ROYAL DUTCH/SHELL GROUP OF COMPANIES

Investor Relations Presentation

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WELCOME AND INTRODUCTORY REMARKS

MR. PHILIP WATTS, Chairman, CMD: My name is Phil Watts. I am pleased to welcome you to the 2001 Royal Dutch/Shell strategy review. Welcome. Before we start, here is our standard disclaimer. I will give you a few seconds to read it. You have seen it a few times before.

OVERVIEW

MR. WATTS: What would I like you to take away from this presentation? First, that we have delivered—not just on tough targets, but on transforming the way we do our business. Second, that we know where we are going, with a clear strategy and firm targets. Third, that we are well placed to seize opportunities, including in a downturn. Our theme is "Maintaining Momentum and Flexibility in Uncertain Times." Together with the rest of the team I aim to convince you of these things today.

Let me introduce the others and say what we do. First, my colleague on the Committee of Managing Directors, Jeroen van der Veer, the President of Royal Dutch and Vice Chairman of the CMD. He is also responsible for our Chemicals business, as well as Trading and Renewables. Paul Skinner is CEO of our Oil Products business. Walter van de Vijver is CEO of our Exploration and Production business. Harry Roels is responsible for the Gas and Power business as well as New Consumer and Capital businesses. He is also in charge of E-business and our IT organization, which is critical for our global reach. I am the Chairman of CMB and take responsibility for some key functions such as human resources, finance and external affairs. Judy Boynton is our new Director of Finance, who took over from Steve Hodge earlier this year.

As well as business leadership, Managing Directors all have regional responsibilities, coordinating our worldwide businesses and building relationships that count. I should stress I personally believe very strongly in the value of having a leadership team such as ours with its breadth of knowledge and diversity of perspectives. That is good when we face a complex and uncertain world in which to do business.

This is the agenda today. I will start off by confirming the delivery of our roadmap targets and transformation. Then I will look forward, considering the outlook for the business environment and the assumptions we use to test our plans, and then outline our strategy for growing value on our hard-won foundation of robust profitability. Judy will put this in its financial framework and define our group targets. Walter, Harry, Jeroen and Paul will outline their specific business targets and plans, and then I will briefly summarize at the end.

We will take a short break after Harry's presentation and, at the end of the session, we will have questions and answers.

Roadmap Delivery

Let's look at the roadmap. Here is the actual roadmap slide we showed you in December 1998. The fact is the targets were exceeded, and enough said on that subject. We have met our cumulative cost-reduction targets, revised from $2.5 billion to $4 billion and then to $5 billion. We have made it this year. Cost leadership is embedded in our culture, as is capital discipline. In 1998 our capital investment was rising strongly, just when crude prices were plummeting. Over the last three years our spending has averaged $9.7 billion a year, a third less than in the previous three. Opportunities are now ranked globally to make sure we select the best available, significantly upgrading our return. That discipline was essential, although we need to find that balance between returns and growth.

This goes together with delivering the promised portfolio actions, carrying out rationalizations, swaps and divestments, touching over $20 billion and reducing our capital employed in Chemicals by 40 percent. Capital discipline and portfolio management together have greatly improved the capital efficiency of our businesses. EP's volumes per dollar of capital employed have increased by 15 percent since 1998. OP's have increased by 18 percent and Chemical's are up 20 percent. Overall it shows just how much harder we are working our assets.

This has produced a remarkable improvement in returns. Our normalized ROACE has risen from 8 percent in 1998 to 14 percent in 2001. Cost improvements contributed half this increase and capital discipline a third. In short, we have delivered robust profitability through structural change and thoughtful portfolio actions, cutting fat, not muscle, and establishing a sound base for future growth. That is good and we are rightly proud of what we have delivered, but it is history. You want to know what we can deliver in the future.

Business Environment

Let's step back a moment and look at the business environment first. Let me start by describing how we see the near-term economic outlook, the basis on which we set the reference conditions and against which we test our portfolio, plans and performance. World GDP growth has declined dramatically. We all see and feel that. The best we can say about the future is it remains highly uncertain.

Then there is the impact of September 11 and its aftermath. First of all this was a human tragedy, and our priority has naturally been to safeguard our people as well as our assets. But we thought very deeply about the likely impact on energy industries, developing scenarios for the future within days of that dramatic event. Geopolitical perceptions have been changed and new relationships developed. Concerns about energy security have moved up the policy agenda. We are responding to such shifts by building on our wide-ranging relationships, for example in Russia, and on our record of delivering secure supplies.

To return to the economic outlook, have we touched bottom yet, how long will the downturn last, will it bounce back quickly in a V or come back more slowly in a U—or could we face a long, drawn-out L? Our plans are biased to the lower end of the range and tested against the implications of continuing recession. Our earnings, cash flow and cost structures will enable us to weather an extended downturn without jeopardizing ongoing investments. We have the flexibility to manage the downside and are very well placed to seize opportunities on the upside.

Now the oil price: uncertain demand growth will certainly mean volatile oil prices in the short term, but over the long term we see that trend with the price likely to cycle between $10 and $30 a barrel. OPEC cohesion is still variable. but they have achieved great discipline—looking into the abyss three years ago was a powerful spur. At the same time, non-OPEC investors are also more cautious after 1998, taking longer to respond to an upturn. Overall we think higher price periods could last longer than lower price ones. Extreme pain tends to generate a quick response. So we have decided that $16 a barrel is a prudent long-term level around which to shape our portfolio, although we will always test against the low side as well.

Earlier this year, U.S. gas prices were far above their long-term levels, but we think this spike was a temporary disruption due to supply-demand imbalances. We believe stronger, long-run fundamentals point to a market clearing at the Henry Hub price of around $3 per 1,000 cubic feet. Longer-term demand growth and increasing cost of supply will support somewhat higher midcycle prices than over the last decade. This upward pressure should be tempered by the availability of substitutes and new sources of supply. Elsewhere, we expect to see some liberalization of markets, but in the next couple of years gas prices will most likely remain linked to liquid hydrocarbons, either crude or products.

Let's look at some other margins. The environment for Chemicals and Oil Products has also been affected by the dismal economic conditions. Chemicals faces the worst environment in 20 years and fuels marketing margins have fallen significantly. This graph shows our average Oil Product marketing margins indexed to the margins used in our original 1998 roadmap. We have set much more conservative reference conditions for this parameter based on two understandings: First, that continuing industry cost improvements are being quickly and structurally passed through to consumers; and second, that markets are becoming more and more competitive as new competitors enter.

We have modified our reference conditions on the basis of this analysis to enable us to move forward on the strong foundations we built. These are the new ones, higher for oil and gas prices and some refining margins, but lower for Singapore refining, and as I said, lower Oil Products marketing margins. Although Chemicals conditions show little change, we do see changes in some individual areas. The considerable reduction in the OP marketing index reflects the factors I have discussed.

These parameters are a view of the future environment against which we test the resilience of our portfolio and benchmark our results. Judy will talk about the relationship of these parameters and the financial framework within which we drive the portfolio. These conditions are also positioned within our overall project screening criteria. But we certainly do not base our investment decisions on just one criterion—pricing grids, strategic fit and performance track record are all taken into account. Of course, individual upstream projects still need to deliver the cost of capital at $10 a barrel or equivalent.

These conditions are compared here with our three-year averages. Taken together, they certainly do not amount to an easier set of hurdles. As I said earlier, we must be able to respond to the potential threats and opportunities of an uncertain world. We believe we have what it takes—the robust profitability for difficult times and the financial capacity and flexibility to seize opportunities as and when they arise, particularly when weaker players find themselves in difficulty in a downturn. We have chosen our new reference conditions to maintain both, securing the robust profitability we need while positioning ourselves to pursue the opportunities we expect.

Judy will give you the financial framework and consequences, and Walter and others will tell you what it means for our business portfolios and performance. But do not forget our watchword: maintaining momentum and flexibility in uncertain times.

Strategic Direction

Let me turn now to the Group strategy to move forward from our delivery of the roadmap. We have been doing a lot of work on this. Our aim is simple: To grow value in the businesses for the shareholders. We believe this is driven by two things: first, maintaining robust profitability driven by the same disciplines installed as we went through the roadmap that are now embedded in our culture; and second, developing further and harnessing our competitive edge to grow earnings from specific business opportunities where we believe we have important attributes differentiating us from the competition. We will measure and reward our success as shareholders do—through total shareholder return. In the end, the market decides.

To do this, we need a clear line of sight from the top to the bottom of the Group. The creation of accountable global businesses three years ago was a major step in this direction. Within these businesses we recognize about 50 planning units, focused areas of business like deepwater, LNG, retail and lower olefins, to name a few. This framework forms the basis of our resource allocation and appraisal processes, and insures we understand where our resilience and opportunities for value growth are. My colleagues will discuss some of those planning units in detail later.

The strategic dimension that interests me most is the optimum balance between returns and growth. Recently over these last years we have been absolutely, single-mindedly focusing on getting our return on investment to industry-leading levels. While we certainly have no intention of losing this discipline, we have to develop our approach as we move forward.

This matrix illustrates our thinking. The other presenters will fill in this conceptual picture later. You may argue it is deceptively simple, but very often these simple mental pictures are enormously helpful as we drive performance improvements and growth in each of our businesses. In the bottom left-hand corner for assets that deliver both low return and growth, the recipe is straightforward. We need to fix them, and if we cannot do that within a reasonably short time, we need to sell or close them.

On the bottom right-hand side we have those mature businesses delivering high returns, but some of them with limited potential for growth. We aim to maximize and maintain those returns through cost leadership and operational excellence.

On the top left-hand side we are building for the future by developing businesses that offer high growth, but presently produce low returns. We must be careful to balance the proportion of this stuff in our portfolio and suggest no more than one-fifth of our capital employed.

In the last box we need to apply our competitive edge to secure and realize the potential of those elements that can deliver both high returns and high growth. The nature of our main businesses has given us opportunities in this particular quadrant, but we believe we are making progress in several new areas to increase the weighting of our portfolio here. The overall aim is to optimize the portfolio return and growth across a range of oil prices—that is to say, a broader range than any single reference price.

I would be surprised if there were not some questions today about acquisitions, so I will just outline our thinking here. Acquisitions remain an important element in the process. We have completed deals worth about $6 billion since 1998 and are continually looking for acquisition opportunities that provide platforms for growth or fill gaps in our portfolio or skills, when we can find them at the right price. We have a single ranking process for this that in principle treats acquisitions on a par with organic investment. Any deal is expected to be consistent with the over Group portfolio boundary conditions, which I will discuss in a moment.

Looking forward, we see the potential for opportunities in the downturn and have the financial strength to take them as they arise. In this respect we are not constrained by our baseline capital budget. But the cash is not burning a hole in our pocket. Recent experience confirms we will not chase deals at any price.

I mentioned our portfolio. We have a clear idea of where we want the portfolio to go. We are keeping our focus on profitability, but driving for growth. We have some excellent capital-light business areas that are growing fast, but the engine of our business remains our ability to combine technology with capital. That is the reality and is why our plans involve growth of about 5 percent annually on our capital employed, with EP and GP moving above 50 percent of the total. Growth is focused in the upstream because we expect to make higher long-term average returns there than in our downstream businesses, just as we have in the last decade.

Gas Production has been growing faster than oil and we want that trend to continue in the longer term. Although the relative share of Oil Products and Chemicals will drop somewhat, those businesses will see steady and profitable growth. Our OP expansion in the U.S. is a clear signal in that regard. We also expect at least one material new income stream to emerge from our small group of emerging businesses. We are fit and ready to take on this exciting growth agenda. While we grow, we are committed to the discipline that established businesses are capable of delivering—15 percent ROACE at reference conditions.

Our portfolio aspirations also have a geographical dimension. We aim to have more exposure in North America, where we presently have just over a quarter of our capital employed; to further strengthen our Asian position; and to get more offshore Africa, where we can harness particular skills and positions. We will also invest to build our businesses in major emerging markets like China and India, and then specific projects in the Middle East and the Caspian. This means attractive, major projects, not just planting flags for their own sake.

Of course our competitors will not hand this to us on a plate, if they can help it. We can only realize our growth aspirations by using our competitive edge to develop specific business opportunities. We think we have this in four areas. First is customer focus—not just in our very strong marketing businesses, but also in our long-standing and productive upstream relationships with governments and state companies. Second is key differentiators—brand, technology, reach and reputation. You will see those addressed by my colleagues in their business presentations. Third is our people, a talented and diverse work force all around the world. And last but not least is our business principles and a commitment to contribute to sustainable development.

I would like to discuss these last two in a bit more detail. The quality of people and how we harness their talents will be the most important differentiator for a multinational business like Shell. This means attracting the best talent from around the world, including mature executives with experience and fresh perspectives; then motivating that work force, sharing our values, promoting inclusiveness, valuing diversity and requiring accountability, as well as rewarding accordingly; maximizing capabilities, developing skills and extending experience; and systematically learning and sharing. I believe Shell's unique, worldwide multicultural community provides a huge competitive asset in a world where being truly multinational and multicultural will become increasingly important.

We cannot create value for our shareholders if we are not trusted to meet the expectations of governments, partners, customers, employees and society. I believe this will become increasingly important for all companies. Shell has absolutely clear business principles. We work hard to insure we operate by them always and everywhere. Doing as advertised helps us win long-term friends, builds staff commitment, wins partner loyalty and builds trust. We are committed to contributing to sustainable development and take this very seriously. I am delighted to have been elected as Chairman of the World Business Council for Sustainable Development for the next two years.

We also believe it contributes to the bottom line, helps reduce risks and costs, promotes innovation, attracts loyal customers, guides the long-term portfolio and attracts and motivating talent, especially the young people we need in Shell's organization around the world.

With that, let me hand over to Judy to put all that into its financial framework.

FINANCIAL FRAMEWORK

MS. JUDY BOYNTON, Director of Finance: Thanks, Phil, and good morning to you all. You have just heard where we are going, building on the delivery of our roadmap. Let me put that into a financial framework for you.

Our portfolio is now robust, which means we deliver strong returns and cash flow under a whole range of economic conditions. This graph shows the Group's 2001 returns at varying crude prices and normalized at roadmap conditions. The dotted line is there to remind you just how far we have come by delivering the roadmap, a really significant achievement.

Today our return would be above 12 percent, even if prices fell to $10 a barrel. This reflect our low-cost positions and the worldwide spread of our portfolio. We are diversified geographically and in the upstream by contract type, including royalty, production sharing and fixed margin arrangements. As Phil showed, we have a larger proportion of our assets in Oil Products than others. This adds stability at comparatively attractive returns. The rest of the industry is not as transparent around this issue so we cannot make direct comparisons, but we are very confident of our competitive position in a wide range of economic scenarios. This strong foundation is the direct result of delivering the roadmap and focusing on returns.

We have used and will continue to use return targets to shape our portfolio. This measure incorporates capital efficiency as well as earnings and cash flow growth. Our actual returns have exceeded 20 percent while improving in competitive terms. Our normalized returns have also risen steadily to exceed our 14 percent target. Our drive to achieve 14 percent at $14 has served us extremely well in reestablishing a very strong foundation; but looking ahead, we require a framework that allows us to optimize the balance between returns and growth. Within the context of the new reference conditions and based on about $12 billion in capital investment, we expect the Group's return to be between 13 percent and 15 percent. Where in this range will depend on the composition of our capital employed and the proportion of growth investment in our portfolio. I stress here that for the next two years or so, we expect to be towards the higher end of the range, comparable to 14 percent at $14. At these return levels, our cash generation also remains strong. We are able to fund dividends and the ongoing capital program without divestments and at our conservative reference conditions.

As I mentioned, exactly where we fall in the 13 percent to 15 percent range will depend on the proportion of growth capital in the portfolio at any point in time. This is a long-term business and the timing of investments is not always under our control, so we will remain flexible to take advantage of profitable opportunities as they come. We are also continually looking for opportunities to upgrade the portfolio.

This slide describes the portfolio today. Fifty-five percent of our capital employed is already delivering strong returns. We have another 18 percent of mature assets with the potential for both higher returns and growth. The U.S. Oil Products business is one very large example. We also have 15 percent of ongoing Exploration and Production, and Gas and Power development projects, such as the Athabasca oil sands development in Canada, Bonga offshore in Nigeria and our various LNG projects.

We are investing in several new businesses such as Shell Capital, Consumer, Internet works and Renewables, all of which could create significant future value. As you can see, this is a very modest bet to assure a piece of these potentially high-growth areas. Last, we have highlighted $7 billion for priority attention and specific portfolio action if returns do not improve in a reasonable time. Confidentiality keeps us from discussion all the assets in this category, but Harry will talk to you about the Texas pipeline sale, which is one good example in this category.

As you saw, 55 percent of our asset base is achieving in excess of 15 percent normalized returns. Looking at it from another perspective, each of our established businesses is expected over time to maintain and develop its own portfolio so it can deliver 15 percent at reference conditions. What does this mean? In the longer term, EP will seek to add value through organic growth or niche acquisitions in line with the Group portfolio direction. Therefore Walter and his team are pursuing a portfolio that delivers at least 15 percent at $16 a barrel with greater upside potential at higher prices. In the next two years, EP will deliver even more, around 18 percent at $16 a barrel.

As the U.S. Alliance operations are integrated, Oil Products will also deliver 15 percent in a significantly tougher environment than previously expected. Our refining reference conditions have improved somewhat, but this fact is far outweighed by marketing margins.

Chemicals will manage its portfolio to be capable of 15 percent at mid-cycle conditions based on limited expansion and capital, thus maintaining or improving its position in one of the worst industry environments in 20 years. As for LNG, this established business is now entering a new growth phase, with several plants under construction or planned. It has the capability for 15 percent—in fact, it is delivering 15 percent at reference conditions—but the work in progress will lower returns somewhat in the immediate future.

All this does not mean in any way we have given up on our cost focus or capital discipline. We see these as essential foundations. Each business has set demanding unit cost goals to assure they maintain a leading competitive position. The others will describe the details, but the targets add up to about $500 million of annual cost reductions. As in the recent past, upstream projects are expected to meet the cost of capital at $10 a barrel. This criterion is a key contributor to the robust nature of the portfolio at lower prices. All the targets I just mentioned are premised on spending in the $12 billion range. We expect to invest $11 billion this year, up from $9 billion last year, and then about $12 billion in each of the next two years.

This is an excess of depreciation for all our major businesses and over the next few years will result in about a 5 percent annual growth in capital employed. Just for clarity, these investment numbers exclude the cost of acquiring Texaco's interest in Equilon and Motiva. It is difficult to be precise on timing, but we expect to include this deal in Q1 of next year. However, the additional capital investment and depreciation that comes from consolidating Equilon are in fact included in these Oil Products figures. The investment numbers shown are embedded in our targets. The impact of any significant incremental investment will be quantified separately when and if it occurs, in the same way we talked about the Oil Products' U.S. alliance transaction.

As Phil made clear earlier, a volatile environment can be a threat or an opportunity. In either case we are covered with our robust portfolio and strong balance sheet. Here is our historical gearing ratio, shown versus our desired gearing of 20 percent to 30 percent. We had planned to move toward the more optimal balance sheet with the large stock buyback program executed this year, but crude prices above $25 a barrel resulted in a 9 percent gearing and virtually zero net debt at the end of Q3. We continue to regard a triple-A rating as important, something that gives us an edge in relationships and in developing new projects.

At present our unused cash plus debt capacity, assuming a triple-A rating is retained, is over $20 billion, depending on the crude price and other economic assumptions. Our projections move us towards our desired gearing range, but as you can see there is more than adequate capacity to weather a downturn, pursue additional attractive investments or return more cash to shareholders.

Our dividend promise of covering inflation over time in the currency of the parent companies has been and will be maintained. As you can see, we have significantly exceeded this promise and have also grown our dividend in line with inflation in U.S. dollars. We expect dividends to progress in an orderly upward fashion and will use share buybacks to return additional shares to shareholders.

This year we bought back and cancelled $4 billion of Royal Dutch and Shell Transport shares, 2 percent of the outstanding stock. This compares well with the competition. All of our stock is retired, while some others reissue their stock for options. The buyback means the remaining shareholders have a claim on an extra four cents of earnings per Royal Dutch share, based on average number of shares outstanding in 2001. An extra seven cents of earnings is generated if you use the number of shares expected to be outstanding at the end of 2001.

The impact on EBITDA—earnings before interest, tax, depreciation and amortization—is also seven cents, again based on average number of shares outstanding in 2001. Another result is shareholders have an extra 2 percent claim on our production growth.

Looking forward we expect to continue this program, unless we see alternatives to significantly grow value for the shareholders. As you may recall, we have structured our portfolio to enable 50 percent higher cash to shareholders than in 2000. This, together with any additional funding for growth opportunities, would move us towards our desired gearing by 2005.

In summary, we aim to deliver return on average capital employed between 13 percent and 15 percent at our new and still very conservative reference conditions, with each established business capable of delivering 15 percent. Those business targets are underpinned by clear unit-cost margins and portfolio actions you will hear about next. The Group return targets assume annual average capital investment of $12 billion. Our longer-term desired gearing of 20 percent to 30 percent gives us the financial capability to maintain our dividend growth and our buyback program, delivering on average 50 percent more cash to shareholders than in 2000.

All of this rests on the capabilities and plans of our businesses, so let's turn to them now. Walter will start by explaining Exploration and Production.

EXPLORATION AND PRODUCTION

WALTER van de VIJVER: Good morning, ladies and gentlemen. I would like to start with summarizing some of the key deliverables of EP in 2001.

As you can see from this first slide, the EP business is approaching the end of 2001 in a position of considerable strength. We will clearly meet our production target this year and most likely exceed it. Our overall project delivery remains world class. We have also made major investment decisions on projects to secure production for the coming years.

We strengthened our portfolio with acquisitions like Fletcher. We recently made an acquisition in the U.S. in the Rocky Mountains, a company called McMurry, for $300 million. We made some very important discoveries this year like Bonga South West, which is the biggest in the industry this year. We acquired licenses in all the geographic areas where we have strategic interest. The overall result, together with the combination of technology being a key enabler for success, is we have a very robust portfolio at both high and low oil prices and a very strong financial position.

Here are some examples of the major projects we brought on stream in 2001, all within budget and on schedule. Brutus was ahead of schedule. This was our fifth successful tension-leg platform. Cost-wise we continue to beat our own records and improve performance in deepwater developments. Brutus continues to ramp up to its peak production.

Malampaya is a world-class Gas and Power project in the Philippines that will provide 30 percent of the country's energy needs. There is some additional good news: In addition to the gas at Malampaya, we have discovered an oil rim currently testing over 15,000 barrels a day. This project clearly demonstrates our ability to rapidly mobilize professionals from our global staff pool to wherever the opportunities for growth are.

We have also met our schedule with Nowrooz/Soroosh in Iran, where we started up about a month ago and again are ramping up to full production in 2002.

Looking at roadmap achievements from the EP prospective, we all know that oil prices have been very volatile recently; but as you can see here, we are still on track delivering the superb return on capital of 40 percent. Our normalized return, which excludes price variations, is still above 15 percent on the $14 barrel basis. We have also delivered 4 percent underlying production growth for the last four years, with most of the increase coming from gas. We will meet our production target for 2001, as I mentioned earlier, and most likely exceed it. On top of that, we have delivered on all our roadmap cost promises and maintained straight capital discipline throughout.

Let's look at our performance on a competitive basis. Here you see some of the absolute numbers. As you can see, we are extremely competitive relative to other players in our industry. We remain the largest private operator in the world. We leverage that size to lead the industry on operating costs and technology application. Also, the return we provide is a very balanced one, made highly competitive by our geographic spread, the diversified nature of our production base and the fiscal regime in which we operate. The balance gives us upside potential and downside protection as you can see from our best-in-class return compared to our peers.

So where are we going with our portfolio? We are starting 2002 from a position of great strength. Note the global coverage and our existing strategic teams that we maintained throughout. I will cover these teams in the rest of the presentation. In terms of breaking new ground, we have already made considerable headway with our gas to liquids and floating LNG technologies. We continue to invest heavily in R&D and in bringing new technologies to bear in the field. We will always maintain that balanced portfolio between growth and profitability, between upside potential and downside protection with this global coverage.

We will measure our success against the targets you see on this slide. This framework of targets will enable us to manage the tension between robust profitability and growth, and to maximize overall value. We will maintain a 3 percent average annual increase in hydrocarbon production over the 2000 to 2005 time frame. Over the next two years we will reduce our underlying unit operating costs even more than we have already. You note we already have the cost leadership position in the industry. We will increase capital investment to an average of $7.5 billion per year, while maintaining strict capital discipline. We will be delivering 18 percent ROACE at reference conditions—totally consistent with the 15 percent at $14 per barrel.

Looking a little further at our operating costs, how will we achieve a 3 percent further underlying cost reduction, given the upwards cost pressures on our business and our current leadership position? We know there are upwards cost pressures, whether from tight markets or from inflation in particular areas. We also know we will remain committed to maintaining the highest standards of safety and asset integrity throughout our global operation. The key answer for further cost reductions is globalization. That is the heart of the solution. We will further broaden the process of standardization already begun. We will mandate more sharing of best practices from our Realizing the Limits programs and will increase global procurements.

Turning to Exploration, the major aspect of our forecasted production growth as outlined in September comes from our Exploration strategy. This strategy has three strengths designed to add production over the short, medium and long term. We are engaged in near-field exploration to exploit our existing infrastructure; new hubs in mature places will replicate success in prolific basins; and frontier oil and gas exploration will establish Shell as a top player in the basins of the future.

We have made excellent discoveries in all categories this year. Since September, we have added some further discoveries. We recently had another major find in Nigeria, the Bolia field, which we are currently further site tracking and appraising. We also had a recent success in Brazil in Block BS4, which has now proven productivity to go to the next stage of development. I mentioned Nigeria, Bongo South West. As far as we know, it still remains at the growth number of about 800 million barrels equivalent, the largest industry discovery this year.

Overall, we have added total resources of more than 1.5 billion barrels of oil equivalent at a finding cost of $.80 per barrel, down from $2 a barrel in 1998. We also had success in securing further exploration licenses. We recently secured an exploration license in the Boha Bay [ed. query] offshore China, and of course we have been very successful in the latest lease sale for the eastern Gulf of Mexico—so success continues.

Exploration is all about feeding future production. This slide depicts the impact of discoveries since 1996 on our forward production growth, showing the total transparency, how our production growth will be underpinned by the near field discoveries in corporate use and franchises shown here. On top of that, you see where new hubs and frontier plays come in. You will also note that by 2005 or 2006, there are some material developments coming on stream in Nigeria, Angola, Namibia and Brazil, and obviously the first phase of the giant Kashagan development.

Adding the previous slide to this slide, showing further field development that in total deliver the 1.2 million barrels additional equivalent production by 2005. These new developments will offset existing field declines and give us the overall average increase of 3 percent. In here you will also see some recent and continued startups in the Gulf of Mexico. We have had Brutus, Serrano, Oregano and are currently offloading the first well of Crosby, all on schedule to deliver new production in the Gulf.

The next slide is the same plot shown in September with no change. This is how production growth is expected to break down between existing businesses, projects and discoveries. The existing asset base includes projects that will be on stream before the end of 2001. The project category covers new development starting after 2001. Our third category is new discoveries from identified prospects. Looking at our total portfolio over the period 2000 to 2005, you see a breakdown by theme of our total production and associated capital expenditure over the period 2000 to 2005. As we move forward we will focus on deepwater in Nigeria and major resource holders, plus some of our other Oil and Gas operations.

Growth comes from diversified resources. Here is a breakdown by theme of the additional projects of the same 1.2 million barrels a day equivalent I showed earlier. You can see the capital investment associated with these projects is some 30 percent of the total planned expenditure. I will now focus on some of those growth areas in detail, starting with deepwater.

We are currently the number-one production operator with a presence in all key basins. Our exploration and appraiser program in 2001 has been very successful. We expect to remain the clear industry leader in value generation due to the variety of opportunities open to us, our technology advantage in deepwater and our ability to keep pushing down the unit cost per barrel.

This slide shows what we will deliver over the next four years through major projects in the Gulf, Nigeria and the Far East. Also shown here are opportunities we are pursuing very actively in Angola, Malaysia, Egypt, Norway and Gabon [ed. query]. These opportunities will have significant potential for the future.

Turning to Nigeria, the next two or three years will be very important for Shell's growth strategy in Nigeria when the benefits from current investments have really started to kick in. The offshore gas-gathering system will be completed, providing the backbone for new associated gas supplies to the Nigerian LNG plant at Bonny. The third train of Nigerian LNG will start up early 2003. The final investment decision will be reached on the Nigerian LNG trains 4 and 5 in 2002, signaling another phase of major integrated Oil and Gas development projects. The final investment decision will also be reached on the Erha deepwater field operated by Exxon Mobil. As I covered earlier, Bonga NEA developments will come on stream in 2003 to 2004.

Over the longer term Nigeria will continue to be an extremely important part of our portfolio. Let us not forget some simple facts. Nigeria is West Africa's most prolific hydrocarbon basin. Remaining oil reserves total nearly 30 billion barrels, the fourth largest outside of the Middle East. The remaining gas reserves are conservatively estimated at 50 TCF [ed. query], the seventh largest in the world. The potential of the deepwater play continues to increase, as noticed from our continued success in this area. Please note that the capital investment you see here does not yet include expenditures associated with the Bonga South West development.

Turning to this example, here you see the Sea Eagle of the EA, the first FPSO development in Nigeria. This is the first of a succession of Shell projects coming on stream over the next few years. Our share of production is estimated at 100,000 barrels a day and 70,000 million scfs of gas per day. Our target is to produce the first oil by the end of 2002.

Shell has been very successful in organically growing its business over the past 20 years in our major resource holders. Our aim is to access the long-term reserves and the Middle East major resource holders where there are significant potentials for growth. We are well placed in Iran, Venezuela and Abu Dhabi. For the longer term we are well positioned strategically in Saudi, Sakhalin and Kazakhstan, where a major increase in reserves can be expected over the next five to 10 years and that aligns with our commitment for further increasing the gas content of our portfolio. No one can ignore the challenges we will face in moving these deals ahead. They are long-term deals and require patience and persistence from any international oil company seeking entry into these major resource holders.

This busy slide shows what happens after 2005. This shows our excellent position from growth going forward. Having spent $5 billion in 2005, we will then spend a third $10 billion or so for additional production of more than a million barrels of oil equivalent per day. There are many opportunities, and we have tried to list them in our assessment of forward expenditure.

Technology remains a key enabler for us. To make sure we keep delivering world-class performance, we are focusing strongly on these four leading-edge technologies and on their global implementation. In 4D Reservoir imaging, we are world leaders in the number of 4D surveys we have acquired to date. On another area, expandable tubulars, we are creating $500 million of value through savings, modernization and sales of licenses. Expandable tubular technology has been proven to improve well productivity and shave well costs in a wide range of field applications. We are very pleased to be in the lead on this new technology.

So let me summarize. EP's contribution to a superior total shareholder return will result from our robust profitability and growth by leveraging our competitive edge. We will maintain our diverse resilient portfolio with ROACE of some 18 percent at reference conditions over the next two years. We will achieve a 33 percent reduction in unit costs. Production growth will average 3 percent annually over 2000 to 2005, with major opportunities maturing beyond 2005. Competitive differentiation and continued strengths are our key forward commitments. Our people and our abilities will insure this will happen. You have my personal commitments to deliver these goals.

I would now like to hand over to Harry for the next presentation.

GAS AND POWER

MR. HARRY ROELS, Gas and Power, and New Business: Thank you, Walter. Good morning, ladies and gentlemen. You have heard Judy mention the improvement in returns from the Gas and Power business. We are delivering profitable growth by leveraging our leadership in upstream resources, assets, capabilities and technology. That means working to monetize our gas reserves, which are larger than any of our competitors', and building on our leadership in the LNG business, where we have twice the equity capacity of our nearest competitor. It also means building on the growth of our generation capacity where InterGen's operations are expanding rapidly, and realizing the value that technical leadership in such areas as LNG, Floating LNG, gas to liquids and coal gasification brings. We do this by emphasizing three things: customer focus, operational excellence and portfolio management.

Now let's look at our track record. Since 1998, our portfolio has been extensively restructured. Although the overall capital employed has remained flat, there have been three major developments. Our midstream pipeline business, half of the portfolio in 1998, has been restructured, primarily by divesting noncore pipeline interests here in the United States. I am pleased to advise you in this context that on Sunday, InterGen and Kinder Morgan [ed. query] signed an agreement whereby Kinder Morgan will acquire a Texas pipeline and storage assets held by InterGen for a cash purchase price of US $750 million. We are pleased with the terms of that deal, which anticipate to close in early 2002, following regulatory approvals. That is just another example of our ongoing portfolio management efforts.

Meanwhile the LNG business has been growing rapidly with the Nigeria and Oman Plants. It now accounts for 40 percent of the asset base. The Power segment has also been growing, and more about both those business later on. Marketing and Trading, and Gas to Liquids, which we covered last year are roughly the same proportion as before. We have been investing some $800 million a year over this period. You may well ask what all that has done to our profitability.

We expect actual return on average capital employed to be on the order of 16 percent. It is important that the rise relative to 1998 is not just the result of high oil prices. Even when our results are normalized to $14 a barrel, there has still been a significant improvement in profitability, from around 7 percent in 1998, rising to about 9.5 percent this year. This has come from growing the LNG business and the better marketing and trading performance in the United States, as well as the portfolio restructuring you saw in the previous job. This achievement is in line with our goals to improve financial performance as we grow to business.

Let's look at the LNG segment, its remarkable performance and its exciting prospects. Our contracted equity LNG sales will continue to grow rapidly by a further 25 percent by 2006. We will remain leaders, a long way ahead of our nearest rivals. This reflects our leading capabilities in all areas of this business. In the upstream in gaining the trust of our customers, bringing major projects to fruition and in our leading technology. You will have seen this chart before, recording how we managed to drive down the real capital costs of Shell-designed plants by half in the past 25 years. The important thing is the creativity of our engineers is undiminished and will deliver even lower costs for the next generation of plants now being designed.

Let's look now at Shell's global LNG supply portfolio. You are well aware of our five existing projects Brunei, Malaysia, Australia, Nigeria and Oman, all of which are supplying traditional Asia Pacific markets in Japan, Taiwan and Korea—and of course Nigeria supplying European markets. Where will we go from here? We have three expansions now under construction in Nigeria, Malaysia and Australia. We plan to approve a further expansion in Nigeria in 2002 and are evaluating additional expansion in Brunei, Oman and Australia. Looking further ahead, we have a range of exciting new prospects, greenfield schemes such as Sakhalin—highly competitive with its prime location near important Asian markets. There is Venezuela, a major project close to the expanding U.S market. And then there is Iran, building on our relations with an important producer. We are also pursing the application of our floating LNG technology in the Sunrise Project in the Timon [ed. query] Sea. And for Kudu, offshore Namibia [ed. query].

Our focus goes well beyond just LNG supply. We are leading the way, as indeed we are best placed to do, in preparing for a more global and dynamic LNG business by securing access to existing and new markets, and by leveraging our unique capabilities right across the LNG value chain. I would like to tell you a bit more about that. As you have already seen, we have a very strong and very diverse portfolio of LNG supply projects. Next we are securing access to a range of emerging LNG markets—for example, through the United States Gulf Point terminal; or by developing an import terminal together with El Paso in Altamira on Mexico's east coast; by obtaining capacity from AnaGas [ed. query], supplying the Spanish market; or by proceeding with the development of the Hazira import terminal in the Kujaret [ed. query] state in northwest India; and by pursing a number of other opportunities in Asia Pacific, such as in China. We are also taking delivery of four new LNG ships during the period of 2003 to 2005. Finally, we are beginning to build our own portfolio of short-term volumes of LNG, such as the 0.7

million tons a year from 2004 to 2009 we contracted from the Northwest Shelf Project in Australia. We will remain market leaders in this expanding and developing industry.

In this context, I am excited to announced today that Shell has won the competitive bid for all of the LNG import capacity associated with the planned 2.5 million tons per anum expansion of the Elba Island terminal in Georgia. Elba Island is operated by El Paso, and a joint release from Shell and El Paso is to be published in the near future. This capacity will provide us with additional access to the growing U.S. natural gas market for Shell projects and prospects from such areas such as South America and West Africa.

The other rapidly growing Gas and Power business is power generation. InterGen operational capacity is growing rapidly, and by the year 2003 will be about nine gigawats in as many countries. In this year alone, financial closure was achieved on three plants, while four were successfully commissioned. The InterGen venture now has 12 projects under construction and is pursuing a further eight schemes. It is particularly important that InterGen projects are now increasingly linked with Shell business through gas supplies and merchant power offtake. In addition, Shell separately won bids for two existing power projects at Afam [ed. query] in Nigeria.

The prospects are exciting, but we go forward from 2002 within a clear and strong framework of targets: investing up to US $1 billion a year, targeting at least 10 percent return at reference conditions and maintaining a 15 percent return target for the most established segments in our Gas and Power portfolio. All that while growing contracted LNG volumes at some 6 percent a year.

Just to remind you of the various milestones we are aiming for: commissioning LNG plants, like the Malaysia LNG Tiga extension and the Nigeria 3rd train, both in 2003, and the Australian Northwest Shelf 4th train in 2004; also pursuing final investment decisions during the next two years for Nigeria trains 4 and 5 for Sakhalin LNG, for a floating LNG project and for one gas-to-liquids project, where we have matured a number of prospects over the past year and initiated design work as well.

Another milestone is a second coal gasification project in China, a joint venture with Sinopec for the first of such plants. The contract for fueling a fertilizer plant in Nu Yung and Hunan province in China was only signed last month. Finally, there is the closing of the Texas pipeline deal I referred to earlier. We go forward from a very strong position in Gas and Power. With assets, technologies, capabilities, and rich and strong relationships with our customers. With that robust platform we are determined to deliver both improving profitability and value growth for our shareholders.

Phil mentioned our aim to develop entirely new income streams. Let me now turn briefly to some of the new businesses we are building for the future. First, Shell Capital, our developing financial products business, focusing on financial markets close to our existing strength in energy and mobility. That includes providing financing for retail dealers and small hydrocarbon producers, taking over existing EuroShell fuel card services and launching our own credit cards. It is also about introducing new products such as breakdown assistance and auto finance in the U.K., and gaining advantage by making maximum use of the Web. After only three years Shell Capital is already breaking even. As we continue extending our presence in chosen markets, we expect revenues to grow substantially.

Second, Shell Internet Works aims to develop innovative Internet products and services, and new ways of reaching customers while building our capabilities in that exciting area. We are developing a portfolio of E-business activities, which we expect to deliver significant value over the next few years, as well as creating it elsewhere in the Group. Gaining operating experience and market insights will help us understand how to seize future opportunities. You cannot do that without being in the game.

Third is Shell Consumer, which is developing innovative new choices for consumers at home or on the move, such as retail energy and car servicing, leveraging our existing positions, geographic reach and our technology. Here we seek to establish a series of scaleable, standalone businesses and to add value by cross-selling, bundling and exploiting synergies. We will also build significant shareholder value in doing so.

There is also Renewables, which Jeroen will mention later. Those new businesses will make up to about $300 million a year impact on our earnings. We think it is sensible to open potentially valuable options in a fast-changing world.

Ladies and gentlemen, I propose a 10-minute break. Jeroen will continue the presentations after this pause. Thank you.

CHEMICALS

MR. JEROEN van der VEER, President, Royal Dutch and Vice Chairman, CMD: I will turn now to Chemicals and start with three messages. First, over the last three years we have followed a very consistent strategy. I will show you in a moment what that delivered. Second, we do know it is a cyclical business and industry conditions are very poor at this moment. We think those poor conditions will continue into 2002, but our business is much more resilient than it was. Last but not least, if I compare our Chemicals sector with the premier competition, although we are among the leaders we are not satisfied with that. We are aiming to be the best in petrochemicals.

On this first slide you see how we worked very hard to sort out our portfolio over the past three years. What was the recipe we followed there? First, we like to have the advantaged feedstocks. That means feedstocks cheaper than the competition's. That helps to get our first crackers in the first quartile. Second, hydrocarbon integration is very important for our chemicals. It can be either linked to our refineries or to our gas or gas liquids positions. When I say hydrocarbon integration, I mean the output side where we make our cracker products that go into polyolefins.

We filled in our geographical gaps in the Far East and Middle East, so Nanhai and Saudi Arabia fit into that. In my presentation I will show how we programmed ourself to be the cost leader. It may be a commodity business, but customers are very important.

Going to the operating model, you see the same slide we used over the last three years with its very straightforward message—to deliver petrochemicals to large industrial customers through simple structures, providing the lowest possible delivered costs. That is the precept on which we work. On the outer ring you see our four themes—cost, portfolio, value propositions and people.

What has this delivered in the past three years? On the left side is how our business looked in 1998, and on the right side the highlights. We went from 54 manufacturing sites to 17. We more than halved our employees. Our capital employed is $8.6 billion. By midyear this year we had already achieved $650 million dollars of fixed-cost savings, and very importantly, moved ROACE on a normalized basis from 7 percent to 13 percent. Comparing that to the competition, this chart looks back 10 years. First, industry conditions in 2001 are comparable to those of 1992. In 1992 we were underwater and significantly worse than our premier competitors. Now we are both in the same boat, and our aim is to move above the pack.

Looking into the portfolio of Chemicals at this matrix Phil showed, in the top right are the businesses you like that are performing well in growing markets. Their characteristics are sharing our philosophy of having world-scale plans, focusing on the customer, being the low-cost leader, having advanced technology and having simple global systems.

On the left side are Basell and Infineum. Infineum is an additive joint venture with Exxon. It is in a highly competitive market that has been in trouble for quite some years. We are not complacent in our plans with Infineum but are rationalizing those plans, reducing costs and introducing new technologies.

A big part of our Chemicals portfolio is our 50 percent share in Basell. Why are we in polyolefins? It is because they are the largest market for our ethylene and propylene, so it is a way to monetize our very strong chemical cracker positions. Second, the market for polyolefins is growing. Importantly, Basell is a real market leader in many ways—cost position, new technology and global presence. We feel good relative to the competition. This business has been in overcapacity for quite some time. We are not just waiting for the cycle to have its upturn, but are actively selling plants. For instance, we have mothballed 10 percent of our polypropylene capacity in Europe, which is quite new for this part of the industry. The cost savings in that company should be $250 million in 2003. We have every confidence that we have the next generation of technology ready.

I would like to add that based on our presentation yesterday in London, some of the press reported that the Shell share of Basell is for sale. This is not correct. We will make this business very strong, even if the conditions are not so good. We can do that because it fits well with our total Chemical portfolio.

Moving to cost reductions, in the commodity industry success depends on being a cost leader across the businesses. I mentioned the $650 million of cost savings we have seen in the past. Looking at the future, we are targeting a 3 percent improvement in fixed and variable costs, excluding the feedstock costs. You will note that is lower than the 7 percent targets of the past, but you have to realize that many of our plants, businesses and processes are already in the first quartile, so this is a challenging target. Also, the $250 million for Basell is not part of this target but on top of what you see on this slide.

Advantaged feedstocks is a very important cornerstone of our olefins business. We started with that in 1995. Our advantaged feedstocks on average are cheaper than the competition's. We are now 40 percent worldwide and would like to go to 60 percent. An example is we just bought the Yabucoa Refinery in Puerto Rico, which will make advantaged feedstocks for our crackers on the Gulf Coast. We are concentrating on very cheap natural gas liquids in the Middle East.

Turning to customers, it is a commodity business. As you have seen, we have doubled our revenue per customer. Here are two examples of what we are doing to focus on our customers. First, the Customer Lounge, a placing and tracking system for our customers that already has 1,000 users. The last line is supplier-managed inventory systems, in which Shell manages the stocks at the customer's premises. We started that in the United States and rolled it out to the world.

Looking at our capital program, we invest our capital in line with our strategy and geographical gaps. The business may yo-yo, but it is much better if you have a constant pace of investment. We have put that at $0.8 billion a year. We are aiming for Asia and the Middle East, which will bring that part of the portfolio up from 25 percent to 35 percent. Nanhai and Saudi Arabia are examples.

To sum up our Chemicals business, it is a cyclical business, but it integrates well with the total portfolio of the Shell Group. We think we now have the right portfolio within Chemicals based on simple structures and global process. We manage the business to have the capability to deliver 15 percent at reference conditions and aim to be the leader in petrochemicals by combining costs, customers, the geographical gaps, advantaged feedstocks and the hydrocarbon integration on the one hand with the refinery on the other hand to support the olefins.

Turning to Renewables, which are still very small although we continue to build our capabilities and positions. We concentrate on solar and wind. We do not aim to be big today, but to be big tomorrow—and tomorrow may be quite far out. There is a big market here. Market growth so far has been about 20 percent per annum. In the next five years we aim to invest between $500 million and $1 billion spread between solar and wind. We have formed a joint venture with Siemens for solar, which brings us to the foremost global position. Our first commercial wind farm was started in Wyoming and we are on the point of completion of the second, also in the United States.

We still have our eye on the hydrogen business. This is probably a business for the day after tomorrow. We formed two joint ventures, one with UTC, United Technologies, called HydrogenSource. Their purpose is to make fuel processors that make hydrocarbon steam from hydrogen with Shell's proprietary technology. We also formed a company called Hera, which is very technical with a new kind of hybrid system that enables storage of hydrogen in an efficient way.

Turning to my last slide, trading is a business that adds value to our hydrocarbon flows, finances our ships and provides energy services. We are long-standing global traders, and in the past year we have added chemical feedstocks and Gas and Power. Taking Texaco out in the U.S. in the downstream, we are sure we can make our U.S. trading position a lot stronger. We are one of the founders of Intercontinental Exchange, or ICE, as our traders call it. This has already become a very successful exchange. After Enron's problems the volume on ICE has increased a lot. Trading is all about having very good people and global systems, which we have; but you also need a lot of financial controls, which we also have. We think in our combination of people, systems and financial controls we have a very robust business that will grow. We have good expectations here.

Thank you very much. I will now hand it over to Paul.

OIL PRODUCTS

MR. PAUL SKINNER, Chief Executive Officer, Oil Products: Thank you very much, Jeroen. Good morning, ladies and gentlemen.

Our objective in Oil Products is to continue to develop a portfolio that will consistently deliver downstream value growth and higher unit earnings than our peers. We have strong market positions in over 130 countries and a strong brand preference share with customers. These have given us sustained downstream leadership outside the United States.

Our aim is now to extend this globally. We will achieve that by market share strength in developed markets, market share edge in developing markets, and best-in-class operations in capital efficiency. Acquiring the Texaco share in Equilon and Motiva will give us much better representation in the United States and I believe offer major value growth. The proposed joint venture with DEA in Germany will strengthen our position in another major developed market, the second largest market in OECD. But demand growth over the next 10 years will be principally in the non-OECD countries, where we have enviable positions in Asia Pacific, Latin America, Africa and Central Europe.

Successful delivery of the roadmap targets of 1998 has significantly improved Oil Products' structural performance. Now with the major portfolio deals in the United States and Germany, this provides a platform for significant future value growth while at the same time sustaining 15 percent ROACE.

Let me start by reviewing our achievements against the 1998 roadmap, which was cast on a non-U.S. basis. While product sales have grown more slowly than in the past, we have exceeded the 15 percent ROACE target, delivering higher than targeted unit earnings. We have exceeded our cost-reduction targets. We have reduced average unit capital employed significantly by rationalizing underperforming businesses and exercising capital discipline. But beyond the achievement of targets, we gain confidence for the future by having embedded structural cost reduction and capital discipline in our business, and a solid list of ongoing portfolio achievements, to which I will return later.

The first nine months of this year have been highly successful and underline the progress we achieved over the last three years. That underlined business performance improvement is illustrated here, onward and upward. On an adjusted CCS earnings basis for the rolling 12 months to the end of the third quarter 2001, ROACE was at 15 percent, compared with 11 percent in 1998. That was despite weaker performance in the United States. You see from the right-hand panel that is also starting to climb and has reached the 10 percent, the stake in the ground the last time I talked to you. The normalized earnings in ROACE represent performance at the 1998 reference conditions. Refining margins over the period exceeded those premises, while gross marketing margins feel significantly below them. I will get back to that. The key drivers of this performance improvement were very simple: structural cost reduction, innovation in products and services, and aggressive portfolio management. They will all continue. You will hear the same themes from us as we head into a tougher external environment.

Performance improvement outside the States has enabled us to increase our lead in unit earnings over our major competitors. We have lagged in the United States. Our returns have been depressed by this complex operating structure that we hope we are now on the point of exiting, low refinery utilization and low retail network efficiency—another immediate target for us. Completing the deal with Texaco will provide the scope and freedom to significantly improve our position. We are absolutely determined to make our premier downstream ranking outside the United States an uncontested global leadership position. I will talk about some of the things I think will be important in leading us there.

First, customer focus and value creation, underpinned by operational excellence, are key elements in our performance improvement. New customer propositions have been developed and implemented across all our businesses, supported by in-depth consumer research, high-quality R&D effort and structured feedback from our customers. Our global strategies for retail and commercial fuels and lubricants focus on consistently implementing targeted customer propositions, cost efficiency and competitive supply chains.

For example, we are rolling out choice fuels such as Optimax in over 40 countries. We continue to improve our convenience retail offers and are now into providing industrial services such as maintenance and environmental advice, alongside our product offerings in industrial and commercial markets. These strategies will all benefit our cost to serve and the quality of what we offer the customers.

In aviation and marine products the breadth of our international network supported by global account management provides distinct advantages. We will continue to develop innovative ideas to meet our customers' evolving needs, adopting where necessary new structure and business models. Our global business achievements and the creation of Shell Global Solutions are good evidence of this.

Turning to brand, our annual global brand tracker, conducted by an independent third-party research company, is an important measure of customer response. It shows again and again that we have a higher brand-preference share than other major competitors and are number one in many retail markets. With our geographic spread, this allows fast and effective rollout of marketing innovations to generate additional value. Our differentiated fuels program is an excellent example. In 2001 it reached 40 countries and 10,000 retail sites. Customer response has been very positive. These fuels now represent 10 percent of retail volume and on average provide 5 percent uplift in gross margins measured across total retail fuels volume in those markets. So take 10 percent of volumes and 5 percent in total fuel margins where we have gone into markets with these products. Opportunities for further rollouts increase penetration as we progress. We plan 10 further launches in 2002. We believe there is a significant opportunity here in the United States. Such initiatives are important in an increasingly competitive environment.

A few words on that environment: We have been through a very volatile period for gross marketing margins. Oil prices squeezed margins in 1999 and 2000, and have helped a bit this year. They were also affected by the strengthening dollar and structural changes in a number of key markets like Latin America. Overall we expect gross marketing margins to be lower than the 1998 roadmap levels in the future. Despite being partially offset by higher reference conditions for refining, this is the equivalent of a 4 percent heightening of the ROACE bar for Oil Products, compared with the reference conditions of 1998. Short term, economic circumstances will also limit volume growth in existing markets, but we do expect continued growth by accessing new markets. China will be important, as will India and some other markets in Latin America where we are seeking to grow our position.

Overall I think we need to adapt to a tougher business environment, particularly for retail fuels. We began implementing a global retail strategy in 2000 and this is progressively being applied to all our markets. Its key elements are outstandingly simple: reduce retail costs; improve the efficiency of the network by closing cash-negative sites, supported by portfolio action where appropriate; and pursue growth through customer-led initiatives, like the differentiated fuels I talked about.

What impact does this have? Over the nine primary markets where we have focused the application of this strategy, the number of sites was reduced by about 14 percent, average throughputs have increased by around 17 percent and the number of cash-negative sites we carried has fallen by about 60 percent. Subject to the way external conditions develop and despite all these challenges, we are continuing to target more than a 5 percent annual growth in retail earnings.

Moving to our global businesses, capturing global synergies and strengthening customer focus through global businesses for aviation, LPG and marine products has raised their earnings by 40 percent since 1998. Creating Shell Global Solutions to generate incremental income from monetizing our technology and technical capabilities has complemented this. We expect these businesses to continue growing earnings at some 10 percent a year.

In the coming year, 2002, aviation will have a tougher time as a consequence of short-term market developments. We have seen demand turn down post-September 11 on the order of 15 percent and more in some parts of the world, but the quality of that aviation business and its recognition as a customer leader places it in good stead. Conversely, with LPG, which is a more competitive fuel at lower oil prices, we have further opportunities to increase our market reach. You see that is an important component of the growth in this whole area. Marine products will benefit from further customer account focus and simplified business processes. Global Solutions, the technology business, is focusing on increased third-party revenues in the United States after the Texaco acquisition, when it has a new area of opportunity, and through creating a stronger business platform in Asia Pacific.

This chart does not actually show the contribution of the global trading business to Oil Products, which Jeroen mentioned, but from previous discussions you will recall that continues to be important and growing. The access to the oil flow around the U.S. companies, which has not been captured in that trading business activity so far, is another big opportunity for them.

In December 1998 we said that because of the poorer outlook for industry refining margins, we would reduce our capacity relative to branded product sales. We have, and it has gone down from 75 percent to 65 percent, principally through reductions in the United States and Europe. We also continue to focus on reducing exposure in Asia Pacific, where industry overcapacity is likely to continue to depress margins for some time. We are working hard to make our refining earnings more resilient to industry weakness by lower cost structures, higher availability and utilization and supply-chain optimization, making sure we get good integration with our global trading business.

The yellow panel shows just one example of the benefits of reviewing hydrocarbon management inside a refinery fence in an integrated fashion. This is drawn from our refineries in Parnis and Godorf in Europe and is one of many examples on which we are currently working. Across the areas we are targeting benefits across our global refining network, averaging some 30 cents per barrel over the next three years.

There is a lot of activity in portfolio management, as in all our businesses. We have helped reduce refining exposure and improve the quality of our refining network. Operating alliances in Japan and Thailand have helped mitigate the impact of lower refinery margins in the East. We have been restructuring retail networks all over the world—Brazil, Italy and Nigeria are good examples—and have also carried out a number of acquisitions and swaps in the retail area that have strengthened our position in growth markets. I will come back to the Texaco acquisition and proposed DEA transaction separately.

In the portfolio area we continue to focus on opportunities, continue to rationalize and upgrade the retail network, lower our exposure to refining margins in Asia, enter new major retail markets—China is one about to roll and India is another—and envisage more portfolio activity in Asia Pacific and Latin America.

Turning to the Texaco transaction, we had a long previous discussion on this but just as a reminder, acquiring Texaco's interests provides the opportunity to extend our downstream performance leadership outside the United States into the world's largest market. It is vital we seize this opportunity to strengthen our performance and really get it right. We want to be the global number one. In the first instance we have identified total improvements, principally in the cost area, worth around $400 million at maturity across Equilon and Motiva; simplifying business structures; and doing the things here in the United States we have done well all around the world, particularly in structural cost-reduction. There are some key challenges for us, like re-branding and upgrading the retail network, where we need to build a position as the leading gasoline retailer by significantly improving network efficiency. We will be moving to coast-to-coast Shell branding over time and also adopting a fully branded lubricants portfolio. There is work to do on improving the reliability of the refining network. There is a major program in place already to secure that. Beyond these, the very strong transportation business, which is currently housed within Equilon, offers steady income generation, good returns and we think some major growth opportunities.

We signed the definitive purchase and sale agreements with the trustee of the Texaco interests on December 12. The file is now with the FTC, and we hope by the end of January we will have a green light to proceed to implement all these improvements. Assuming we get FTC's approval in a timely fashion, we will take a charge against our Q4 earnings this year of some $220 million after tax, which relates to the implementation programs following acquisition. In addition to the restructuring and re-branding cost, this amount also includes site closure costs arising from rationalization of the retail network. In the call after the announcement of the MOU in October, you had a chance to hear directly from Rob Routz [ed. query], who will lead the team to implement this transaction. He is ready and raring to go with a detailed implementation plan, in which I have very high confidence.

Turning to Germany, the proposed joint venture with DEA represents a very significant opportunity to make a step change to our business platform. As the largest economic marketplace in Europe, it also has a major impact in underpinning the future success of our European business. You are aware that the proposed venture has been under consideration by the competition authorities in Germany and also in Brussels. This is a common process in transactions of this magnitude. There have been some objections raised to the deal and discussions are continuing with the authorities. They seem to be signaling their position in the press, and we are rather confident that those objections can be accommodated. We expect a final decision before the end of this month.

The combination of DEA and Shell interests will create a leading company in the German market with a platform of high-quality refining assets. The Schwedt refinery will be a great underpinning for our new network developing in Poland. They are also two great retail networks with national coverage. We have identified synergy benefits of $150 million per annum by 2003. Excluding restructuring costs, the benefits of the joint venture will enhance earnings and cash flow from year one. I will just remind you that the U.S. transaction is also earnings accretive from the very beginning.

Within the structure of the transaction with RWE, the current owners of DEA, Shell will increase ownership by 1 percent in 2004, taking us to a majority position; and RWE has a put option to us to sell off its remaining share, which is exercisable in 2003 or 2004. We feel very pleased to have completed this deal and hope we will get regulatory support for it shortly.

Our target framework in Oil Products is now global with three components. First, cost: we have had $2 billion out of this business in the last three years and are not done. Like other businesses, we are now expressing it in a unit-cost reduction target going forward of a 3 percent takeout in unit costs, both in refining and in marketing. The marketing measure will exclude what we call new value-adding costs, such as those for differentiated fuels. But if the targets are exceeded, for example in the United States, this will not be used to lower targets elsewhere.

Capital discipline has resulted in capital expenditure levels outside the States somewhat below our plan levels that have taken us to the lower end of the competitive range over the last two years. Capex will show an increases in the next two years, and we want to come back into the middle of that range. After the completion of the Texaco transaction, our reported capex will include 100 percent of Equilon. Equilon will become Shell Oil Products in the United States, and their expenditure is around $900 million in 2002, including re-branding expense. Growth expenditure will be primarily focused on organic growth in retail and the global businesses, together with prospective investment in the new retail markets.

On ROACE we will continue to target a sustained 15 percent global return, which is where we are today, in a more challenging business environment. In the United States we expect the full benefits of the Texaco acquisition will be achieved by 2004, and we expect to target a range of 12 percent to 13 percent for that business in a very competitive market. Of course, if we are to sustain 15 percent globally, which is our ambition, we will have to perform above 15 percent around the world. I am confident we can do that and we are doing that now.

To sum up, I think Oil Products can look back on the last three years with a real sense of achievement. The commitment of all our people has enabled us to exceed what were challenging targets. Continuing to develop our talent base and their skills is also one of the key drivers for future success. As I outlined, the business environment in which we aim to deliver a 15 percent return will get tougher, and our capital employed will increase—not least because of the Equilon consolidation immediately from $23 billion up to $27 billion. We have a clear objective to be the leading global downstream player. I believe with this U.S. platform now available to us, that becomes very credibly achievable. In the immediate period of potential economic slowdown, our global market positions, structural cost reduction program and the increasing resilience of our refining earnings will sustain our competitive performance.

These are challenging targets by any standards, but we are very confident that as a team we can deliver them. Thank you very much.

SUMMARY

MR. WATTS: As you can see, we wanted to bring you a comprehensive story about Shell and the way forward. You have heard a lot of detail about our performance and plans at Group level and also for the individual businesses.

Let me sum up the key themes. I suggest we are continuing to deliver, we are building on firm foundations and are committed to the targets my colleagues and I presented here today. It is fundamental that we have achieved the tough roadmap goals and embedded the disciplines throughout our business—capital discipline, portfolio management, cost leadership and operational excellence—developing from our initial emphasis on cost targets, although these will remain fundamental, to focus on benchmarked competitive leadership.

The returns discipline is maintained. As Judy explained, we expect the Group's return to be between 13 percent and 15 percent at the new reference conditions, depending on the level of growth investment. Over the next two years we expect to be towards the higher end of this range, unless there are exceptional business conditions. Each of the businesses is expected over time to deliver 15 percent at reference conditions. Judy also showed how our balance sheet and cash generation remained resilient in a downturn, and that our dividend and buyback policies are maintained. In short, we can deliver robust profitability even in a downturn.

All this provides the firm foundation on which to build. You have heard the direction we intend to follow. We plan to invest about $12 billion annually through the cycle, shifting the portfolio towards EP and Gas and Power, and delivering 3 percent annual growth in Oil and Gas production. But we also look for Oil Products earnings growth—for example, here in the U.S. with retail and our global businesses—as well as 6 percent LNG contracted sales. For the longer term, we are investing to build new income streams. On top of that, we are well placed to seize opportunities that may arise in these difficult times.

These are not just left as wooly aspirations in the text of the plan; they are firm targets. I mentioned the Group ROACE target of 13 percent to 15 percent at reference conditions. Established businesses should be capable of 15 percent. We are committed to a further $500 million a year of cost improvements and have $7 billion of poorer-performing assets in our sights for priority attention. We are delivering this within a robust financial framework that maintains momentum and flexibility in uncertain times.

I do hope we have demonstrated this morning that we have delivered on tough targets and transformed the way we do our business, that we know where we are going with a clear strategy, firm objectives and strong targets, and we are well placed to seize opportunities.

We look forward to reinforcing these messages in response to your questions. I would like to invite my colleagues to join me on the platform. Thank you very much for your attention.

QUESTIONS AND ANSWERS

MR. DAVID WHEELER, Deutsche Banc: My question is clarification on the impact of the returns targets of the changes in the environmental assumptions. The overall changes to both the upstream and downstream do not change the corporate returns targets. Are the environmental changes net-neutral on the corporate returns?

MR. WATTS: The short answer is yes, it is just about a wash. The major impacts are on EP and Oil Products.

MR. WHEELER: On the EP assumption price changes, does that wholly account for the 3 percent change in the returns targets? Or if you had not changed the price assumptions going from $14 oil to $16 oil, would the EP return target have changed for any reason?

MR. van de VIJVER: I assume you got the message that the 18 percent we talk about at $16, is the same as the 15 percent at $14. We see $16 as a more realistic perspective of the oil price in the long term. It also allows us, particularly on the upside, to make the right decisions on our portfolio going forward. At the same time on the chart that showed the 2005 onward projects, there will be the lumpiness of some of the major and very complex projects for the long term. In that window to 2005, that relates to capital employed that will not be contributing to earnings in that period. That is why we feel 15 percent is the more realistic perspective.

MR. WHEELER: Particularly on that, you mentioned you would see a 3 percent unit cost reduction on the EP side. Is that offset in the near term by higher capex?

MR. van de VIJVER: There are two things: First, the unit cost reduction will help. You will also see our units earnings going up over that time frame 2002 to 2005. It is a combination of that, plus the lumpiness of our investments and how proved reserves get into our books, that will cause unit finding and development costs to go up somewhat. We want to maintain our leadership position there. You have to look at the whole mix to get the right perspective on what it will do in the long term.

MR. MARK GILMAN, First Albany: I have two gas-related questions, one for Harry and the other somewhere between Walter and Harry. In terms of the Elba Islands announcement, could Harry clarify the terms and pricing underlying that arrangement? Second, on the 6 percent per year growth in LNG sales, how much of that will accrue back to incremental Shell wellhead supply growth?

MR. ROELS: At this stage you will appreciate that I cannot be completely specific. Some more information will be in the press release. I can say that it was a competitive process. The terms are for 30 years, with first supply from 2005. We think this terminal is very well located to serve the growing markets in Florida and South Carolina. We are excited to have this because it will provide a lot more options for our upstream projects in West Africa, be they Nigeria, Kudu or South America.

MR. GILMAN: You must be able to say a little more on the terms under which that business is being done. In the qualitative sense only, is it a fixed-price contract, is it anchored to something? Tell us a little more.

MR. ROELS: It is a contract that has a fixed tariff. It will make money for us in its own regard. It is not something that subsidizes the other parts in the chain I just outlined. On the rest, I cannot be more specific at this time.

MR. WATTS: This only happened in the last day or so, so you understand our reluctance for details until it is properly announced.

MR. van de VIJVER: Mark asks a very tricky question. All our numbers are internally consistent when we talk about 3 percent production growth and LNG growth. As I mentioned in September, the 3 percent production growth we talked about 2005 is basically the same level of growth on both the gas and oil sides. When you talk about LNG volumes and things like Oman, for instance, we operate their gas business on behalf of the Omani government, but it does not actually flow to our bottom line. That is how the structure is. On top of that, on some of these LNG facilities there are different equity interests in the upstream. I would not be able to quote exact numbers. Maybe later David could help you with some of the numbers, drilling down per project.

MR. WATTS: Nigeria would be the opposite case where we have 24.5 percent in the LNG facility itself and a lot of the gas supply coming from the Shell-operated venture where, if I recollect properly, we have a 30 percent interest. It is a whole mix of things. We would be happy to get into more detail later.

MR. PAUL TING, Salomon Smith Barney: In previous discussions on the U.S. downstream, one of the problems identified was the complexity of the management structure between the 50-50 partnership. Equilon will be 100 percent owned, but Motiva will still be 50-50. Are there any structural complexities that will still hamper your targets and goals due to this structure?

MR. SKINNER: Things get a lot simpler with the retirement of Texaco from the scene. As you observed, the Equilon business becomes 100 percent Shell. I think we can also make some major strides in coast-to-coast operations. We will be moving over a three-year period to a single brand. That takes away a lot of the challenges we had in the past. We have also agreed with Saudi Aramco—who throughout this whole process of negotiation and into the implementation phase proved to be excellent partners—that a number of the key positions will double across the two asset situations. So the senior leader in refining in Equilon and Motiva will be the same person. That will also apply to the critical position in marketing, given aspirations to implement a single brand. I think the prospect is the new Shell Oil Products in the United States will be a significant service provider to the Motiva company. The Saudis are keen that is should maintain an identified and visible presence in the United States in which they are a key shareholder. I see the scope for great cooperation breaking down a lot of the barriers that formerly applied in previous governments.

MR. STEVEN PFEIFER, Merrill Lynch & Company Inc.: I have a question on the slide where you talked about using the very strong cash position debt availability to either pursue acquisitions, invest in the business or do share repurchases. Could you talk about the balancing of that?

As a follow-on, it could be implied that in your presentation you show you are willing to accept a little lower return on capital employed, perhaps giving you the room at 13 percent to do an acquisition. Should we read anything into this, or is that just giving you a range? Could you clarify that, because on the one hand it looks like you are willing to accept a lower return, but you do have very high cash availability and flexibility to do an acquisition.

Last, when you look at things like Barrett Resources, why would you pursue something like that, given the very strong development portfolio the Group has? Now you have admitted volumes will be flat next year, does that take the heat off to pursue something like a Barrett Resources?

MR. WATTS: You make some nice links into discussions we have internally. Let me talk about the acquisitions and then I will pass it to Judy to talk about the 13 percent to 15 percent range. Walter may want to say something about his aspirations.

In addition to what we had on the slide on acquisitions, I want to stress a couple of things. We are keeping our eyes open. We continuously do that, but we are not anxious about it. The money is not burning a hole in our pocket. We will only do something where we can demonstrate real value-add. We would have to be looking for good strategic fit, new platforms for growth or the acquisition of other skills into our organization. We are not over-anxious, but we are scanning the situation to see what is potentially available.

MS. BOYNTON: Regarding sizing the $20 billion, that was to underscore our flexibility. If you go back to the theme Phil outlined at the outset, these uncertain times can be a threat or an opportunity. The threat side is we might have to weather a storm. On the other hand, we can take advantage of opportunities if they arise. If neither of those occur, we can give cash back to shareholders.

Regarding the range of 13 percent to 15 percent, that is based on the $12 billion capital investment program. It recognizes the need to create that balance between robust profitability and growth. As noted earlier, the new reference conditions on a net basis are about the same as they were at our 14 percent and $14 level, so the band has just widened a bit to recognize the lumpiness of some of these growth opportunities. If there are opportunities above and beyond the $12 billion, we will come back and talk about those, if we choose to pursue them. We will have a very transparent plan how that would impact profitability—similar to what we did with the Oil Products-Alliance venture.

MR. MATTHEW ORBITON [ed. query], UBS Warburg: A three-part question: Last year you gave us a [indistinguishable] gas price of $1.90. Has that assumption changed in the new roadmap pricing? Could you supply a more regional breakout of the marketing margin changes for the U.S., Europe and Far East in how they have come down versus the previous target? Finally, if we look at the new reference price deck, can you give us an estimate of what the Group is earning now so we can judge how you are going forward, not the 14 percent based on the old assumptions?

MR. ROELS: The gas price outside the United States is largely linked to crude and products, and follows it with a lag of approximately nine months, so that moves in parallel. In the United States you have seen a change in our assumptions. That was precipitated by the observation that while in 1998 we had an assumption of Henry Hub at $2.2 per mscf, in actual fact in the past three years it was on average $3.5. So against the background of our postulation of growing gas demand in the United States, we believe that a price assumption of $3 is very reasonable and not such a big stretch.

MR. WATTS: Marketing margins is a complex story around the world.

MR. SKINNER: Yes, it is. Basically the new reference condition we have set, as one of the earlier charts illustrated, is simply to take an average of what we experienced in 2000 and 2001. On a global basis, this actually deflates the unit margin relative to the roadmap premise by around $1 a barrel. While we have used the same methodology in principle inside and outside the States, I cannot give you the separate figures for the two, but as we go forward we will be establishing separate marketing margin indices as a basis for discussion with you, inside and outside the States. The composite is a deflation of $1 barrel.

MR. WATTS: I think the third part of your question, Matthew, touches on a question I had. I use this roadmap and reference conditions to run the business, not just publish outside. We need something inside with which we can iron out the commodity price swings and get a real feel for how the underlying business is doing. That is why we had the roadmap. We went from 8 percent to 14 percent over that three-year period. We should not change those conditions too often, but after about three years we came to the conclusion that oil prices have changed a bit, and the OP portfolio changes significantly because of bringing in the U.S. to the calculation, so it was time to have a fresh look. That is why we are so transparent with that chart. Here is the roadmap stuff and here is the new stuff. You can see the differences, and we don't want anything to fall between the cracks. As we move forward, we will be tracking the performance of the Shell Group. We want that to be a seamless approach with no smoke or mirrors.

Coming to your point, if it is 14 percent at $14 a barrel today, what is that under the new reference conditions and how do we move forward, Judy will address this.

MS. BOYNTON: I will give you the analytical example. Looking at the 12 months to date ending September 30 of this year, our normalized return under roadmap conditions was about 14.2 percent or 14.3 percent for the Group. If I take that same period and normalize for the new reference conditions, the number is essentially the same, plus or minus 0.2 percentage points. As we said earlier, the impact on the Group is minimal.

MR. WATTS: I think it is important as we make this change to get that sense of continuity and track the underlying business.

MR. SHAWN BRENNAN, W.H. Reaves & Company, Inc.: During Judy's presentation, there was a chart entitled "Keeping the Dividend Promise." There is a large disparity between the dividend growth rate in euros and in U.S. dollars. We have seen the dollar dividend decline for Royal Dutch shareholders, particularly in the last few years. Could you discuss exactly what the dividend policy is or would be in U.S. dollars?

MR. WATTS: Thank you, Shawn. You asked me the question earlier and I thought it would be better if the whole audience heard the answer.

MS. BOYNTON: The dividend promise I outlined is a continuation of our historical policy. It has served us well, although the fact we trade on three different exchanges in three different currencies clearly presents a challenge. We are seeing that in any given period of time, purchasing power parity does not hold. You will see fluctuations, depending on what currency you hold our securities in. Regarding the U.S. dollar dividend in particular, while it is not specifically stated in our dividend promise, we always look at dividend payout ratios, yields and so on relative to our major competitors here in the U.S. market. We believe we are competitive there. Our aim is to deliver the highest total shareholder return, which would include both dividends and stock appreciation. Therefore perhaps looking at that totality is also helpful.

MR. BEN SCHEIMAN [ed. query], John Levin & Company: I am intrigued by the announcement you acquired McMurry and paid $300 million for their assets. Was that a competitive process or a negotiated transaction? What assets besides the land did you acquire, and what is the game plan and expectation going forward for that acquisition? Has your appetite to do more deals in the Rockies been satiated by this, or are there more to come?

MR. van de VIJVER: McMurry was a private company, so this was purely a negotiated transaction with no competitive auction or anything like that. They have a great asset base in the Green River Basin. We see it as a natural extension of our capabilities and skills we have in the foothills, in Canada as well as in South Texas, here in the U.S. It is an easy transfer of skills. We see it as a very attractive growth platform going forward.

MR. SCHEIMAN: To follow up, if I understand it correctly, McMurry has four million cubic feet a day of current production and you paid $300 million for the asset, including their acreage. What do you see there? That is a lot of money to pay for a small amount of production and a piece of land.

MR. van de VIJVER: They have a large proved and probable reserve base. I can guarantee you that on all metrics, the acquisition is well below the dollar per mscf. We see it as a platform for growth, with that area producing at least two hundred million scfs a day going forward.

MR. FREDERICK LEUFFER, Bear, Stearns & Co., Inc.: I have two unrelated questions. I would like to come back to the financial parameters and leverage parameters you put on financial leverage earlier. Obviously going to $20 billion in potential buying power is a lot. I am curious: What is the magic about being a triple-A, are you convinced that will produce the optimal multiple or share price? I am not sure, at least from our work, that it is so magical. If it is not, and if the opportunities were even greater through acquisition or other investments, would you expand beyond that leverage parameter?

Second, important deadlines on the Saudi Gas Core ventures are fast approaching and final terms have not been decided. How would you categorize the delays and is there any risk you might not proceed with that project?

MR. WATTS: I will ask Judy to address the question of triple-A. She seems to think it is very important and I tend to agree. Then Jeroen will talk about Saudi.

MS. BOYNTON: We do see the triple-A rating as important. It has served us well in a volatile industry, but more importantly with partners, with how we are perceived externally and the types of opportunities we get in the global marketplace. That is important to us. In where we might be in retaining it, I think there is plenty of flexibility under the triple-A rating at this point, so we do not see a need to adjust that.

MR. van der VEER: To add to what Judy said: In my many dealings in the Middle East, they have asked about every question, except if Shell is good for the money. I think that is a huge advantage.

About the Core ventures in Saudi Arabia, there are three. We are involved in Core 1 as a partner and in Core 3 as the leader. The time schedule originally agreed to in June should lead to something on December 16, which was the last Sunday in Ramadan. That was the fastest time schedule I have ever seen on any project, let alone for projects of this size. We knew that time schedule was extremely short or over-optimistic. Within the agreements we signed in June there was an indication that if what should have happened on December 16 did not happen, there could be an automatic delay until early March. So we are still within the parameters of everything signed and will use that time to progress the

Core ventures. I might add these are huge projects, multi-billion-dollar stuff. Starting that in June and completing it in March will be a world's record.

MR. DANIEL BARCELO, Lehman Brothers: A question on capital spending: It seems a year ago you gave guidance over the same period of about $12.6 billion and now the number is closer to $12.2 billion. A year ago it would have excluded the Equilon-Motiva consolidated. On a like-for-like basis, it would appear capital spending would be down maybe 8 percent to 10 percent, with cuts in new business, Gas and Power. Could you talk about the decisions to reduce spending there?

Tied into that, it seems with the new price decks of 16 and three, intuitively more projects should be clearing investment hurdles. Why wouldn't we see more spending, particularly in EP or LNG?

MR. WATTS: Why don't we take the projects first and talk to Walter and Harry, and then I will come back to Judy for the overall capital expenditure.

MR. van de VIJVER: When it comes to projects and using the new screening criteria, we have to realize as Phil mentioned that we always screen our projects against a range of prices, so we would check for robustness against $10 as well. You will see we have some very major projects for the long term, where in terms of who goes first and how we prioritize the sequence, using this more realistic perspective will greatly help us make the right choices. At the same time, we want to make sure we find the sweet spot between returns and growth, and do not lose it on both sides, so you will not see any of the discipline gone in that process.

MR. ROELS: In Gas and Power I do not think in the near future we will see a reduction in capital spending. Strategically the Group wants to increase its exposure to gas. We have said our aim was to average out on a capital investment of about $1 billion a year. As you will appreciate, that is lumpy in the sense that it is project-driven. That number can therefore only be an average or indication. I hope I demonstrated that our portfolio is rich with opportunities. We are constantly seeking to optimize it. It has been a very good week for Gas and Power with the Morgan and the El Paso deals. It would appeal to my utmost desire for perfection if we also won the Guan Duong [ed. query] bit, which is currently due. I can assure you we are going on all cylinders. Of course, we will not win everything we go for, but the last thing on our mind is to reduce the capex in Gas and Power.

MS. BOYNTON: On the aggregate, we had forecast a higher number for this year in spending, but it looks like our capital investment will be coming in at $11 billion this year. I suppose the shortfall is a testimony to our capital discipline. Perhaps it is more embedded than we thought or we have been too tight with it, but it is a great discipline to have, so we have no regrets. We are targeting $12.2 billion in spend over the next two years. That would imply an increase. As Walter and Harry said, we see specific opportunities and have specific milestones around projects that will deliver that spending level.

MR. STAN HARBISON, Zurich Scudder: First is a follow-up question I asked on the third quarter call to clarify the difficulties of the Russian side of Sakhalin in the PSA legislation. I know you have expressed excitement over the marketing, which is further down the road, but it seems you and Exxon are on the verge of announcing a firm status in Sakhalin, but no one has seen press releases.

Second, in late 1997 both you and BP announced big deals in Russia. There was a field called Zapolenoya [ed. query] where you had an exciting role with the liquids. Apparently that has been underway recently, with Gazprom expressing great satisfaction with what they are doing. I would like you to articulate the difference there between the upper and lower zones.

Third, in a number of big deals like the Saudi deal and the China pipeline—for which you are doing all the negotiating, at this point—many of us might be a bit skeptical about the 15 percent return. They look like a bit more of a utility situation. What can you say about that and how can you compare it with EP ventures around the emerging markets?

Finally, you are the beneficiary of legacy assets. A lot of the midsized companies complain the big companies have a disproportionate pool of legacy assets. You might include Oman in that, although it might not be a legacy from here on, and some others. Does life get harder as these legacy assets get harder to find?

MR. WATTS: That was very comprehensive and I will try to orchestrate those of us in involved the different aspects. On the Russian side, specifically regarding Sakhalin, I was there in July with the CEOs of Mitsui and Mitsubishi, visualizing what it will be like. We are doing serious work on the engineering. There are two aspects to it. One is the gas market to Japan or Korea; second is the situation in Moscow on the PSAs and how quickly they will come out. I am personally reasonably encouraged with the way things are going. As you know, it is coming into focus on the marketing side. On the Russian scene the issue of the PSA is at the front of the leaders' minds in Russia. Jeroen and I were in Zapolenoya at the signing in 1997 of the alliance with Gazprom.

MR. van der VEER: A condition for signing was they fly the Shell flag with the pecten from the top of the Gazprom building, and they did it. After that, the development of the project went slower. That was because of the Russian crisis, and a lot of things slowed down because of the energy prices. There was a change in the regime and Gazprom was closed as well. The good thing is that throughout that period we maintained very good relations. We have good relations with the new leadership and Zapolenoya is still very much on their and our minds, albeit later than we hoped.

MR. WATTS: Walter may want to add something, but I particularly want to hear his attitude on what constitutes acceptable returns from these big projects on things like the Talron [ed. query] Basin with the west-east pipeline, or ventures in Saudi Arabia.

MR. van de VIJVER: Internally I never talk about the China east-west pipeline because it gives the impression we are happy to just invest in a pipeline. It is all about getting a material role in the Talron Basin, which is a very attractive, proven gas basin. They are linking it to the markets. We are in discussions with PetroChina. There we also have to deal with partnerships, as you know. Gazprom is one of our potential partners there. It is part of the overall relationship-building with Gazprom to make sure we are seen by the new leadership as a preferred partner going forward. Zapolenoya is indeed in the lower zone we are talking about. On this and on the pipeline project, we will not get into a business like that unless it meets our long-term investment criteria. That is one reason the discussions have taken a bit longer than some might have thought. The same is true of Saudis and all those ventures. We are trying to be ruthless in our return criteria, at the same time recognizing that some of these are very lumpy, big investments up front, just like big LNG projects. You have to have the confidence in the overall risk balance that allows you time to build up to the 15 percent ROACE return.

MR. WATTS: Let me make one correction. For Sakhalin II itself there is an existing PSA, it just needs some enabling legislation around it. As far as Zapolenoya is concerned, that would probably need the new PSA legislation or may even be done under existing legislation—we need to work that one through.

MR. van de VIJVER: I want to add one comment on Chronia [ed. query] as a legacy asset. We would love to produce more from that. This resource has enormous standby capacity. Oman is still a very important legacy asset. If you look at Oman this year, it had tremendous exploration success.

MR. WATTS: My ambition is when I am 90 years old, we will meet some young people in Shell who will talk about these legacy assets we were instrumental in gaining over these years.

MR. ROELS: ON China, I would add to what my colleagues said. The idea is to avoid being a net transporter, but to be balanced in all phases of the pipeline and, if anything, end up as a net shipper. This is a very strategic pipeline. It will not be end of big pipelines in China. On the contrary, I personally believe it will be the beginning of a much larger network we will see come out in a number of decades. You can make the comparison with Western Europe in the 1960s when there was very little pipeline infrastructure, and look at what is there now. In 30 years' time the pipeline network in China could be a comparison. We believe it is strategically a sound proposition to evaluate, and that is why we spend so much time doing just that.

MR. ARJUN MURTI, Goldman Sachs & Company: My question is regarding the Gas and Power, and merchant energy business. What originally started out as an Enron-specific issue has spread to the sector. I guess the trading aspirations of these companies got way ahead of their balance sheets, if you look at the troubles the Dynegys, El Pasos and Williams are going through today. Regarding your own trading business, if you can split it out, can you quantify the magnitude of your earnings contribution from trading today and over the last couple years? With your triple-A balance sheet, what sort of opportunity do you see to more aggressively grow that, if you so desire? Being a major oil company, you have the competitively advantaged, low-cost assets around the world to facilitate this business. How might an acquisition strategy play into this mix, especially in light of the troubled nature of some of these companies out there today?

MR. van der VEER: In the trading business we deliberately do not give specific earnings figures, neither the totals nor by sectors. That is, first, for competitive reasons. Second, you could say it is a service. Part of the results they make will contribute to the bottom line of OP or Gas and Power, or to Chemicals. In part we allocate the money they make to the businesses. That is our way of bookkeeping. Third, if you look at the way we trade, we are quite different from Enron. Our basic philosophy is to start with the hydrocarbons flow, where either the Group equity flows or where we operate or have a long-term relationship, and we work that around the global portfolio to optimize that. That is the same idea behind our chemical feedstocks. Of course, Gas and Power trading is very much geared to where the liberalized markets are—mainly the States and a bit in the U.K.

We will never come to any triple-A boundary. We never close the books, but if we did, we manage our portfolios so that at any given moment we have total net exposure within very small boundaries. This is very far away from any financial limit we have.

Let me turn to my OP friend, who was the boss of Trading for many years.

MR. SKINNER: My license was revoked, so I don't know if I can talk on this. I support what Jeroen said. Our whole bias in the trading area in whatever commodity we are talking is optimizing around the natural positions that arise in the energy flows around Shell. A lot of these are related to short positions in refineries, but in Gas and Power we have made some very interesting steps in areas like tolling [ed. query] deals, where we manage hydrocarbons and electrons around other people's assets. Over 10 to 15 years we have built a genuinely global trading infrastructure, and the U.S. assets will contribute a great deal more to that. Our control philosophy is simple: The value-at-risk models we use are always current on a daily basis. We have managed within that framework to achieve significant earnings growth through trading and we expect that to continue. The bias is to optimize our molecules within a strong controlled framework, and that will continue.

MR. GEORGE GARFIELD, Inverness Counsel, Inc.: Following on the Chinese situation, I understand their long pipeline is now 50 percent Exxon. Did they buy out BP's portion, or a part of it? Could you discuss the type of business that brings, is it purely carrier-type involvement or are there other aspects involved?

MR. van de VIJVER: As I said before, negotiations are still ongoing. The final consortium of various equity players has not been decided yet. It is still being discussed who will be with PetroChina, who will be the equity players and what roles will they have.

It is all about forming an integrated venture upstream in the pipeline, as well as in the marketing of the gas.

MR. ROELS: I agree, but we can factually say that Exxon did not buy out BP in this.

MR. JIM STEENHAGEN [ed. query], PFC: Just a clarification question on your 3 percent production target. I understood you to say that includes discoveries in identified prospects. Could you clarify that? Are these things yet to be discovered?

MR. van de VIJVER: This is consistent with what we said in September. That upper slice is about prospects in our portfolios, but they are unknown, unidentified targets, not actual discoveries made to date. It is very much banking on the past track record of our existing portfolio and how exploration has been feeding the system for years. It is something we are confident about, based on our past record.

MR. GILMAN: I have two acquisition-related questions, one looking forward and the other looking backward for Paul. The forward one: There is a relatively large, U.S. major integrated energy company currently in play that seems to have a lot of disaffected shareholders at the moment. It has an asset base that fits yours in a number of respects, including Southeast Asia and perhaps Venezuela and West Africa, and also has a fit with some of the financial numbers and capacity you have discussed. Maybe you figured out what company I am talking about. Could you talk about your feelings about that situation?

The second is more specific rather than hypothetical—which of course the first one still is. With respect to the acquisition of the interests in Equilon and Motiva, we had a situation where you had a forced seller and one logical buyer. I had heard there might have been financial buyers. I am curious if your sense of financial buyers forced you to accelerate this transaction instead of extracting the pound of flesh you probably could have, and which other companies have done in similar situations.

MR. WATTS: Shylock?

MR. SKINNER: We clearly did not rush into this transaction. It was a 12-month affair from the date at which Chevron-Texaco was announced. When we finally got to the MOU stage in October, we felt we were at a point where we were comfortable with the price paid and our ability to generate future returns from the assets. There is no goodwill premium on these assets, we essentially got them at a discount to the previous owner's book value and felt pretty good about the price. We could in theory have said we would go into the trust period—and technically we very briefly did—and let other possibilities run out. We had change-of-control provisions built into the foundation agreements of these Alliance companies. We could also have allowed the trustee to cast around for alternative buyers. You should appreciate that tens of thousands of people had a stake in this—the employees of these two companies. Carrying on as a negotiating tactic a period of uncertainty, when you had already secured a deal that was good value, just seemed to be taking risks with the future value of the company and all the people employed in it. For that reason, we concluded on the good deal we had in October.

MR. WATTS: I am still trying to figure out the first question. You will understand we do not comment on market rumors anyway.

CONCLUSION

MR. WATTS: Let me say a very big thank you for coming today and for the challenging questions. We have appreciated the time with you. All my colleagues and I have expressed our personal commitment to making this strategy work. We will do it. Thanks for your attention. We will break for lunch now. [Applause]

[Meeting ended: 12:15 p.m.]