&P 500 index in July and the general malaise in world stock markets driven at least in part by generic concerns about Corporate Governance.

Financial press coverage during the year has also played a part in the communications process, and the response to recent articles is covered in Appendix 1. The IR programme over the next 6-8 months is summarised in Appendix 2.

This paper does not address the content of the messages to investors and financial media, although underpinning the communications process has been a drive to improve the clarity, simplicity and consistency of the investment case.

Context

The original proposal for the 2002 IR programme involved a strategic shift of emphasis away from 'fixed' presentations to groups of 'sell side' (research) analysts towards a more targeted programme of meetings direct with institutional investors in the three markets covered (UK, USA and Continental Europe).

This change in focus reflected both developments in the analytical resource within investing institutions and general market concerns about the independence and effectiveness of research analysts in making recommendations to fund managers.

Based on feedback received from investors and a perception study carried out in the US in late 2001, and in order to deliver direct communications more effectively, a series of potential improvement areas were identified in February. This led to an agreed action programme covering IR resources, improved market intelligence and awareness, focused marketing, better preparation processes and a third party review of Group communications compared with best practice. Message content and market expectations of the Group's performance were also considered.

All improvements have been coordinated with the PXX media team, and Group external communications activities are now integrated as a plan with potential newsworthy events.

With the majority of the first wave of improvements either completed or in progress, a second wave of potential improvements is in the process of development. Some of this potential was anticipated in the original review, and some is a result of feedback and events during the year, including the deletion of Royal Dutch from the S&P500 index.

Completed actions

Market intelligence and awareness

A regular programme of market intelligence gathering has been actioned. This includes weekly and monthly market reports, monthly IR management information and improved feedback gathering following investor meetings. Quarterly surveys of transactions by UK investors are being carried out and a first ever survey of European investors in Royal Dutch was completed, together enabling better targeting of current and potential investors. Phil Watts and Judy Boynton also meet quarterly with a leading sell side analyst to receive unfiltered feedback from the market.

In addition, following the S&P500 index change a more detailed six month shareholder surveillance programme was set up giving specific detail on buyers and sellers on a shorter time period. This information will be used in targeting the upcoming communication programme.

Leading research analysts have addressed senior staff at Business Week, at the Senior Finance Conference, as part of the INSEAD Executive Leadership Development programme and at a series of Finance management development seminars.

Senior management commitment

Feedback and research identified a consistent perception among both investors and financial journalists that senior executives in Shell gave lower priority to proactive investor and media communication than competitors and other similar large public companies. There was also a perception that IR was not integrated into the normal business information and decision processes.

The Chairman and CMD have notably increased priority given to both planning and executing the IR programme. Requests for and reaction to feedback from the market have both been significant. In addition, IR has been more directly involved in the Group process for planning, results appraisal and M&A transactions.

Meeting preparation processes

Improvements relating to 1-1 and small group meetings have included advance identification of key investor issues, preparation and use of specific presentation material, consistent key messages and use of brokers to improve preparation efficiency and investor feedback.

Targeted meetings

Based on potential to invest new money and identify new investors, Continental Europe was identified for 2002 as the most promising market. The investor survey identified Germany, the Netherlands and Switzerland as the most important current markets, and France, Italy and Scandinavia as markets with increasing potential. All markets have been visited since November 2001 and further activity is planned for November 2002.

The Pennzoil and Enterprise acquisitions were used as an opportunity to visit all top investors who requested meetings, and a concerted series of roadshows were carried out over a six week period.

In total 65 of the top 90 or so investors have met a member of CMD or the CFO in the 5 months between February and June 2002, several having met management more than once. In addition a higher number of second tier investors have also met management, with specific prospecting of potential investors carried out in both Continental Europe and the US. Direct contact with investors in 2002 to date has been approximately double the level of recent years.

This increased activity has received the most positive feedback from investors of all changes made. Many investors, while following up the August press articles, mentioned increased frequency of contact.

Market expectations

Performance expectations are driven by a combination of a clear strategy and targets, and a good (external market) understanding of the relationships between performance drivers (environment and operational parameters) and earnings. Improvements have been made in the communication of actual results to the market (acknowledged in Q2 2002) and in the Group's internal quarterly estimate process. However, more remains to be done in this area.

Results and announcement management

Together with PXX several improvements have been introduced into the formal announcement process including joint proactive briefings of wire services and journalists, use of specialist web service providers for video interviews and increased transparency of materials provided to journalists and investors.

Remaining investor concerns here focus on meeting market expectations and the quality of the live question and answer sessions.

Investor and Financial media relationship development

An analyst field trip to the US and Canada is planned for early October. Other opportunities for informal engagement between investors and senior management have been actioned, and a more proactive series of meetings with targeted journalists has also been carried out.

Actions in progress

Resources

Two improvement areas for resources were identified.

A relative shortage in direct resource working in IR – including those working in the businesses indirectly contributing to IR activities – was apparent from best practice comparisons and the peak workloads experienced around events such as the acquisitions. One additional analytical support member has been hired in the IR group in the Netherlands. However, two other mandated IR staff additions have not yet been filled. In the UK, two fulltime high calibre finance staff are currently reviewing quarterly internal reporting and communications preparation processes. It is anticipated that one incremental individual will be moved into a permanent IR position by the end of September. We currently have 20+ qualified candidates for the additional US IR position. Interviewing and selection is planned by the end of September.

Additional resources covering IR related activities in both PXS (analytical resource in competitor intelligence) and EP (analytical resource reporting to EP CFO doing EP IR analysis) has been or is being recruited. The majority of additional resources in IR, PXS and EP are being applied to improving the timeliness of analysis and the internal information flows and/or in enabling increased direct contact with investors.

The second key area was the structured development of a small cadre of senior executives in addition to CMD / CFO who will carry out regular communications activities with investors and financial media. CMD / CFO plus approximately 20 executives will undergo a programme of education on communicating with investors, the operation of capital markets and the specifics of investing in the oil and gas sector. The objective is to augment CMD meetings with major investors with a focused programme of more specific meetings with business executives, targeting both major investors with special interests and 'second tier' investors in target markets. CMD and CFO have already been scheduled with a leading communications consultant in the US. Bids to provide the development programme to the broader set of executives have been received and are currently under evaluation with Shell Learning. A paper detailing the recommended supplier and programme will be provided to CMD in the near future.

Best Practice review

Finsbury, a financial communications consultant firm, were engaged in April to carry out a review of best practice in communications with the investment and financial media communities, to compare Group practice and to develop improvement recommendations. Initial feedback was received in late May, and the geographical scope was expanded for the final report back. This is currently in progress and recommendations are reflected below.

The report identifies that in many areas the Group is already achieving best practice, although historical impressions persist and some of the more obvious remaining weakness areas are limiting the recognition that this receives. A more detailed report and recommendations will be reported to CMD within the third quarter.

Further potential improvement areas

Several areas of activity remain for improvement. These have been identified from investor feedback, the Finsbury best practice review and from lessons learned from results reporting in 2002. Following analysis of potential benefits and costs, specific actions will be developed from the following list, forming part of the 2003 IR and PXX programmes.

Investor targeting

For 2002 Continental Europe was targeted as a key market opportunity. However, slower than expected progress on pension reform in Germany, France and Italy, together with falling equity markets have led to lower than expected growth in funds invested. In addition the S&P500 change has led to over 150 million New York shares being transferred back to Amsterdam as US index funds sold down their positions. The US institutional market, both defending existing positions and identifying new potential holders, has therefore moved back ahead of Europe as a priority. Further support for this view comes from both the perception study and informal feedback that indicates the Group has never effectively established a clear and well understood investment case in the broader US investment community.

The post S&P decision shareholder surveillance mentioned above will help to develop both a short term response and the 2003 meeting programme, but it is expected that US activity will increase at both CMD / CFO level and for the new cadre and the IR team.

In addition, two potentially large markets remain relatively untapped, US retail investors and Japan. Together these two markets offer potential to replace the US index investors lost recently (approximately $10 billion), but both will require a sustained marketing effort over 2-3 years to establish a significant presence. The new US IR resource is specifically required to address both the US retail and medium size institutional markets.

The UK is and will remain a key market that has the most influence on pricing, but compared with the US and Europe the investor community is smaller, more concentrated and well known.

Transparency and disclosure, including market expectations

Investors attach a premium to limited uncertainty. Unexpected events create volatility in investment funds, and reduce the value associated with a specific investment. Recent developments in markets have increased sensitivity to disappointing news and there are various moves to encourage companies to improve disclosure and transparency of information. For the Group, notwithstanding the FT articles on tolling agreements, this has focused on expectations for quarterly results.

Market expectations are driven by how well the drivers of performance are understood, and how visible they are for any given reporting period. Understanding is driven by a combination of regular information (quarterly and annual), presentations and general contact between investors and the company. Visibility is driven both by transparent market indicators (e.g. oil and gas prices, market margins) and timely communication of company specific factors (e.g. production, new projects, turnarounds). Direct comparisons with the peer group show that the Group as a whole gives less information than some others about its businesses, and is potentially missing opportunities to positively differentiate performance in Oil Products and Gas and Power.

IR and the businesses will review the key documents currently produced (press releases, quarterly results announcement, annual report and five year statistics, 20F SEC return), making recommendations to CMD before end 2002. The intention would be to make any agreed changes from Q1 2003 onwards.

Internal processes

Initial feedback from the current review of internal quarterly processes has identified improvement opportunities that would lead to a more consistent and earlier aggregation of market relevant information. Q3 2002 is targeted as an early opportunity to harvest the low hanging fruit here (e.g. reducing duplication of effort, taking some tasks out of the critical path), with Q4 2002 as the target for significant improvements in both efficiency and effectiveness of the final outcome. Process improvements will be required in any case to action the planned acceleration of quarterly results reporting from Q1 2003.

Investor and media relationship development

One finding from both the best practice review and the July and August 2002 press coverage was that well regarded companies regularly invest management time and effort in relationship building, helping to create a stock of goodwill in both investment and media communities. This goodwill provides a buffer against articles such as those on tolling agreements and communications style.

Compared with some direct competitors and other large cap companies in the major markets, the Group has traditionally been less active in this area, although progress is being made (see earlier comments). Overall we are still seen as reactive and insular, with the impression still lingering that we communicate only when we have to. Changing this impression will require sustained activity over time.

PXX and IR have been requested to prepare a proposal to improve this activity by end Q3.

Briefing materials

During 2002 a new format of briefing material for executives has been jointly developed between PX and IR. This format was developed and used for the acquisitions and AGMs, but needs to be structured further within each of the businesses, ensuring that the most up to date and relevant material is available as required at short notice. Consistency of message across different communication formats is a critical success factor and will assume higher profile as the number of executives interfacing with the market increases.

Website and other communications materials

There is increasing evidence that investors are using websites and other non traditional information sources to influence investment decisions, both www.shell.com and service providers specific to the investment community. The Group IR website is well regarded by analysts and institutional investors, however, further work is required to identify where the best returns on investment in this area can be obtained.

Recent press coverage

There is no substitute for delivery of results to enhance the market's view of the Group. However, style and tone can be important, especially if results are seen as disappointing. As a consequence IR and PXX took the recent FT articles very seriously. Over 50 investors were called on the day of the article, the results of these discussions are summarised in Appendix 1.

Summary

A rigorous plan for upgrading the Group's IR and PXX efforts was begun in January of 2002, and the agreed improvement programme is being delivered on schedule. The plan has been augmented based on feedback from investors, feedback from the Finsbury best practices audit and lessons learned from quarterly reporting.

There are significant actions planned for the remainder of 2002 and 2003 to improve our communications efforts further.

Appendix 1: Summary of follow up to August 2002 FT articles on communication style

On the day the article appeared IR called over 50 investors and analysts, and successfully spoke with around 25 directly in the three investor markets (UK, US, Continental Europe). The purpose was to assess reaction to the FT articles, to obtain their views on the current communication process and to solicit current concerns about the business that they feel are not being addressed. The number of responses was less than half the contacts targeted, as a result of a significant number of individuals being on leave particularly in the UK and US. Feedback was also obtained from two brokers (UBS Warburg and Merrill Lynch) and Finsbury.

Some further reactive follow up is expected, but proactive contact will cease to avoid prolonging the lifecycle of the issue. A summary of consistent comments in each area follows.

Reaction to the article

- limited disagreement with the general comments on style, but wide agreement that the content of the article was not newsworthy and was less important or relevant than the prominence given
- concerns during 2001 recognised, but subsequent improvements in communication acknowledged. Also recognition that the 2001 issues were substantive business issues and not just about communication
- main concern is perceived evasiveness in answering questions i.e. a substance issue; there were few comments on style
- no change or impact on the fundamental value of the company, in fact surprise that the FT wasted the time and effort on an article with limited substance
- the article had been made overly personal. Investors commented that the FT had 'fished' in their queries for a more damaging line, which had not been supported by responses given; the FT had chosen not to include some positive feedback given to them
- there were differences of opinion as to whether the opinions expressed were UK specific or broader; a few perceived the US investment community to have similar or greater concerns, but European investors did not seem to see the article as a significant issue

Communication process

- no substantiated problems with access to senior management or responsiveness of IR, in fact steady improvement noted
- content of presentations and materials good, Q&As the primary issue
- many comments about results guidance for the market. Many believe a Trading Statement would be beneficial, as fund managers who do not follow the company closely are averse to volatility and uncertainty is what they remember first. However, several people discouraged such guidance, suggesting a better understanding of underlying drivers and increased transparency would be just as useful
- process (number and type of meetings) seen as similar to BP, but multiple comments about the 'Browne' effect and the difficulty of competing head on with someone currently seen as unable to do wrong

Outstanding business issues

- Strategic direction remains unclear to some: "where is the company going?"
- capital allocation, both in terms of returns (Enterprise) and between businesses (OP acquisitions)
- transparency around future projects, production and reserve replacement
- confidence in delivery of OP benefits in the US

The overall tenor of discussions was positive with several investors confirming they had recently increased their weighting in the Group and a general impression that we are currently good value. Increased transparency of reporting in Q2 was appreciated but "disappointment" was a common comment on the actual performance.

Appendix 2 Overview of programme to May 2003

The following outline IR programme is proposed for the next several months.

Date	Event type	Comments
Sept 2002	US West coast, Broker lunches	Follow up mid year results Market analysis to target specific segments of US market post S&P500 changes
Oct 2002	Analyst field trip	Take up to 50 analysts to Houston and Athabasca to review the progress on OP US delivery and the potential for non conventional resource development.
Oct 30 2002	Q3 results	Telecon
Nov / Dec 2002	1-1 roadshows	Target a further 10 days with major investors 1-1, UK, Scotland, Europe (Germany, Scandinavia), US East coast. IR team to target 2nd tier in Europe and N America.
December	Proposal	Propose programme for marketing to US Retail and Japanese investors, based on prospectivity
Feb 6 2003 (repeat on 10th in NY)	Presentation; 2002 results and strategy update	Results presentation and update on delivery against strategy.
Feb 7th 10th, 11th	1-1 roadshows	1-1 Meetings with selected major investors to follow up strategy update
Q1 2003 (& Q2)	Conferences, broker lunches	Conference season Continue EU targeted marketing
Late March / April 2003	Business strategy presentation	If appropriate, hold EP / GP business strategy presentation to analysts / major investors
April 30 2003	Q1 2003 results	Telecon
May 2003	1-1 roadshows	1-1 Meetings with selected major investors to follow up strategy update, Q1 results and EP/GP presentation