

Financial Statements is the responsibility of the Company's Directors. Our responsibility is to express an opinion on those Financial Statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Directors in the preparation of the Financial Statements, as well as evaluating the overall Financial Statement presentation. ***We believe that our audits provide a reasonable basis for our opinion.***

In our opinion, the Financial Statements referred to above present fairly, in all material respects, the financial position of The "Shell" Transport and Trading Company, Public Limited Company at December 31, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002 in conformity with the accounting principles described in Note 1 on page S4. [Emphasis added.]

461. The 2002 20-F also attaches KPMG and PwC's "Report of Independent Accountants" for Royal Dutch and Shell Transport relating to specified financial statements. This Report, which is dated March 5, 2003, states in relevant part:

We have audited the Financial Statements appearing on pages G2 to G33 of the Royal Dutch/Shell Group of Companies for the years 2002, 2001 and 2000. The preparation of Financial Statements is the responsibility of management. Our responsibility is to express an opinion on Financial Statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the Netherlands and the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management in the preparation of the

Financial Statements, as well as evaluating the overall Financial Statement presentation. *We believe that our audits provide a reasonable basis for our opinion.*

In our opinion, the Financial Statements referred to above present fairly, in all material respects, the financial position of the Royal Dutch/Shell Group of Companies at December 31, 2002 and 2001 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002 in accordance with generally accepted accounting principles in the Netherlands and the United States. [Emphasis added.]

462. As KPMG and PwC knew or were reckless in not knowing, the statements in the previous three paragraphs – that KPMG conducted its audits of Royal Dutch in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of operations, and cash flow of Royal Dutch for the stated time periods in all material respects; that PwC conducted its audits of Shell Transport in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of operations, and cash flow of Shell Transport for the stated time periods in all material respects; and that KPMG and PwC conducted their audits of the Companies in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of operations, and cash flow of the Companies for the stated time periods in all material respects – were materially false and misleading when made for the reasons given in ¶ 313 and the paragraphs cited therein.

THE TRUTH BEGINS TO EMERGE

463. On January 9, 2004, the Shell Group partially revealed the truth about its reported reserves, stating that it would reduce its reserves holdings by 20%. The announcement was made in a press release at 7:00 a.m. under the arcane heading “proved reserve recategorisation.” The reduction contemplated the reclassification of 3.9 billion barrels of oil and gas (2.7 billion barrels of oil and 1.2 billion boe of gas), one-fifth of the Companies’ proved reserves. After removal of

the almost four billion boe of hydrocarbons, Shell Transport's reserve life – measured in years of future production – fell from more than 13 years to 10 years. The reclassified reserves would be categorized as “unproven” or having “scope of recovery.”

464. Shell Transport's ADRs fell by 6.96% on January 9th, and Royal Dutch's ordinary shares (in the U.S.) fell by 7.87%. Analysts slashed their recommendations, and credit-rating agencies, which decide how much companies have to pay to borrow money, announced that they were poised to lower their opinion of Shell Transport's credit worthiness.

465. Analysts who follow the Companies, and who once praised them for their conservative reserves accounting, were “stunned.” Richard Brakenhoff, an analyst with Kemper & Co. was quoted as saying: “Investors will be shocked as Shell was usually known for its conservative accounting policy.” Brakenhoff believed that the recategorization would “reduce[] the value of the company by 10 percent using discounted cash flows.” Goldman Sachs said that the recategorization raised “significant concerns with respect to the credibility of the company's underlying operational performance.”

466. On March 3, 2004, after the boards of both Royal Dutch and Shell Transport reviewed the early results from Davis Polk's investigation of the Companies' overbooking of reserves, Watts and van de Vijver were forced to resign from their positions with the Shell Group.

467. The resignations were said to have been a consequence of persistent pressure from the Royal Dutch side of the Group. According to the news media, “[t]he formal investigation launched last month by the [SEC] appears to have been the last straw.”

468. Analysts believed that another reason for the pressure on Watts and van de Vivjer was protection of the Companies' credit rating. “Shell is fiercely protective of its superior credit rating, such that the Company felt that Watts was a risk to the Company's ratings.”

469. In a stock exchange release filed with the SEC on March 18, 2004 (on Form 6-K), the last day of the Class Period, the Shell Group announced yet again that it was restating downward its proved reserves for oil and natural gas. This was the second reclassification of reserves and was announced only one day before the Shell Group was due to file details of its 2003 reserves with the SEC – one of five authorities in the United States and Europe investigating the Companies. The Companies said that the equivalent of 250 million barrels of oil were being reclassified because they did not comply with SEC regulations. (The addition of 250 million boe increased the total amount of reserves that had been improperly booked as proved to 4.15 billion, or more than 20% of the originally reported figure.) In addition, the Companies announced that another 220 million boe, which as recently as February 2004 they had expected to book as proved for the year ended 2003, would not be included.

470. In the release, the Companies stated that they were making the reduction after further concerns arose about their reserves as they were completing their 2003 year-end accounts, which had been expected to be submitted to the SEC in their soon-to-be filed Form 20-F. As a result, the Companies delayed the filings and the publication of their annual report until May 2004. They also hired Ryder Scott Co., a petroleum consulting firm that performs reserves certifications and audits for oil and gas companies, to conduct further reviews of the Shell Group's oil and natural gas fields.

471. The added revision related, in part, to the Ormen Lange field in Norway (see supra). At Ormen Lange, Shell Transport used 3D seismic technology to determine reserves (based on reflected sound waves), but did not back up the results with other methods, as required by the SEC, such as drilling additional delineation wells to determine whether the 3D seismic interpretation was correct.

472. The Shell Group's decision not to re-book 220 million barrels of oil equivalent for 2003 reduced the Shell Group's annual reserve replacement ratio to 82% from 98% (which was announced in February 2004). The reduction also boosted the Shell Group's costs of finding and developing oil and natural gas for the year to \$6.40 (5.23 euros) a barrel from \$5.50 a barrel.

473. Moreover, the reserve restatement also affected the Group's bottom line through accounting for depreciation. In February 2004, the Companies said that their original reserve reclassification would result in an after-tax depreciation charge of \$86 million. The new reclassification added charges of \$20 million. The Companies said that an additional \$10 million in write-offs had been identified as a result of the reserve downgrades.

474. After the end of the Class Period, additional information about the Companies' Class Period misconduct became public. On April 19, 2004, the Shell Group cut reserves for a third time, by an additional 300 million barrels. In an interview with Defendant Brinded on that date (by Cantos, a U.K.-based financial and corporate information provider), Brinded explained that the reduction followed the continued analysis of the Companies' reserves.

[E]ssentially back in early March we established that we had a problem with the Ormen Lange booking and when we looked into it, it caused us some concerns that there might be wider-spread issues to deal with. So we set in train immediately in early March an exercise involving external experts from Ryder Scott together with our own teams to look at those reserves which we felt might be most at risk. After just a few days of that exercise we had covered 40 per cent of the reserves base and we realised that we had a material reduction to book, or to de-book, and we announced that on the 18th March – a reduction of 470 million barrels. At that point, I said that we were going to go on and complete the exercise on the worldwide reserves base.

In the last four weeks that's what we've done, 300 fields have been reviewed. In fact, reductions have been made now in total to almost 100 fields and we've covered 90 per cent of our fields. That's all but the very small fields essentially. So we've now completed that exercise, as a result of this latest phase, with a further reduction of

some 300 million barrels for the pre-2003 reserve base and a reduction of some 200 million barrels in what we would otherwise have been booking in 2003.

475. In his April 19, 2004 interview, Brinded conceded that the reclassifications had a material adverse impact on the Companies' competitive position:

But what is clear is that our competitive position in reserves, our recent reserves replacement ratio, and the current lifetime of our reserves doesn't leave us that well placed competitively

476. In total, as of April 2004, the three reductions include the reclassification of 4.47 billion boe, or about 23%, as of December 31, 2002, the last time the Shell Group reported reserves figures to the SEC. For 2003, the reclassification includes a reduction of 500 million boe.

477. As explained by Brinded in his April 19th interview:

[T]he change is really . . . a result of this third tranche
[E]ssentially we're looking at a different type of field . . . , one-third of them are in proved developed reserves category. In the past we've been stressing that 90-95 per cent of the reductions were in the undeveloped category and only a very small proportion in the developed category. This time about a third are in the proved developed category.

The distinguishing feature being that proved developed means it is on stream, it's producing. You've built the platform, you've drilled the wells, it's producing oil. That means you're starting to depreciate the asset and you depreciate it based on a proportion of the production in that year divided by the total proven reserves base. So if you shrink your proven reserves base, then you should be depreciating more in that year. So when we have to make revisions to proved developed reserves, we have to go back and make a change to the depreciation calculation and that change is your net income and that's why there is a material financial impact.

. . . [I]n terms of materiality though I just want to stress it averages something like \$100 million a year over the last four years.

478. On April 19, 2004, the Companies also released the Executive Summary of the GAC Report. A few hours after the Shell Group disclosed the conclusions in the GAC Report, Standard & Poor's ("S&P") stripped the Companies of the AAA credit rating (dropping to AA+) they had maintained for 14 years. The lowered credit rating means that the Companies will now have to pay more to finance operations.

479. On April 22, 2004, Moody's Investor Services ("Moody's") followed S&P, cutting the Shell Group's credit rating one notch to AA1 from AAA. Moody's made the cut following the GAC report, which it said "indicates a range of reporting and oversight flaws inconsistent with a highly rated entity, and raises major questions about Royal Dutch/Shell's controls, reporting standards and corporate governance." Moody's also attacked the Shell Group's dual structure, saying that it would slow the Shell Group's ability to make the changes it had promised and regain credibility in the financial community.

480. On May 24, 2004, the Companies downgraded the size of their proven oil and gas reserves for the fourth time in 2004. The Companies said that the latest reduction reflected "an adjustment with respect to royalties paid in cash in Canada." The downgrade involved an additional 103 million barrels from proved to less certain categories.

For the years ended 1999 to 2002, proved reserves and production included royalties paid in cash on certain properties in Canada (consistent with practice for properties outside North America). These have now been removed from proved reserves (consistent with practice for properties in the United States), resulting in a reduction at 31 December 2003, relative to earlier announcements, of 103 million barrels of oil equivalent (boe) and a reduction of production of 9 mln boe for the year 2003.

The aggregate effect on proved reserves of the reserves restatement is 4.47 billion boe, of which 4.35 billion boe was previously announced as reserves recategorisations. The remainder relates to adjustments for royalties paid in cash on certain Canadian properties described above. With a reserve replacement ration for

2003 of 63%, proved reserves were 14.35 billion boe at 31 December 2003, or 10.2 years of production (all excluding oil sands).

481. Also on May 24th, the Shell Group announced that it would restate certain of its financial results, for 2001, 2002, and 2003, as a consequence of the reserve recategorization. The Companies stated that the restatement was part of its shift toward using stricter American accounting rules for all its accounts, rather than a combination of Dutch and American rules. The Shell Group made the announcement ahead of the planned filing and dissemination of its annual report on May 28, 2004.

482. The financial impact of the restatement is shown in the tables below. These tables appeared in the Shell Group's press release of May 24, 2004:

Financial impact on Net Income under US GAAP for the Group (\$ millions)

	2001	2002	2003
<i>19 April 2004 announcement</i>			
<i>(Provisional estimate of the effect of reserves restatement on net income relative to previously reported 2003 results).</i>	<i>(40)</i>	<i>(100)</i>	<i>(130)</i>
Year-end Net Income as previously reported			
(including unaudited results for 2003 reported in earnings release on 5 February 2004)	10,852	9,419	12,699
Effect of reserves restatement relative to previously reported results	(42)	(108)	(106)
FAS19 – Exploration costs	(14)	(61)	(81)
FAS144 – Impairments	0	0	(62)
FAS133 – Marked-to-market	0	(39)	(75)
Other	0	0	103
Sub-total	(56)	(208)	(221)
Effect of accounting policy change for inventories	(446)	511	18

Total Adjustments	(502)	303	(203)
Net Income	10,350*	9,722*	12,496

Table 2. Supplementary oil and gas information (unaudited) – proved crude oil and natural gas liquids reserves for the Group

Crude oil and natural gas liquids			
(Million barrels)	2001	2002	2003
Group Companies:			
As previously reported as at 31 December	8,544	9,026	-
Effect of reserves restatement as published in Annual Report	(2,437)	(2,621)	-
As at 31 December	6,107*	6,405*	5,723
Group share of Associated Companies:			
As previously reported as at 31 December	925	1,107	-
Effect of reserves restatement as published in Annual Report	(206)	(174)	-
As at 31 December	719*	933*	882
Oil Sands (not restated)	600	600	652

Table 3. Supplementary oil and gas information (unaudited) – proved natural gas reserves for the Group - note: 5,800 million standard cubic feet of natural gas = 1 million boe.

Natural gas			
(thousand million standard cubic feet)	2001	2002	2003
Group Companies:			
As previously reported as at 31 December	50,613	48,240	-
Effect of reserves restatement as published in Annual Report	(8,554)	(7,950)	-
As at 31 December	42,059*	40,290*	41,601
Group share of Associated Companies:			
As previously reported as at 31 December	5,216	5,198	-
Effect of reserves restatement as published in Annual Report	(2,397)	(1,786)	-
As at 31 December	2,819*	3,412*	3,319

Table 4. Supplementary oil and gas information (unaudited) – standardised measure of discounted cash flow for the Group (\$ million)

	2001	2002	2003
<i>19 April 2004 announcement</i>	-	<(10%)	-
<i>Provisional estimate effect of reserves restatement in 2002</i>			
Group Companies:			
As previously reported as at 31 December	45,878	65,702	-
Effect of reserves restatement as published in Annual Report	(5,464)	(5,340)	-
As at 31st December	40,414*	60,362*	53,844
Group share of Associated Companies:			
As previously reported as at 31 December	3,888	7,070	-
Effect of reserves restatement as published in Annual Report	(1,005)	(1,308)	-
As at 31 December	2,883*	5,762*	5,828

*As restated

483. On May 28, 2004, the Group issued its financial results for the year 2003. As the OBSERVER noted on May 30, 2004, “[i]n the report Shell admits to inadequate controls, lack of resources and unclear lines of responsibility that allowed the scandal to happen.”

484. As discussed at paragraphs 296-97 above, on August 24, 2004, the SEC issued its Cease and Desist Order, concluding that the Companies had, in violation of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, knowingly or recklessly reported proved reserves that were non-compliant with Rule 4-10 of Regulation S-X of the Exchange Act, and failed (i) to ensure that the Companies’ internal proved reserves estimation and reporting guidelines complied with Rule 4-10, and (ii) to take timely and appropriate action to ensure that their reported proved reserves were not overstated in their filings with the SEC and other public statements. The SEC

also concluded that the Companies had violated Section 13(a) of the Exchange Act and Rules 13a-1 and 12b-20 thereunder, and Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act.

485. In a separate civil action filed simultaneously with the proceeding that was the subject of the Cease and Desist Order, Royal Dutch and Shell Transport consented to the entry of a judgment by the U.S. District Court for the Southern District of Texas, Houston Division, pursuant to Section 21(d) of the Exchange Act, ordering Royal Dutch and Shell Transport, together, to pay \$1 disgorgement and a \$120 million civil penalty. *SEC v. Royal Dutch Petroleum Co. and The "Shell" Transport and Trading Company, p.l.c.*, No. H-04-3359 (S.D. Tex. Aug. 24, 2004).

486. Also on August 24, 2004, the FSA issued its Final Notice to Shell Transport and Royal Dutch (the "FSA Final Notice"), in which the FSA imposed a penalty of £17 million for "market abuse" and breaches of the FSA's Listing Rules.

SHELL DEFENDANTS' VIOLATIONS OF GAAP

487. Given the accounting irregularities described above, the Companies announced that their discounted cash flows and proved reserves were in violation of GAAP and the following principles:

a. The principle that "interim financial reporting should be based upon the same accounting principles and practices used to prepare annual financial statements" was violated (APB No. 28, ¶ 10);

b. The principle that "financial reporting should provide information that is useful to present to potential investors and creditors and other users in making rational investment, credit, and similar decisions" was violated (FASB Statement of Concepts No. 1, ¶ 34);

c. The principle that “financial reporting should provide information about the economic resources of an enterprise, the claims to those resources, and effects of transactions, events, and circumstances that change resources and claims to those resources” was violated (FASB Statement of Concepts No. 1, ¶ 40);

d. The principle that “financial reporting should provide information about an enterprise’s financial performance during a period” was violated (FASB Statement of Concepts No. 1, ¶ 42);

e. The principle of “completeness, meaning that nothing is left out of the information that may be necessary to insure that it validly represents underlying events and conditions,” was violated (FASB Statement of Concepts No. 2, ¶ 79);

f. The principle that “financial reporting should be reliable in that it represents what it purports to represent” was violated (FASB Statement of Concepts No. 2, ¶¶ 58-59); and

g. The principle that “conservatism be used as a prudent reaction to uncertainty to try to ensure that uncertainties and risks inherent in business situations are adequately considered was violated. (FASB Statement of Concepts No. 2, ¶ 95).

488. The adverse information concealed by Defendants during the Class Period and detailed above was in violation of Item 303 of Regulation S-K under the federal securities law (17 C.F.R. 229.303).

SHELL DEFENDANTS’ VIOLATIONS OF SEC RULES

489. As alleged, the SEC defines proved oil and gas reserves (Rule 4-10(a) of Regulation S-X of the Exchange Act), as follows:

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data

demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

See also FAS 25 Suspension of Certain Accounting Requirements for Oil and Gas Producing Entities ¶ 34 (Feb. 1979).

490. Moreover, the SEC states: “The concept of reasonable certainty implies that, as more technical data becomes available, a positive, or upward, revision is much more likely than a negative, or downward, revision.” SEC Div. of Corp. Fin: Frequently Requested Accounting and Fin. Reporting Interpretations and Guidance (“SEC Guidance”) (Mar. 31, 2001).

491. The Shell Group’s overstatement of its proved reserves by 23% is in violation of the above-referenced principles. More specifically, the Shell Group violated SEC rules by including, in its proved reserves figures, oil and gas projects and venture that did not meet SEC standards for proved reserves, as alleged herein.

ADDITIONAL SCIENTER ALLEGATIONS

492. Defendants knew of, or recklessly disregarded, facts readily available to them demonstrating that the Shell Group’s financial statements and statements concerning proved reserves were materially false and misleading when made. As alleged herein, Defendants acted with scienter in that Defendants knew that the public documents and statements issued or disseminated in the name of the Shell Group were materially false and misleading, knew that such statements or documents would be issued, or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws.

493. As set forth elsewhere herein in detail, Defendants, by virtue of their receipt of information reflecting the true facts regarding the Shell Group’s publicly reported proved reserves

and financial statements, their control over and/or receipt of information of the Shell Group's allegedly materially misleading misstatements and/or their associations with the Shell Group that made them privy to confidential proprietary information concerning the Shell Group, participated in the fraudulent scheme alleged.

494. A strong inference of Defendants' knowledge and/or recklessness arises from the following facts, taken singly or collectively:

a. Defendants learned first-hand of the improper classification of proved reserves set forth herein, as senior Shell Group executives and other Shell Group personnel had communicated throughout the Class Period, both orally and in writing, that the Shell Group's classification of proved reserves did not comport with SEC guidelines.

b. Defendants, by accepting and adopting the findings of the GAC Report without qualification, acknowledge that the Shell Group's lack of internal controls led to the reserves reclassification and restatement of the Companies' financial statements.

c. Moreover, the reclassification and restatement itself constitutes strong circumstantial evidence that the Group Defendants acted with scienter. Under GAAP, the need to restate a previously reported financial statement arises only when the facts that necessitate the restatement existed at the time the financials were originally issued. See Accounting Principles Board Opinion No. 20, ¶ 13. By restating prior financials, Defendants have effectively admitted that the Companies' improper classification of reserves as proved was therefore known or recklessly disregarded at the time all of the foregoing fraudulent financial statements were originally released, and that the originally issued financial statements were materially misleading.

d. The magnitude and duration of the alleged fraud also constitutes strong circumstantial evidence that Defendants acted with scienter. As set forth herein, the alleged fraud

commenced as early as 1997, with the improper booking of reserves in Australia (Gorgon), and continued until the Companies disclosed the full truth about improper classification of reserves on March 18, 2004. The impact of the alleged fraud had a material effect on the Shell Group's reported proved reserves, reserve replacement ratio, and finding and development costs: the volume of proved reserves was reduced by 23%, or 4.47 billion boe, the Shell Group's reserve replacement ratio fell to 57%, and the per-barrel costs to find and develop oil and gas rose to a staggering \$7.90 from \$4.27. Moreover, as a result of the recategorization, the Shell Group has only 10.2 years of reserve life (the time it would take to deplete existing reserves at current production rates), which is three to four years less than its competitors (BP – 14.1 yrs.; ExxonMobil – 13.5 yrs.; and ChevronTexaco – 13 yrs.), and well below the over 13 years of reserves previously represented by Defendants.

e. The Individual Defendants were also motivated to participate in the fraud alleged because their bonus compensation was tied to reported reserves. As reported by the news media, and confirmed in the GAC Report, the Cease and Desist Order, the Notice to Take Action, and the Barendregt memoranda, Shell Group executives were awarded year-end bonuses based upon a Group-wide "scorecard" system, which rated Shell's performance on a number of metrics, including financial targets tied directly to reported reserves.

**APPLICABILITY OF PRESUMPTION OF RELIANCE:
FRAUD-ON-THE MARKET DOCTRINE**

495. In connection with their claims under Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, the Pennsylvania Funds and the Class will rely, in part, upon the presumption of reliance established by the fraud-on-the-market doctrine in that:

a. Defendants made public misrepresentations or failed to disclose material facts during the Class Period;

- b. the omissions and misrepresentations were material;
- c. the ordinary shares and ADRs of the Companies traded in an open and efficient market;
- d. the misrepresentations and omissions alleged would tend to induce a reasonable investor to misjudge the value of the Companies' securities; and
- e. the Pennsylvania Funds and members of the Class purchased their Royal Dutch and Shell Transport securities between the time Defendants failed to disclose or misrepresented material facts and the time the true facts were disclosed, without knowledge of the omitted or misrepresented facts.

496. At all relevant times, the market for the Companies' ordinary shares was an efficient market for the following reasons, among others:

- a. Royal Dutch ordinary shares and Shell Transport ADRs met the requirements for listing, and were listed and actively traded, on the NYSE, a highly efficient market;
- b. Royal Dutch and Shell Transport ordinary shares met the requirements for listing, and were listed and actively traded, on, among other foreign exchanges, the London Stock Exchange and the Amsterdam Stock Exchange, highly efficient markets;
- c. as regulated issuers, Royal Dutch and Shell Transport filed periodic reports with the SEC and other regulatory agencies;
- d. the Companies' securities were followed by securities analysts employed by major brokerage firms who wrote reports that were distributed to the sales force and customers of their respective firms. These reports were publicly available and entered the public marketplace; and

e. Royal Dutch and Shell Transport regularly issued press releases that were carried by national and international newswires. Each of these releases was publicly available and entered the public marketplace.

497. As a result, the market for Royal Dutch and Shell Transport securities promptly digested current information with respect to both Royal Dutch and Shell Transport from all publicly-available sources and reflected such information in the price of the Companies' securities. Under these circumstances, all purchasers of Royal Dutch and Shell Transport securities during the Class Period suffered similar injury through their purchases of Royal Dutch and Shell Transport securities at artificially inflated prices and a presumption of reliance applies.

NO STATUTORY SAFE HARBOR

498. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this Complaint. Many of the statements referred to historical or existing conditions. The specific statements pleaded herein were not identified as "forward-looking statements" when made. Nor was it stated with respect to any of the statements forming the basis of this Complaint that actual results "could differ materially from those projected." To the extent there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made the particular speaker knew that the particular forward-looking statement was false, and/or the forward-looking

statement was authorized and/or approved by an executive officer of Royal Dutch and/or Shell Transport who knew that those statements were false when made.

CLASS ACTION ALLEGATIONS

499. The Pennsylvania Funds bring this action as a class action pursuant to Federal Rules of Civil Procedure 23(a) and (b)(3). As alleged, the Class consists of all persons who purchased Royal Dutch ordinary shares and Shell Transport ordinary shares and ADRs on the open market during the Class Period. Excluded from the Class are Defendants, members of the Individual Defendants' families, any entity in which any Defendant has a controlling interest or is a parent or subsidiary of or is controlled by the Companies, and the officers, directors, affiliates, legal representatives, heirs, predecessors, successors, or assigns of any of the Defendants.

500. The members of the Class are so numerous that joinder of all members is impracticable. While the exact number of Class members is unknown to Lead Plaintiff at this time and can only be ascertained through appropriate discovery, Lead Plaintiff believes that there are thousands, if not hundreds of thousands, of members of the Class who traded Royal Dutch ordinary shares and Shell Transport ordinary shares and/or ADRs during the Class Period. During the Class Period, there were more than 2 billion outstanding shares of Royal Dutch common stock trading in Amsterdam, more than 520 million outstanding shares of Royal Dutch common stock trading on the NYSE, more than 9.6 billion outstanding shares of Shell Transport common stock trading in London, and more than 48 million outstanding Shell Transport ADRs trading on the NYSE. Members of the Class are geographically dispersed throughout the United States and abroad.

501. Common questions of law and fact exist as to all members of the Class and predominate over any questions affecting solely individual members of the Class. Among the questions of law and fact common to the Class are whether:

- a. the federal securities laws were violated by Defendants' acts as alleged herein;
- b. the Companies omitted and/or issued materially false and misleading statements during the Class Period;
- c. Defendants acted knowingly or with recklessness in issuing false and misleading statements;
- d. the market prices of the Companies' securities during the Class Period were artificially inflated because of Defendants' conduct complained of herein; and
- e. the members of the Class have sustained damages and, if so, what is the proper measure of damages.

502. Lead Plaintiff's claims are typical of the claims of the members of the Class as Lead Plaintiff and members of the Class sustained damages arising out of Defendants' wrongful conduct in violation of federal laws as complained of herein.

503. Lead Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in complex multiparty litigation, such as class actions and securities litigation. Lead Plaintiff has no interests antagonistic to or in conflict with those of the Class.

504. A class action is superior to other available methods for the fair and efficient adjudication of the controversy since joinder of all members of the Class is impracticable. Furthermore, because the damages suffered by individual Class members may be relatively small,

the expense and burden of individual litigation make it impossible for the Class members individually to redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

CLAIMS FOR RELIEF

COUNT I

(Against The Group Defendants for Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Promulgated Thereunder)

505. Lead Plaintiff repeats and realleges each and every allegation contained in ¶¶ 1-504, as if fully set forth herein.

506. This Count is asserted against the Group Defendants under Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated thereunder.

507. During the Class Period, the Group Defendants, singly and in concert, directly engaged in a common plan, scheme, and unlawful course of conduct, pursuant to which they knowingly or with recklessness engaged in acts, transactions, practices, and courses of business that operated as a fraud and deceit upon Lead Plaintiff and the other members of the Class; made various deceptive and untrue statements of material facts and omitted to state material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading; and employed devices, schemes and artifices to defraud in connection with the purchase and sale of securities. The purpose and effect of said scheme, plan, and unlawful course of conduct were, among other things, to: (a) conceal the adverse facts concerning the Companies' operations, particularly with respect to its reported classification of proved oil and gas reserves; (b) artificially inflate and maintain the market price of Royal Dutch and Shell Transport securities; and (c) cause Lead Plaintiff and the other members of the Class to purchase Royal Dutch and Shell securities at inflated prices.

508. The Group Defendants had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or deliberately acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such Defendants' material misrepresentations and/or omissions were done knowingly or with recklessness and for the purpose and effect of concealing the Companies' operations and business affairs from the investing public and supporting the artificially inflated price of their securities. As demonstrated by the Group Defendants' statements throughout the Class Period, if they did not have actual knowledge of the misrepresentations and omissions alleged, they were reckless in failing to obtain such knowledge by refraining from taking those steps necessary to discover whether those statements were false or misleading.

509. As a result of the dissemination of the materially false and misleading statements set forth above, the market price of the Companies' securities was artificially inflated during the Class Period. In ignorance of the false and misleading nature of the statements described above and the deceptive and manipulative devices and contrivances employed by said Defendants, Lead Plaintiff and the other members of the Class relied, to their detriment, on the integrity of the market in purchasing the Companies' securities. Had Lead Plaintiff and the other members of the Class known the truth, they would not have purchased said securities or would not have purchased them at the inflated prices that were paid.

510. Lead Plaintiff and the other members of the Class have suffered substantial damages as a result of the wrongs herein alleged in an amount to be proved at trial.

511. By reason of the foregoing, the Group Defendants violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder in that they: (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material facts or omitted to state

material facts in order to make the statements made, in light of the circumstances under which they were made, not misleading; or (c) engaged in acts, practices, and a course of business that operated as a fraud and deceit upon Lead Plaintiff and the other members of the Class in connection with their purchases of the Companies' securities during the Class Period.

COUNT II

(Against PwC and KPMG for Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Promulgated Thereunder)

512. Lead Plaintiff repeats and realleges each and every allegation contained in ¶¶ 1-511, as if fully set forth herein.

513. PwC and KPMG served as the Shell Group's auditors and principal accounting firms for Shell Transport and Royal Dutch, respectively, commencing before and continuing throughout the Class Period. PwC and KPMG acted in these capacities pursuant to the terms of engagement agreements that they had with Shell Transport and Royal Dutch that required, *inter alia*, PwC and KPMG to: (i) audit the Group's financial statements in accordance with GAAS; (ii) report the results of audits and quarterly reviews to the Shell Group and the GAC; and (iii) issue audit reports regarding the conformance of the Companies' and the Shell Group's financial statements with GAAP, which were incorporated into SEC filings and other reports distributed to shareholders and members of the public; and (iv) assist in the preparation and review of the Companies' quarterly financial statements, which were included in the Companies' filings (via Forms 6-K) with the SEC.

A. PwC's and KPMG's Role in Each False and Misleading Statement

514. As detailed above, the Shell Group's Class Period filings with the SEC were materially false and misleading. PwC and KPMG played a pivotal role in the preparation of these filings.

515. PwC and KPMG provided unqualified Independent Auditors' Reports for the Shell Group's annual reports for the years ended 1998 through 2002. These unqualified audit opinions and reports violated GAAS and greatly enhanced and facilitated the fraud alleged herein.

516. Additionally, both PwC and KPMG conducted reviews of the Group's quarterly financial statements, attached as exhibits to Forms 6-K, before their being filed with the SEC.

517. The Shell Group has admitted, via the GAC Report, that the overbooking of the Group's oil and gas reserves was made possible "because of certain deficiencies in the Company's controls." PwC and KPMG, as the Companies' "independent" auditors, were required to assess the Group's internal disclosure, financial, and accounting controls and whether such controls had been placed in operation, were effective and complied with all applicable laws, including the federal securities laws, to provide assurance about the safeguarding of assets, financial reporting, operations and compliance with regulations. PwC and KPMG were required to evaluate whether poor controls might lead to or contribute to the risk that fraud might not be detected.

518. Finding that certain deficiencies in the Group's internal controls were at the heart of the reserve reclassification, the GAC Report criticized the Shell Group's internal controls, reporting standards, and corporate governance. Throughout the Class Period, PwC and KPMG received memoranda and conducted meetings and other communications with senior executives, board members, and the Companies' GRA about these issues. For example, PwC and KPMG received at least two memoranda from the GRA (Barendregt) that warned early on of potentially serious systemic problems with Shell Transport's reserves reporting. Despite these and other serious deficiencies in the Group's internal controls, PwC and KPMG issued clean audit opinions throughout the Class Period.

519. An auditor has responsibilities with respect to required supplemental information to apply limited procedures to determine whether the supplemental information, such as oil and gas reserves and forecasted future cash flow based on those reserves, is in conformance with prescribed guidelines. AU § 558. In estimating oil and gas reserves (including proved reserves), information about a company's reserves is considered required supplemental information within the context of AU § 558 and, therefore, an auditor is required to perform limited procedures to verify that the reserve information conforms with the applicable guidelines. AU § 558.01-.03.

520. In determining whether the reserve information conforms to accounting principles, the auditor is required to make certain inquiries, as well as to compare the information for consistency. The auditor should make inquiries to determine management's understanding of the specific requirements for disclosure of the reserve information. The auditor should also inquire about the qualifications of the person calculating the reserve estimates, the calculation of the standardized method of discounted future net cash flows and the methods for documenting the information about the company's reserve estimates. The auditor should also compare the following information: (1) the company's reserve estimates with the company's recent production; and (2) the company's reserve quantity information with the corresponding information used for depletion and amortization. The auditor should also question management about any inconsistencies determined in making these comparisons. AU § 558.04-.05.

521. If after applying these procedures the auditor has unresolved substantial doubt about the required supplemental information and its adherence to the prescribed guidelines, the auditor should identify this limitation in its audit opinion in accordance with the procedures prescribed by the professional standards. AU § 558.06. Here, PwC and KPMG issued false clean

audit opinions indicating they had no unresolved doubt about the Shell Group's reserve information and its compliance with GAAP.

B. PwC's and KPMG's Audits Violated GAAS

522. PwC and KPMG consistently represented that each performed its audits in a manner consistent with GAAS. Such representations were materially false, misleading and without reasonable basis.

523. PwC and KPMG violated GAAS by, among other things, failing to properly conduct their respective audits of the Companies.

524. GAAS, as approved and adopted by the American Institute of Certified Public Accountants ("AICPA"), defines the conduct of auditors in performing and reporting on audit engagements. Statements on Auditing Standards ("SAS") are endorsed by the AICPA as the authoritative promulgation of GAAS.

525. PwC's and KPMG's failure to qualify, modify, or abstain from issuing their respective audit opinions on the Shell Group's Class Period financial statements, when each knew or recklessly disregarded the numerous adverse facts and "red flags" set forth above, caused PwC and KPMG to violate at least the following provisions of GAAS:

a. PwC violated GAAS Standard of Reporting No. 1, which requires the audit report to state whether the financial statements are presented in accordance with GAAP. PwC's and KPMG's audit reports falsely represented that the Companies' Class Period financial statements were presented in accordance with GAAP when they were not for the reasons stated herein.

b. PwC and KPMG violated Standard of Reporting No. 4, which requires that, when an opinion on the financial statements taken as a whole cannot be expressed, the reasons

therefor must be stated. PwC and KPMG should have stated that no opinion could be issued by each on the Companies' Class Period financial statements or issued an adverse opinion stating that those financial statements were not fairly presented. The failure to make such qualification, correction, modification, and/or withdrawal, was a violation of GAAS, including Standard of Reporting No. 4. PwC and KPMG also violated the requirement of Standard of Reporting No. 4 that in cases where a firm is not independent, an opinion cannot be expressed on the audited financial statements.

c. PwC and KPMG violated GAAS General Standard No. 2, which requires an auditor to maintain an independence in mental attitude in all matters related to the assignment.

d. PwC and KPMG violated GAAS and the standards set forth in SAS No. 1 and SAS No. 82 by, among other things, failing to adequately plan and supervise the work of its staff and to establish and carry out procedures reasonably designed to search for and detect the existence of material misstatements caused by error or fraud.

e. PwC and KPMG violated GAAS General Standard No. 3, which requires that due professional care must be exercised by the auditor in the performance of the audit and the preparation of the report.

f. PwC and KPMG violated Standard of Fieldwork No. 3, which requires sufficient competent evidential matter to be obtained through inspection, observation, inquiries and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit.

g. PwC and KPMG also failed to adhere to at least the following statements of Auditing Standards:

1. SAS No. 31, which requires that an auditor obtain all corroborating information to support the financial statements being audited including checks, invoices, contracts, minutes of meetings, confirmations or other written representations by knowledgeable people, and information obtained from independent sources;

2. SAS No. 67, which requires that an auditor establish and perform a confirmation process with third parties to verify information utilized in the audit; and

3. SAS No. 19, which requires that an auditor not substitute client representations for audit procedures necessary to form a reasonable basis as to the opinion being given on financial statements.

C. PwC's and KPMG's Scienter

1. PwC's and KPMG's Unfettered Access to Information

526. During yearly audits and quarterly reviews of the Group's books, records and financial statements, members of PwC's and KPMG's engagement teams had virtually limitless access to information concerning the Group's true financial condition and status of the Companies' proved reserves:

- a. PwC and KPMG were present at the Group's headquarters frequently throughout each reporting year;
- b. PwC and KPMG performed review, audit and other services;
- c. PwC and KPMG had unfettered access to documents and employees at all Group offices and knew or recklessly disregarded that the Companies were improperly reclassifying reserves as proved when circumstances did not permit classification of reserves as proved under SEC guidelines;

d. PwC and PKMG had conversations with Group management and employees about the Companies' accounting practices; and

e. PwC and KPMG attended Group Audit Committee meetings and answered the Group Audit Committee's questions about the Companies' financial statements and internal controls.

527. Indeed, PwC and Shell International participated in a program called "secondment," in which a Shell UK employee was assigned to work for (or be seconded to) PwC UK to learn fiscal account preparation, due diligence, and audit functions, while a PwC UK employee was seconded to Shell UK to learn Shell's audit functions and accounting policies. According to CS 7, who participated in the program, the secondment program was intended, in part, to foster a liaison function among the participants, and to enable the official audit function to run smoothly. CS 7 stated that the program was ongoing at least as late as 1992, and perhaps later.

528. By virtue of this unfettered access, PwC and KPMG knew or recklessly disregarded that contrary to SEC guidelines, the Group had been improperly classifying reserves as proved. Accordingly, PwC's and KPMG's unqualified audit opinions and reports were knowingly or recklessly improper and without any reasonable basis.

D. PwC's and KPMG's Lack of Independence

529. At all relevant times, PwC and KPMG served in a dual role to Shell Transport and Royal Dutch: one, as an auditor, and the other, as a consultant to the Companies. This dual role violated GAAS and contravenes the spirit of SEC rules regarding auditor independence. For example, the SEC has adopted a regulation (17 C.F.R. 210.2-01(b)) on auditor qualifications, the independence requirement of which bars an accountant from auditing a firm or its affiliates if that

firm has employed the auditor or anyone else from the auditor's office during the period covered by the report.

530. With respect to independence, GAAS states that:

It is of utmost importance to the profession that the general public maintain confidence in the independence of independent auditors. Public confidence would be impaired by evidence that independence was actually lacking, and it might also be impaired by the existence of circumstances which reasonable people might believe likely to influence independence. *To be independent, the auditor must be intellectually honest; to be recognized as independent, he must be free from any obligation to or interest in the client, its management, or its owners.... Independent auditors should not only be independent in fact; they should avoid situations that might lead outsiders to doubt their independence.* [Emphasis added.]

AU § 220.03.

531. PwC and KPMG compromised their required auditor independence during the Class Period. Royal Dutch/Shell were long-time, crown jewel clients from PwC and KPMG. Both KPMG and PwC received fees for their audit and non-audit services. As shown in the table below, the non-audit fees that Royal Dutch and Shell Transport paid were substantial:

Auditors' remuneration

\$ million

Remuneration of

KPMG and PricewaterhouseCoopers

	2002	2001	2000	1999	1998
Audit fees	25	18	17	18	18
Fees for non-audit services	35	32	47	30	41

532. The 2002 fees were restated as follows: audit fees were increased to \$27 million and non-audit fees were reduced to \$18 million. For the first time, the Companies provided figures for audit-related fees, which were \$17 million (as restated). These fees were particularly important to the partners of KPMG and PwC as part of their incomes was dependent on the continued business with the Shell Group.

E. Remaining Exchange Act Allegations Against PwC and KPMG

533. PwC and KPMG had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or deliberately acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such Defendants' material misrepresentations and/or omissions were done knowingly or with recklessness and for the purpose and effect of concealing the Companies' operations and business affairs from the investing public and supporting the artificially inflated price of their securities.

534. As a result of the dissemination of the materially false and misleading statements set forth above, the market price of the Companies' securities was artificially inflated during the Class Period. In ignorance of the false and misleading nature of the statements described above and the deceptive and manipulative devices and contrivances employed by said Defendants, Lead Plaintiff and the other members of the Class relied, to their detriment, on the integrity of the market in purchasing the Companies' securities. Had Lead Plaintiff and the other members of the Class known the truth, they would not have purchased said securities or would not have purchased them at the inflated prices that were paid.

535. By reason of the foregoing, PwC and KPMG have violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder and are liable to Lead Plaintiff and the other members of the Class for the substantial damages that they suffered in connection with their purchase of the Companies' securities during the Class Period.

COUNT III

(Against the Individual Defendants for Violations of Section 20(a) of the Exchange Act)

536. Lead Plaintiff repeats and realleges each and every allegation contained in ¶¶ 1-535, as if fully set forth herein.

537. The Individual Defendants acted as controlling persons of the Companies within the meaning of Section 20(a) of the Exchange Act, 15 U.S.C. § 78t(a), as alleged herein. By virtue of their high-level positions, participation in and/or awareness of the Companies' operations, and/or intimate knowledge of the Companies' reported oil and gas reserves, the Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Companies, including the content and dissemination of the various statements that Lead Plaintiff contend are false and misleading. The Individual Defendants were provided with or had unlimited access to copies of the Companies' reports, press releases, public filings and other statements alleged by Lead Plaintiff to be misleading before and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

538. In particular, the Individual Defendants had direct and supervisory involvement in the day-to-day operations of the Companies and, therefore, are presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

539. By virtue of their positions as controlling persons, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of the wrongful conduct, Lead Plaintiff and other members of the Class suffered damages in connection with their purchases of the Companies' securities during the Class Period.