

FAX COVER SHEET

TO	eFax Bureau
COMPANY	
FAX NUMBER	16463492605
FROM	eFax Bureau
DATE	2006-10-18 15:18:12 GMT
RE	Shell Insider Information Regarding Sakhalin

COVER MESSAGE

Please find attached letter containing leaked Shell internal emails relating to the Sakhalin II project.

Wednesday 18 October 2006

URGENT & IMPORTANT

8 Pages including cover page to fax 00 7 495 254 6001

**Attention of Deputy Minister Oleg Mitvol
The Ministry of Natural Resources of The Russian Federation
Moscow
Russia**

From John Donovan
Owner of the news based website focused on Royal Dutch Shell:
www.royaldutchshellplc.com

Dear Deputy Minister Mitvol

Royal Dutch Shell Sakhalin II project

I spoke to your secretary yesterday morning. She kindly gave me with your private fax number and said that it was okay to send you some important information relating to the Sakhalin II project which has been supplied to us by Shell insiders.

Information about our website and our activities can be found on Wikipedia in the article entitled: RoyalDutchShellPlc.com. Suffice it to say that we are long term critics of Shell management. I am also a shareholder in Royal Dutch Shell Plc.

I believe the information supplied here may have relevance to the litigation in which you are currently involved relating to Sakhalin II environmental issues.

It is in the form of leaked Shell internal emails between senior Shell managers relating to important and potentially calamitous design/construction flaws at the Sakhalin II project. Extracts from these emails were referred to in a MarketWatch article published this week:

***MarketWatch: Shell manager warned of Sakhalin faults in e-mails
Posted by Royal Dutch Shell Plc.com at October 17th, 2006***

***Last Update: 9:40 PM ET Oct 16, 2006
(This article was originally published Monday.)***

LONDON (MarketWatch) — A Royal Dutch Shell (RDSB.LN) manager sent e-mails in 2002 expressing concern that the designs for oil and gas wells on Russia's Sakhalin Island didn't properly address seismic risks.

The e-mails from Hans Bouman, a natural-gas field manager, to Engel Van Spronsen, then Sakhalin Energy's technical director, raise the possibility that the company's risks at the Sakhalin II project go beyond the river bank erosion now under Russian government scrutiny.

In a May 29, 2002 e-mail, Bouman told Van Spronsen he had "started to worry" about potential flaws in the wells' design after a technical presentation by Sakhalin Energy engineers. He said his concern was particularly related to young seismic faults and shallow gas pockets.

The project's completion "will all happen after we both retire but, nevertheless, I am a shareholder and I am worried," Bouman wrote. "All this (is) probably hearsay and no science or hard facts but still, I get this sinking feeling."

A spokesman for Sakhalin Energy Investment Co. Ltd., of which Shell owns 55%, said the well design was revised in 2005. He declined to comment on "the particular issues raised by the author" of the e-mail.

Van Spronsen denied that the problems identified in the e-mails are the reason for the cost overruns now troubling the project.

The Sakhalin II project is an oil and gas project managed by Shell in the Russian Far East, which is facing difficult negotiations with the Russian government after its budget doubled to \$20 billion last year and its delivery was delayed by six months. Russian authorities have also threatened to cancel the project's environmental permit.

Shell Chief Executive Jeroen van der Veer said Monday that environmental violations had all been resolved.

The disclosure of the e-mails may raise a new risk for the project. Environmentalist group WWF, which showed the e-mails to Dow Jones Newswires, said Russian authorities should review the well designs. Bouman, who confirmed to Dow Jones Newswires that the e-mails were genuine, and Van Spronsen, who neither confirmed nor denied their authenticity, are now retired.

Van Spronsen said he consulted Bouman because he ran the Groningen field in the Netherlands that was the best example within Shell of the type of well planned for Sakhalin's Lunskoye field. Groningen was operated by NAM BV, a joint venture between Shell and ExxonMobil Corp.

"I would never ever want to be schedule-driven pre-(final investment decision) on a 9 billion (dollars) project," he said. "That is asking for problems."

Van Spronsen responded to Bouman with an e-mail dated June 5, 2002. "I share sometimes the same feeling as you about schedule," he said. "One problem we have, however, is that the Russian approval system requires an early lock-in of about everything. Any change (in the technical specifications) immediately sets off a whole series of new environmental impact calculations."

In an interview this month, Bouman told Dow Jones that he had at the time told engineers visiting from the Sakhalin project that they risked a gas blowout because they planned to drill across young fault lines with gas plumes from the seabed.

Four weeks after his May 29, 2002, e-mail, Bouman sent another to Van Spronsen, asking about the chances of reactivating faults if the wells were drilled through them. He proposed a separate solution that "would avoid drilling through the faults at high angles."

Bouman said his solution was rejected because it would have delayed the investment decision that was ultimately made a year later, in May 2003.

In an e-mail to Dow Jones, Van Spronsen denied that the doubling of the project's budget in 2005 and the alleged technical problems now under scrutiny were caused by choosing poor solutions because of time pressure.

But Bouman was concerned enough to want to distance himself and NAM from the project's design.

"I also hope nobody will state somewhere that NAM has reviewed their design and it is now OK," Bouman wrote in which one of the e-mails. "We as NAM did not tell Sakhalin all was well with their (...) well."

In the e-mail, Bouman suggested he wasn't the only Shell manager to worry about the project. He said Shell manager Teun van Waart, now retired, had told him that Shell's exploration and production business, declined to develop the Sakhalin field because the risks were too high, but that the gas and power unit had signed a contract. Van Waart didn't return calls seeking comment. Shell referred requests to comment on all the details contained in the e-mails to Sakhalin Energy who declined to comment on this matter.

-Contact: 201-938-5400

AS can be seen, concern was expressed that the designs for oil and gas wells on Sakhalin Island do not properly address seismic risks. In this connection, we received a truly chilling warning yesterday morning from a Shell insider source. After studying the emails, the relevant expert, who is calm and cautious by nature, stated as follows: -

John,

You have no idea how significant the comments in those emails might be - to a petroleum engineer, they conjure up the worst of possible scenarios - uncontrollable blowouts in a frozen, pristine, ecologically sensitive environment, and the potential for the entire contents of the Sakhalin oil and gas fields to be released at the seabed. The Exxon Valdez would, quite literally, be a drop in the ocean by comparison. Unfortunately, to people unfamiliar with drilling and production, the emails are almost unintelligible - but just from the tone of the emails it should be clear that there were serious concerns.

In mid 2003 the reserves debacle had not begun, and the people involved were presumably still hoping to get away with it. The significance of the "Final Investment Decision" or FID is that this is the point in a project at which reserves are allowed to be booked under SEC rules.

I doubt whether either Hans or Engel really understood why they were "schedule driven" at that point, and they may have genuinely believed that it was because of the Russian bureaucracy. However being "schedule driven" implies that the date at which the FID would be made was fixed before the project had been planned. With the benefit of hindsight it might be concluded that the real intention was to ensure that the Sakhalin reserves could be booked before the end of 2003.

This is what the same Shell insider told us by email on 4 August 2006 in relation to postings by Sakhalin II insiders on a "Live Chat" facility on our website: -

The messages posted about the ERD wells through young faults and process facilities deserve to be highlighted. If true, these are both very serious issues. Due to ice and fog, access to the Sakhalin offshore production facilities during the winter months is severely limited, and they are therefore designed to be operated unmanned. In the event that a fault is detected in the production system, the facilities are designed to shut down automatically, cutting the supply of gas to the LNG plant onshore. Manual intervention, investigation and rectification of the fault are then required prior to restarting. Faults are more likely to occur if the system design does not incorporate adequate contingency.

An ERD (Extended Reach Development) well is a extended reach well, designed to drain a reservoir at a distance (up to 8km) from a platform. If an ERD well is drilled through an active geological fault, any geological activity is likely to

rupture the well casing and production tubing, causing a blowout (an uncontrolled release of hydrocarbons from the reservoir). The environmental consequences of such an event in winter would be catastrophic as it may be impossible to undertake blowout control measures until the following summer. This could result in the discharge of millions of tons of oil into an ice filled sea, and the Exxon Valdez would look insignificant in comparison. And the whales?

THE LEAKED EMAILS SUPPLIED TO US BY A THIRD PARTY SHELL INSIDER

FIRST EMAIL

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

From: Bouman, Hans MGJ NAM-ELG

Sent: 29 May 2002 01:24

To: Van Spronsen, Engel

Subject: Sakhalin

Sensitivity: Personal

Engel

Long time no hear! Hope all is well. I write this in english as you may want to quote from this email. I write it completely on personal title, nothing is of my business and if you think I am talking crap, just delete it.

We had last week a visit of some of the Sakhalin team people to look at our big wells (Pauwen-6 and Norg) because your project would need very big wells.

We have shown them around in the field and passed some data along and at the end of the day there was a short meeting during which they presented some stuff on the Lunskeye field. During that meeting I told them not to underestimate the difficulties of putting in a 9 5/8" completion, this is a major project and not a copy paste job!

When they talked (with great enthusiasm!) about the well completions and other problems (earthquake area, young faults that have gasplumes, half a year no access to platform etc) and I saw the completion design, I started to worry, especially on the oil producers.

Engel, several of us had the same feeling: this is not going too well. On some general questions why not this or that (e.g. sub sea templates like in Troll or Draugen) we heard: yes you are right but we are now schedule driven.....

I couple that to emails from a subsurface hand I know in the Sakhalin team and he is also apprehensive. And later, not related to any of this I heard from Teun van Waart that many moons ago EP declined to do something in this field because the risks were too high but that G&P had signed a contract anyhow.

All this probably hearsay and no science or hard facts but still: I get this sinking feeling. I would NEVER EVER want to be schedule driven pre FID on a 9 billion \$ project. That is asking for problems.

I also hope nobody will state somewhere that NAM has reviewed their design and it is now OK. We never did anything like this.

I can only advise to be very cautious, ask some senior people to comment/design stuff in this area and get the biggest bastards you can find for a VAR3 to really grill everyone on the team. It will all happen after we both retire but nevertheless: I am a shareholder and I am worried.

Please do not shit on the guys that were here, they mean well and else they will never come forward with ideas etc. NAM could help on reviewing designs or on VARs.

All the above written in great haste and in several different periods so treat it as such.

Cheers

Hans

ps today I agreed on a visit by the Central Development Committee next Thursday. A group of some 13-15 people will visit based on enthusiastic stories by the visitors I described above!

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Hans Bouman

Manager Asset Groningen

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Internet: m.g.j.bouman@nam.nl

SECOND EMAIL

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

From: Van Spronsen, Engel
Sent: woensdag 5 juni 2002 4:00
To: Bouman, Hans NAM-ELG
Subject: RE: Sakhalin
Sensitivity: Personal

Hans,

I never ever think that what you say is crap. I think it shows that the text is written at different time, so my apologies for asking questions to get a good picture.

I accept that a 9 5/8 completion is a major job, but do you have the feeling that the Sakhalin staff got that in their head?

What is exactly your concern about the completion, particularly for the oil wells? I assume that is not related to your paragraph about general questions (sub-sea template).

Thank you for noting that NAM did not sign off on the design (you must however done this, so what do you mean by "We never did anything like this")
. Can you advice me on some real bastards I can use to grill?

I know that Paul Stuivenwold is also apprehensive about the "production technology" input, particularly for the gas wells. Is that the subsurface hand you refer too or are there more?

I share sometimes the same feeling as you about schedule, particularly if the schedule is "very aspirational". One problem we have however is that the Russian Approval system requires an early lock-in of about everything. Any change immediately sets off a whole series of new environmental impact calculations etc.

Thanks for hosting the CDC. So far this group has been quite reasonable. All experts you can convince with good technical arguments. They are the group who sign off on the reservoir development plan. Unfortunately, the State Reserve Committee is more difficult. One would expect that development plan and reserves have a link, but that link is in Russia not so clear. However, we have even be able to convince the SRC.

Hope to hear from you soon.

Engel

THIRD EMAIL

From: Bouman, Hans MGJ NAM-ELG
Sent: 25 June 2002 15:49
To: Van Spronsen, Engel
Subject: RE: Sakhalin
Sensitivity: Personal

Engel

I am back since 2 days so here a very short answer.

I believe that the guys that visited us understand that a 9 5/8 completion is a major piece of work. With 'not signed off' I mean that we as NAM did not tell Sakhalin all was well with their 9 5/8 well. Their visit was only for info and sharing best practices etc, so no formal NAM involvement. Of course we signed off 14 years ago on the Pauwen6 well and that has worked very well.

My concerns on the lunskeye project were:

- limited time of access to the platform so you must build in redundancy.
- the gasplumes you have over those big faults. What are the chances of re-activating those faults if you drill through them with extended reach wells.
- I forgot the number of wells but understand these will be limited, so what of the reliability of supply?. Also the oilwells would be horizontals from the platform that would produce high watercuts very quickly. But they would perforate the wells higher up for autogaslift since the wells would not flow against 1400 psi surface pressure. They could not argue why not putting a simple LP unit on top and flare some gas for the first few weeks.

- injection of cuttings in this are: any risk for re-activating faults?
- why not use any templates and do everything from 1 platform? (Answer ' yes' we think so too but we are already on a schedule driven programme...)

If you are going to put a VAR team together I suggest you include Willem Heijnen, now in New Orleans for well and completion design and knowing Willem he will comment on many other topics as well. Also a good designer would be Peter Oosterling, no idea where he is now.

I cannot remember more things but hope this clarifies my worries somewhat. Apparently the visit of the CPC has gone very smoothly, they were very happy to see our facilities and Groningen System. One of our production people drove the bus past the house of Koop in Tjuchem and they all saw the big statue of Lenin in his garden (10 m tall!) This impressed the hell out of them!

Greetings

Hans

EMAILS END

I know for certain that these emails are authentic.

We have other input from Shell insiders relating to the same issues. We are willing to send it to you if so requested. An email address would assist as we could supply live links. For example, you might be interested in an article published by The Guardian newspaper yesterday revealing improper conduct by Shell senior management in the running of what is supposed to be a non commercial charity: The Shell Foundation. A serious breach of the charity laws arose in regard to representations made by officials of the charity in relation to the **Sakhalin II project**. I would be happy to send the relevant URL link for the news story.

I believe that you have already received Shell insider information which originated from our website. We supplied it on a confidential basis to a senior official of the WWF, Mr James Leaton, after he made an appeal via our Live Chat facility (without disclosing his identity to other users). His appeal produced a response. I am aware that a WWF representative is liaising with you on these matters.

We would also be happy to send to you any further inside information received as the Sakhalin II project progresses.

Email address: john@shellnews.net

Telephone: +44 207 817 1187

Mobile: +44 7977 46767

You have my fax number.

Yours sincerely

John Donovan