1    (Henry Exhibit No. 13 – record of meetings – marked
2 for identification.)
3    BY MR. MacFALL:
4        Q    Mr. Henry, I'm now handing you a document
5 that has been marked for identification as Henry
6 Exhibit 13.
7        A    Thank you.
8        Q    If you could take a look at that, sir, and
9 tell me if you recognize it.
10       A    Yes, I do.
11       Q    What is it you recognize it to be, sir?
12       A    This is a record of meetings -- one-on-one
13 meetings held with investors at just after the
14 presentation we just talked about which was in
15 February, 2003, which was a combination of the Q4
16 results plus the strategy update, and these are
17 meetings held in New York and Boston with Phil Watts
18 and Judy Boynton.
19        Q    Do you recall if you attended these meetings
20 with Mr. Watts and Ms. Boynton?
21       A    I believe I attended some if not all of
22 these meetings.
23        Q    Do you know whose notes these are or who
24 prepared these notes?
25       A    It would have been either myself or Dave
1    Sexton.
2    Q    Okay. Now, specifically with regard to the
3 first page of that document, at the top of the page
4 beneath the caption it states, "T Price Rowe," which I
5 believe is inverted. However, do you recall attending
6 a meeting with Mr. Watts and Miss Boynton with T Rowe
7 Price.
8    A    I vaguely recall --
9    MR. SMITH:  At this time?
10    Q   At this time.
11    A    At this time in February. I vaguely recall
12 those meetings. This was the afternoon after the New
13 York presentation in the morning.
14    Q   Directing your attention to the eighth
15 bullet point down from the top beginning with the
16 words, "Why are your figures" -- yes -- "why are your
17 figures weak for the last year's rate RRR?"
18 Do you recall if that was a question that was
19 posed to either Mr. Watts or Miss Boynton by a
20 representative of T Rowe Price?
21    A    The records of the meeting suggest it would
22 be.
23    Q   Do you have a specific recollection of that
24 occurring?
25    A    I don't recall the conversation, but I
think, given the reports we've just seen at the same
time, it would be in most of these list of questions,
so yeah. It would have been asked and these are
probably the words that we used.

Q Just generally without going through each of
the individual meetings, and it is referenced in
various places throughout -- you're more than welcome
to satisfy yourself to that -- do you recall if,
following that February, 2003 strategy presentation,
the company's reserve replacement ratio was a concern
of most analysts with whom you met at that time?

MR. SMITH: Objection to form.

A I think the -- if I do reflect through --
reserve replacement ratio would have been a subject
for discussion in most if not all of the meetings we
held with investors at that point in time followed on
from the -- where we reported from the previous year.

Q I would note on this particular document the
bullet points indicate questions that were asked but
does not indicate any of the responses that were
given.

Do you have a recollection of the responses that
were given in connection with questions concerning
Shell's RRR?

MR. SMITH: At this time?
Q    At this time in this series of meetings.
A    Not a specific recollection. If I think
back, the general response was about the level of
investment that we had been engaging in, and the need
to develop projects as we go forward.
A lot of the concerns are -- expressed by
investors are is this going to get better? So they
were looking forward to what was going to happen in
the future.
Q    What you just expressed, was that a response
formulated in part by IR?
MR. SMITH: Objection to form and
foundation. I'm sorry.
Q    Withdrawn. Let me rephrase.
Did investor relations formulate a proposed
response to questions concerning RRR at this time?
A    Yes, we would have done it at this time.
Q    Did you provide that proposed response to
Mr. Watts and Miss Boynton?
A    For these meetings, yes, we would have
provided that.
Q    To the best of your recollection, did
Mr. Watts utilize the proposed response prepared by
IR?
A    My recollection is that both Philip and Judy
1 would use pretty much the response that had been
2 recommended by IR.
3 Q Thank you.
4 (Henry Exhibit No. 14 – e-mail string – marked for
5 identification.)
6 BY MR. MacFALL:
7 Q Mr. Henry, I'm now handing you a document
8 that has been marked as Henry Exhibit 14 for
9 identification.
10 A Thank you.
11 Q I would ask you to take a look at that and
12 let me know if you recognize it.
13 A Okay.
14 Q Do you recognize this document, sir?
15 A Yes, I do.
16 Q For the record, the document is a series of
17 e-mails, the last of which is from John Pay to
18 yourself, Mr. Coopman, Mr. Frank Coopman and Rhea
19 Hamilton dated February 10th, 2003. The subject is,
20 "Oil RRR."
21 I don't believe we've done so to date, although I
22 may be mistaken, but could you identify Mr. Coopman
23 for me?
24 A Frank Coopman at that point in time was the
25 CFO of the EP business. I use the most -- he is the
1 most senior financial person in the EP business.

2 Q I would like now to specifically direct your attention to the first in that series of e-mails which appears on the last page of the document ending in Bates Number 948.

3 A Okay.

4 Q That is an e-mail from you dated January 30th, 2003 to Mr. Coopman and Miss Hamilton. If you could read that first paragraph and the e-mail to yourself, sir, and let me know when you're done.

5 A Okay. Done.

6 Q I'm sorry. After Frank, Rhea, there's a reference here to what is stated as, "the rather cute use of data that led to the 108 percent RRR for oil."

7 A Yes, I do.

8 Q Could you please explain that for me?

9 A In the 20F supplementary data return, we report hyrdocarbons into two categories; oil and natural gas liquids is one of them, and gas, natural gas is the other.

10 The oil and NGL is reported as a single number. We were -- this e-mail is before the actual
presentation, it's not February the 10th, the 30th of January.

So this e-mail is part of the discussion between IR and the EP business about how to present information to the outside market.

EP had proposed a presentation which calculated the reserve replacement ratio only for oil, not including natural gas liquids.

My response, which was accurate data, but my response is saying well actually, when we come to report, we don't report just oil, we always include natural gas liquids. So rather than just looking at oil, we should be looking at oil plus natural gas liquids, which actually had a replacement ratio of 85 and not 108 that was proposed for oil.

Q In addition to this e-mail, do you recall having any discussion -- withdrawn.

Do you know who it was specifically at EP that was proposing use of the RRR of 108 percent just for oil without the inclusion of NGLs?

A No, I don't. It would have come through Rhea Hamilton, but she was not necessarily the originator.

Q If I could ask you to turn to the prior page, sir. And I would like to specifically direct
your attention to the bottom third of that page.

There appears an e-mail from Mr. Pay to you, Mr. Coopman and Ms. Hamilton dated January 31st, 2003. Do you see that, sir?

A I do.

Q The first sentence, Mr. Pay talks about many statements that may be made that cannot be "verified", and then there is a reference to Exxon doing the same thing.

Do you recall discussing this sentiment with Mr. Pay -- or this statement with Mr. Pay separate and apart from the e-mail exchange?

A Not separate and apart from the e-mail exchange. However, I do recall ensuring that what was being drafted would change for ultimate use. The Jones e-mail is a bit of an aside, it's not directly related to the original fishy.

Q So Mr. Pay's statement concerning statements that cannot be verified, is it your understanding that that did not relate to the RRR at 108 percent exclusive of NGLs?

A Well, he's actually quoting total resources which is a volume related metric, but not one that is required to be reported by SEC. So if he's using that as an example of surely -- surely we can put data out
which cannot be verified against regulatory documents.

Q  Was it your understanding that Mr. Pay was attempting to convey that the 108 percent RRR should be used?

MR. SMITH: Objection to form.

A  I took it as a general comment do we have to verify everything that we report including, for example, 108?

And my general response would have been in terms of the outcome, yes, you do.

Q  In fact, you responded to Mr. Pay's e-mail with an e-mail dated February 10th, 2003 which appears directly above that.

If you could read the first couple of sentences to yourself, sir. Let me know when you're done.

A  It's okay. I've read it.

Q  The first sentence specifically talks about the issue not being one of verification as opposed to deliberately misleading the audience.

In that sentence, were you discussing use of the 108 percent RRR ratio versus the 85 percent that would have included NGLs?

A  Yes, I was.

Q  The audience that you're talking about there, are you referring to the financial markets and
investors?

A Yes. General audience, yes.

Q Your response appears to direct -- excuse me. Withdrawn.

Your response appears to be specifically directed to the 108 percent reserves replacement ratio issue as opposed to more generalized statements concerning verification.

Is that what you were in fact addressing in this e-mail?

A Yes.

Q Thank you. Mr. Pay responds that same day by e-mail basically conceding or acknowledging the fact that the 85 percent should be used.

I would like to specifically address your attention to the last sentence of the single paragraph appearing in Mr. Pay's e-mail beginning with the words, "since proved reserves." Do you have that, sir?

A Yes, I do.

Q Okay. If you could just read that to yourself.

A Okay.

Q Mr. Pay indicates that proved reserves is the only -- he called it category that could be
compared company by company.

Is it your -- was it your understanding at the time that proved reserves as a category are metric -- withdrawn.

Do you recall if you agreed with Mr. Pay's assessment as expressed in that sentence?

MR. SMITH: Objection to form.

A    The first part of the sentence -- there are two assertions here. The first part of the sentence is that proved reserves is the only category that can be compared company to company. Yes, I do agree with or did agree with it at the time.

Q    The last clause of that sentence states, "it," and I believe he's discussing proved reserves there, "will remain the definitive performance measure."

Do you recall if you agreed with that statement at that time?

MR. SMITH: Objection to form.

MR. MORSE: Objection to form.

A    I believe that was an opinion being expressed by Mr. Pay at that time who was the reserves coordinator, so probably believed that his area of expertise was more important than anybody else's.

Q    Okay.
(Henry Exhibit No. 15 — summary of group investor strategy and plan — marked for identification.)

BY MR. MacFALL:

Q  Mr. Henry, I'm now handing you a document that has been marked --

A  Thank you.

Q  You're welcome -- as Henry Exhibit 15 for identification. I would ask you to take a look at that, sir, and tell me if you recognize it.

A  Okay.

Q  Do you recognize this document, sir?

A  Yes, I do.

Q  What is it you recognize it to be?

A  This is a document that I prepared in 2003 at the request of Mr. Watts and Judy Boynton summarizing the group investor relations strategy and plan as we defined it at that point in time which is April, 2003. So we were looking out to the middle of 2004.

Q  Do you know why you were asked to prepare this document?

A  It was something I prepared from time to time. It was ultimately my raison detra as the head of investor relations to define the strategy and plan. And this in particular was quite a comprehensive -- it
was more comprehensive than other strategy or plans that I had prepared.

Q    Do you recall why it was that this particular plan was more comprehensive than others that you had prepared?
A    I believe the main driver was that we had been through a period over the previous two years of following a particular set of target framework in the market, and we were proposing here a gradual evolution of that framework and expectations in the way we talked about the performance of the business. And that was a reflection going into the planning process for 2003 at the time of -- the investor relations needed to work closely with the strategy of the planning team as they put a business plan together. It was triggered by that and some learning from some of the events we just talked about.

Q    Okay. I would like to direct your attention specifically to the page ending in Bates Number 085. Do you have that, sir?
A    I do.

Q    At the top of the page it says, "Appendix to Critical External Undertakings."

Do you recall if this part of the document was something that you prepared?
Yes, either I prepared it or I certainly approved it.

The two columns -- withdrawn.

There are two columns shown on the page; one, "Current statement," and the second column is, "Potential development."

I would like to direct your attention specifically to the second category in the column on the left-hand side from the bottom that states, "Reserves replacement." Do you see that, sir?

I do.

Parenthetical indicates that it's measured on proven reserves. It goes on to state there's an expectation of at least 100 percent over time.

Under, "Potential development," it says, "No change." Am I correct that the -- withdrawn.

The thought expressed or summarized here, was that something that was currently being -- or then being communicated to the market?

The left-hand column reflects what we were then communicating to the market. The right-hand column is a recommendation as to how that could change or develop over time.

The indication of no change I take it means that that was a message -- or at least that portion of
the message to be delivered to the market was to continue; is that correct?

A That's correct.

Q Okay. Do you recall if this document was reviewed by Mr. Watts and Miss Boynton?

A Yes, it was. And I believe the actual cover note is signed by Sir Philip and was sent by Sir Philip to the rest of CMD for consideration and approval.

Q I would like now to direct your attention to the page ending in Bates Number 087. Do you have that, sir?

A I do.

Q At the top of the page it states, "Appendix 3, US retail marketing plan." Do you see that?

A I do.

Q It then states, "Background," then there's a reference to, "US retail investor market being the largest and most sophisticated in the world, $4 trillion investment in equities," and continues.

Do you recall why it was that Shell developed a US retail marketing plan at about this time?

MR. SMITH: Objection to form.

Q Let me rephrase. Did Shell have a US retail marketing plan in place prior to the drafting of this
1. document?
   
   A. No, it did not, not prior to this document.

   This formalized what we had already started to do around about that time.

   Q. Was a conscious decision -- withdrawn.

   Was a decision made by Shell's Senior Executives to pursue US retail equity markets in or about this time?

   A. Yes, we were given support for this plan as outlined.

   Q. Okay. Do you recall who initiated -- withdrawn.

   Do you recall who came up with the idea to initiate a US retail marketing strategy at that time?

   A. It was something discussed between David Sexton and myself. I don't recall who had the original prompt, but it was between David and myself.

   Q. Was that discussion prompted by the exclusion of Royal Dutch/Shell from the S&P 500 Index?

   A. In part, yes.

   Q. Following the discussions between Mr. Sexton and yourself concerning a US retail marketing strategy, did you discuss it with Senior Executives at Shell?

   A. I recall discussing with Judy Boynton. I
1 don't recall discussing in any level of detail with
2 Sir Philip. Probably wouldn't have discussed it with
3 anybody else other than Mary Jo Jacobi, because there
4 is an overlap between retail marketing and the press,
5 external media communications.
6 Q   Do you recall the sum and substance of your
7 conversations with Miss Boynton regarding this topic?
8 A   Substance; good idea, support for it, be
9  careful how you market into the retail investor base
10 in the US because it's different to institutional
11 investors. You communicate in a different way.
12 Messages need to be simpler.
13 Any need to take legal advice on any materials
14 that you actually use when dealing with the retail
15 community because they are so widespread in the US.
16 Q   Do you recall actually seeking legal advice
17 in connection with those materials?
18 MR. SMITH: I would just admonish the
19 witness that he can answer whether he did or not, but
20 should not in answering reveal the substance of any
21 legal advice he either requested or received.
22 THE WITNESS: Thank you.
23 A   Before we used any materials through
24 whatever medium whether it be the web site or issuing
25 through brokers, we did take legal advice on the
content of the materials that we used.

Q Without disclosing the content of that advice or the topics about which it covered, was such advice sought of Counsel within Shell?

MR. SMITH: The question is did you use Counsel within Shell or outside.

THE WITNESS: I appreciate that.

A I don't recall. It could have been either.

Q Was there a target set for US retail market investment in Shell at that time?

A I was not set a target by the Executives. I don't think we were actually setting targets at the time, even for ourselves.

Q Do you recall if there was any discussion -- withdrawn.

You talked about discussions that you had with Miss Boynton. Did you discuss the retail marketing effort or strategy in the United States with Mr. Watts?

A I don't recall discussing the strategy. I remember telling him that we were going to develop something and got his general support, but not the detail of how we would do it.

Q Do you recall discussing that marketing strategy with anyone else?
A

Within the company, only as I mentioned; Judy, Mary Jo and my own team.

MR. MacFALL: We'll go off the record for a second.

VIDEOGRAPHER: We are going off the record. The time is 2:26 p.m.

(Recess taken.)

VIDEOGRAPHER: We are back on the record. The time is 2:29 p.m.

BY MR. MacFALL:

Q Mr. Henry, I just have a few more questions. I do realize that you need to leave.

With regard to the exhibit we were looking at, if I could direct your attention to page ending Bates Number 077.

A Okay.

Q Do you have that, sir?

A I do.

Q Approximately one quarter or so from the bottom of the page is a caption, "New markets." Do you see that, sir?

A Yes, I do.

Q The first paragraph under that caption discusses the spread of identified investors at the end of January, 2003.
The following paragraph references large UK and US based investors. If you would, could you please read that second paragraph to yourself and let me know when you're ready to discuss it?

A    Okay.

Q    Now, specifically with regard to the second sentence in that paragraph, it states, "Only two of the top 30 and 10 of the top 50 investors are based in continental Europe."

Do you have any understanding as to where the other large investors are, the other 28 top 30, and the other 40 of the top 50 investors are located, if you understand the question?

A    I do. The majority were in the UK and the balance were in the US.

Q    Okay. Do you have any recollection as to the approximate spread of those in the UK versus the US?

MR. SMITH: Objection to form and foundation.

A    It varied from time to time, of course, because these things change. Of the top 30, it would be most likely 15 to 20 UK, maybe 10 US and the rest Europe.

Of the top 50 it would typically be 30, 35 UK,
15 -- and the rest -- about 30 UK and the rest US and Europe.

Q. Okay.

MR. MacFALL: Thank you. I have no further questions at this time.

MR. SMITH: Thank you.

VIDEOGRAPHER: This marks the end of the deposition of Mr. Henry. The total number of tapes used today is two. We are going off the record. The time is 2:31 p.m.

(Proceedings concluded at 2:31 p.m.)
ACKNOWLEDGMENT OF DEPONENT

I, SIMON HENRY, do hereby acknowledge

that I have read and examined the foregoing testimony,

and the same is a true, correct and complete

transcription of the testimony given by me and any

corrections appear on the attached Errata sheet signed

by me.

_________________________________  __________________________________________

(DATE) (SIGNATURE)
CERTIFICATE OF SHORTHAND REPORTER – NOTARY PUBLIC

I, Ellen L. Ford, the officer before whom the foregoing proceedings were taken, do hereby certify that the foregoing transcript is a true and correct record of the proceedings; that said proceedings were taken by me stenographically and thereafter reduced to typewriting under my supervision; and that I am neither counsel for, related to, nor employed by any of the parties to this case and have no interest, financial or otherwise, in its outcome.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal this 17th day of October, 2006.

My commission expires:

September 30, 2008

__________________________
NOTARY PUBLIC IN AND FOR
THE DISTRICT OF COLUMBIA
ERRATA SHEET

IN RE: Royal Dutch/Shell Transport Securities Litigation

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25
### ERRATA SHEET CONTINUED

**IN RE:** Royal Dutch/Shell Transport Securities Litigation

**RETURN BY:** __________________________________________

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Case 3:04-cv-00374-JAP-JJH Document 350-3 Filed 10/10/07 Page 26 of 50 PageID: 24817

Gardy, D.

To:     To:  Financial Analyst Ronahi (32)  
From: Henry, Simon S.  
Sent:  07 August 2001 18:22  
To: Talbot, Graham G.S.  
Cc: Bell, John J.; Freedman, David D.E.; Khan, Rahim R.; NAUTA, JAAP J.; Thorkildsen, Alf A.; Brass, Lorin L.L.; Gardy, D.; Hodges, Stephen M.G.; Harrop, Michael M.  
Subject: RE: Revised IR Storyline  

Graham, observations from IR to work into the storyline. Bit scattergun but this is to get response in time. There are some important strategic issues in here as well as presentation comments, and Walter and team should be clear on positions well before the presentation itself. We may have additional feedback as well over the next couple of days.  

As a strategic approach we should not let ourselves be 'trapped' into setting medium term targets. Most likely we will need to be clear about 2002 with hard targets at reference conditions, and maybe even give guidance for 2003, but should not go beyond this. This presentation is about strategy and expectations. The content here will go to CMD on Sep 3 and most likely Conference on Sep 12 so there will be some buy in, but no endorsement of plans. For example capex allocation to strategic options will not have been agreed by then, but the amounts needed for the existing asset base and projects post PID should be pretty much known.  

For the medium term we should tell the market what our opportunity set is and what we are going to achieve, which is 1) 15% return at reference conditions, and 2) (e.g.) 'better than average industry growth', but we should avoid specific % targets (oil, gas, or bce). We should move towards an Exxon style approach where we give capex levels and project sets, and indicate where we expect to come out on growth, indicating that this is subject to economic and political environment. We should also emphasise the quality of an additional barrel rather than just the raw number. We do not want to give the impression that we chase barrels to meet operational targets, and we do want to show that returns and capital discipline drive the decisions.  

We should show as clearly as possible what has changed from the previous target of 5%. This is presumably a combination of  
- field declines (care required here as if this looks materially worse in well known provinces it could imply technical incompetence)  
- project delays (may be due to demand changes or reductions in MRH appetite)  
- project cancellations (as delays)  
- E&A success that did not materialise (care here as analysts thought the 5% did not include E&A successes)  
- strategic options that did not materialise (as for E&A)  

We need the facts first and then can develop the storyline, and I understand Walter has already requested this. Even if we do not use all material, it is vital that we know the real story.  

Acknowledge Alf's point about the good 2001 delivery story, but we should not overplay this as most of the roadmap achievement has already been banked in the external mindset and they want to hear where we are going.  

We have implied to the market that global economic slowdown has affected the ability to bring projects on or affected production, we must now be able to substantiate this with either project lists or at least an articulation that EU gas demand changes from liberalisation will affect our volumes from mature operations. We should refute the belief that LNG demand is impacted (assuming true).  

The link between capital investment and production growth needs to be explicit, and linked to our own historical performance and the competitor group (Exxon, BP, TFE). There is definitely a belief amongst some analysts that we are projecting more bbls per dollar, and they would like to know how we do this. UFDC and other relevant indicators may be
required to demonstrate this effect actually works in practice.

Like the idea of separating the portfolio into 3 (Existing asset base, New projects in progress and E&A/strategic options), and focusing both the portfolio management and financial implications (particularly investment and returns) sections of the presentation around these definitions. Think we should make this the core framework for the presentation and stick with it. We should position the E&A options as growth to be managed as part of the Group's portfolio, and make it clear that this element is 'risked'. Where possible we should be explicit about these opportunities (name them), otherwise stick within themes such as deepwater, MRH etc.

Themes 'making the most, getting new bus, breaking new ground' are not known to the outside world and it is not necessary to use them - agree with the comment that we could overcomplicate the analysis (eg geography / deepwater / bus plan segmentation) if not careful so we should stick to one framework (Existing asset base, New projects in progress and E&A/strategic options).

We should consider an additional sub section under section 5 on the strategy and investment decision process around acquisitions, including some of the challenges. We are prepared to do them at the right price ...

Don't think section 7 example of portfolio play -off adds much, other than complexity.

Technology as a separate theme seems to have disappeared which is probably ok, best to restrict reference to where we can show the impact on the rest of the portfolio.

We also need to consider what we are actually leaving for the December Group strategy presentation. Could include cost targets, exploration and any other hard target confirmation - at least in the short term?

Hope this helps, please call to follow up. Simon

-----Original Message-----
From: Talbot, Graham GS SIEP-EFF
Sent: 06 August 2001 19:27
To: Brass, Lorin LL SIEP-EFB; Gardy, Dominique D SIEP-EFF; Henry, Simon S.SIE-PF; Ball, John J SIEP-EFB-P; Freedman, David DE SIEP-EFB-P; Khan, Rahim, G A R SIEP-EFF; Nauta, Jaap J SIEP-EFB-P; Thorkildsen, Alf A SIEP-EFF
Cc:  
Subject: Revised IR Storyline
Importance: High

Gents,

Attached as agreed is the revised draft storyline for the EP IR presentation in September.

Could you please review and provide your feedback by tomorrow evening for revision prior to forwarding to Walter.

Once the storyline is firm we will revise the presentation material to fit. We are currently pulling together the supporting data, this should be available by Thursday evening, at the latest.

Look forward to your comments.

regards
Graham Talbot
EP Finance Development Manager
Shell International Exploration and Production Investments B.V.
P.O. Box 663, 2501 CR The Hague, The Netherlands

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Phil

Thoughtful input from Simon as discussed.

Malcolm

---Original Message---

From: Henry, Simon S SI-FI
Sent: Thursday, September 27, 2001 05:51
To: Frowd, David E SI-PXG
Cc: Brinded, Malcolm A SI-PXG; Gaskell, Neil SI-FT; Davis, Ged R SI-PXG; Decyk, Roxanne J SI-PXG; Boynton, Judith G SI-FN
Subject: RE: Oil Price Note for CMD
Sensitivity: Confidential

David, I am travelling at the moment and having problems with email so I could not make the wed midday deadline, but you should get this before the crmd papers deadline.

I must state up front that I am very concerned about the impact of this proposal on the external market perceptions of the company, and I could not support the proposal as stated. This view is based on many discussions with investors and analysts over the past months since we communicated the production growth issue. In this period our stock has underperformed BP and XOM by 10-15%, despite most observers commenting that the arithmetic effect of moving from 5% to 3% is far less than this, and that a reduction had at least in part already been discounted in the price. The difference is the result of concerns about management credibility, and this proposal is likely to exacerbate those concerns.

I don’t think I am overstating the case to suggest that if the market perceived this to be a way of diluting returns to shareholders, following so soon after the production growth disappointment, then they may well demand heads to roll.

In my opinion, based on current views held by market opinion formers, this is not the time to put management credibility further at risk, apart from anything else, if we communicated such a dilution of returns it would be the only (not the main) issue reported from a strategy presentation, so we may as well only put up the one slide. If we have learned one thing from recent events, it should be this. ‘Robust profitability’ would become a standing joke, and value growth would be ignored.

So the only acceptable finesse is indicated by neat’s arithmetic. Direct proportional upgrade to hard return targets for EP and G&P with no hint of long term degradation. Group range to move up accordingly, analyst models, their target prices, and their recommendations are driven directly from this assumption, so if we do not upgrade return targets we will get 1) an automatic mechanistic reduction in target earnings and price, and 2) a management downgrade = reduction in expected trading multiple for the stock over time, based on perceptions of management credibility. We may even lose the ‘supermajor’ premium as we slip further behind BP.

Provided we are clear about the target, we could achieve parity when phrased carefully as we have previously done;

- established businesses to be capable of achieving 15% (or 18%) ROACE in the longer term (note this does not mean 15/18 every year, but that we see the portfolio return trending to 15/18 over time)
- portfolio of projects may not all individually make 15% (or 18%) ROACE across their lifecycle, but in aggregate they will
- all projects would return cost of capital at $10/bbl
- capital discipline screening and processes remain in place.

If we then deliver a year or so of solid returns and visible growth we could start to talk return dilution medium term as the flip side of growth, but we need to re-establish some credibility first.

We would have a challenge to answer the q ‘if EP returns 18% and other businesses earn less, why spend a $ on them?’.
but we could limit damage here. we may get a small credit if we can demonstrate that certain investment decisions would now change that are clearly value enhancing, without diluting returns in the longer term. but given current global uncertainties just as likely we would be left (as in 98) with a change in reference conditions in the opposite direction to that which the market subsequently moves.

a few other points.

- i still have not heard a good explanation of what such a move actually changes in terms of decisions made. your note implies there is an infinite set of projects out there that we are looking at from afar, but we cannot justify because of self imposed constraints. ep tell me that just isn't the case, and that moving to 15 or even 18 doesn't materially enhance the opportunity set. maybe there are some options that would have flown earlier, but i have not been told of any specific projects that have been lost as a result of excessive conservatism. if in fact the objective is to allow existing projects through the screening filter there are less damaging ways of doing this eg a less mechanistic approach to vir. we already make it clear that investment decisions are not one dimensional, and the grid and strategic fit play a part - the anchor being the portfolio return.

- is there any material around to demonstrate the linkage between screening criteria (mid price, vir and portfolio return over time? we all know irr and roace are only tenuously connected and i have no feel for whether or not a series of vir 0.35 projects with 3-5 delivery times and $7-8bn annual capex delivers over time a 15 or 18% return. i think we should know this before we make any decision - i recall seeing some modelling of this within neil's team but not sure of the conclusion. this could be an important mitigator if it is communicable externally in ways that analysts understand - i.e. unit finding & development cost, returns, earnings growth, cash flow per share.

- the roace ranges for businesses and the group reflected the cash generation capacity required to meet the dividend and re-investment commitments at reference conditions. what is the impact on this of the proposed changes?

- the change for reserves in pscs would presumably increase depletion charges in these countries, diluting returns (if not cash) directly and compounding the problem. this may be offset by upward reserves revisions in non psc countries as reserves 'become commercial', but it would be good to know by how much before taking this decision. would also impact unit finding and development costs, a key analyst number.

- agree with neil on acquisitions. i do however believe we should be able to treat acquisitions as most companies do, if shareholder returns are enhanced (ie eps and its growth, cashflow per share, and implied medium term roace) and we know cost of capital is exceeded, then we could tough out the spreadsheet driven analysts who say 'this doesn't fly at $16'. we need to get away from the mechanistic perceptions and retain the flexibility to exercise management judgement. many shareholders see buybacks as a good safety valve but if we have good projects they are happy to see us invest provided we do not dilute returns beyond the competitor levels. [incidentally the maths suggests our returns should currently be higher than competitors at any given oil price, but the shares do not trade on a subsequent multiple. use of $16 would level the playing field.]

- refining & chemical margins may not be significantly different? and they are second order to the investors. if we are taking them down this would be a bad time to re-state lower returns for the businesses, because in principle the analyst model output should not change unless they also change their reference conditions based on our advice. we would at least be able to point to global demand factors, and our (hopefully) continuing high performance in op would deflect criticism.

sorry if this appears extreme in places, but i feel someone needs to make the possible external consequences clear and it may as well be me. this is limited upside, unlimited downside at this point in time.

simon

-----Original Message-----
From: Gaskell, Neil SI FT
Sent: 25 September 2001 20:03
To: Froud, David E SI-PXG
Cc: Brinded, Malcolm A SI-PX; Davis, Ged R SI-PXG; Dacyk, Roxanne J SI-PXG; Bonynge, Judith G SI-FN; Henry, Simon S SI-FI
Subject: RE: On Price Note for CMD
Sensitivity: Confidential

Dear David,
We have not had the chance to discuss but two points are very difficult to understand;
1. the concept that acquisitions should use a different price assumption from other investments. I cannot see how to
explain it, as we will have to if we ever make an acquisition.
2. Unless my arithmetic is wrong $16/bbl translates into a Group normalised ROACE of 15% and an EP ROACE of about 18%. Anything less is a dilution of our performance today and would need a great deal of explanation - any phasing of a recovery towards today's performance would equally be challenging to justify.
There is no discussion of gas prices or refinery margins in this volatile world. What is the thinking in these areas?
Kind Regards
Neil Gaskell

---Original Message---
From: Frowd, David E SI-PKG
Sent: 25 September 2001 01:35
To: Brass, Loin LL SIEP-EPB; Bell, John J SIEP-EPB-P; Warwick, Mike S STASCO-QT; Hillman, Peter J STASCO-QTO; Kinder, Dave D SIPC-OM; Williams, Mark R SIPC-DX; Carter, Veronica V SIG-GPB; Neal, Julian JUA SIG-GPGS; Gaskell, Neil SI-FT; Boyton, Judith G SI-FN; Henry, Simon S SI-FI
Cc: Birmied, Malcolm A SI-PX; Davis, Ged R SI-PKG; Deka, Roxanne J SI-PXS
Subject: Oil Price Note for CMD
Importance: High

I attach a draft note on long term oil prices for discussion at CMD on 2nd October. The key proposals are:

- **$16/bbl is proposed as the Reference condition for Business planning**, both for internal Business profitability targets and for external communication. This is considered to be a prudent and conservative Reference basis.
- EP projects will continue to be tested against a grid of $10-16-22/bbl, with different emphasis depending on the time period of production.
- $18/bbl should become the central basis for evaluating upstream acquisitions with long term cash flows, and which have a limited window of opportunity.
- For business planning over the next 2 years, $20/bbl is the existing premise basis. It is also a central expectation of mean prices over the next decade, assuming that OPEC maintain a significant degree of cohesion over much of this period; it is therefore proposed as the base price for evaluating divestments where there are no overarching strategic drivers or pressing financial needs.

These proposals are highly sensitive so please restrict circulation within your business to the minimum. I would ask you to let me have comments, by midday on Wednesday at the latest so that we may prepare the final note for inclusion with CMD papers by midday on Thursday. Please copy comments to Malcolm, Ged and Roxanne. If you come across points with which you fundamentally disagree, then please let me know as soon as possible and I will arrange a meeting and/or video conference to discuss and try to resolve the issue.

<< File: CMD Oil Price Note 8.ZIP >>

Regards
David Frowd
Global Business Environment
Shell International Limited
Shell Centre, London SE1 7NA, United Kingdom

Tel: +44 20 7934 2006 Fax: 7406 Other Tel: 020 8398 3721
Email: Internet: http://www.shell.com
From:
Sent:
To:
Cc: Jacobi, Mary Jo SI-PXX; van der Steenstraten, Bart B SI-FH; Van der Veer, Jcroen J SI-MGDJV; Hofmeister, John D SI-HR; Munsiff, Jyoti E SI-LGCL/LSCL; Sexton, David A SHI.OIL; Boynton, Judith G SI-FN; Paulides, Gerard B SIG-FI; West, Gordon GJ SI-LSSL
Bcc:
Subject: ST&T major shareholders: Voting intentions {R}

Do.
Henry, Simon S SI-F1

From: Watts, Philip B SI-MGDPW

To: Munsiff, Jyoti E SI-LGCL/LSCL; Hofmeister, John D SI-HR; Jacobi, Mary Jo SI-PXX; West, Gordon GJ SI-LSSL; van der Steenstraten, Bart B SI-FH; Sexton, David A SHLOIL; Paulides, Gerard B SIG-FI; Boynton, Judith G SI-FN; Van der Veer, Jeroen J SI-MGDJV

CC: 2003-04-09 13:45:32.000

BCC: 2003-04-09 13:45:32.000

Sent Date: 2003-04-09 13:45:32.000

Received Date: 2003-04-09 13:45:32.000

Subject: RE: ST&T major shareholders: Voting intentions

Attachments:

Phil, updated to reflect latest input. For now I propose to just comment on differences on the 2 resolutions with figures reflecting the LTIP views - the remuneration report resolution is just to accept a report rather than make a decision to change. As we get more info we can build in the 2nd resolution for the record.

We have received several calls in IR from investors not included in the distribution last week, noted here where they are in the top 30. We also received a call from Manifest, a further industry body. We have provided copies of the letter on request.

As noted yesterday IR is already approaching the US investors informally. I believe there is a real danger in the US of creating an issue where one previously did not exist if we push too hard there. We are testing this belief where we believe we can do so without major downside. Apart from different cultural approaches to remuneration, an additional difference in the US investor community compared with the UK is the relative independence of opinion - there is much less 'market gossip' generated by brokers and sales desks. In the UK rumours about a wide range of issues flash around in minutes, in the US large investors are more distributed and tend to concentrate on issues that are material to valuation. To the best of my knowledge there are also fewer bodies like the ABI, NAPF and PIRC that claim to speak for 'shareholders'. Hence, unless we encourage them to talk about an issue, the chances of a herd instinct response is lower, and any voting will be to individual institution guidelines.

Simon

-----Original Message-----
From: Watts, Philip B SI-MGDPW
Sent: 09 April 2003 09:24
To: Henry, Simon S SI-FI
Cc: Munsiff, Jyoti E SI-LGCL/LSCL; Hofmeister, John D SI-HR; Jacobi, Mary Jo SI-PXX; West, Gordon GJ SI-LSSL; van der Steenstraten, Bart B SI-FH; Sexton, David A SHLOIL; Paulides, Gerard B SIG-FI; Boynton, Judith G SI-FN; Van der Veen, Jeroen J SI-MGDJV
Subject: RE: ST&T major shareholders: Voting intentions

Simon,
This is very helpful but do we need to distinguish between the Remuneration Report and the LTIP?

John,
I trust that we will also talk to the relevant US institutions, not just for ST&T but possibly for RD (though that situation looks pretty safe).

Thanks for all the efforts.

Phil

-----Original Message-----
From: Henry, Simon S SI-FI
Sent: 08 April 2003 08:58
To: Watts, Philip B SI-MGDPPW
Cc: Munsiff, Jyoti E SI-LGCL/LSCL; Hofmeister, John D SI-HR; Jacobi, Mary Jo SI-PXX; West, Gordon GJ SI-LSSL; van der Steenstraten, Bart B SI-FH; Sexton, David A SHLOIL; Paulides, Gerard B SIG-FI; Boynton, Judith G SI-FN
Subject: ST&T major shareholders: Voting intentions

Phil, as discussed please find attached a summary of our best intelligence to date of the top 30 shareholders.

<< File: STT voting intentions.xls (Compressed) >>
This uses the shareholder list as of 30 Jan 2003 and is the best available information. Voting intentions are based on discussions that John has held direct with investors, as advised yesterday. John is planning to contact all those highlighted in yellow over the next day or two. Investors highlighted in pink are US based and are here expected to vote in favour of the resolutions. This is based on on (IR) knowledge of 'normal' US approach to such governance issues - this anecdotal view is being followed up in a low key way with two of the investors on this list.

Important points to note are:
* Large institutions normally do not vote until the last day possible. For example last year's AGM was Wed May 15. By the Friday night May 10 only 27mln votes had been registered, by end of Tuesday 14 the total was 1.24 billion from a possible total of 2.5 bln. Given the proximity of Easter this year, the majority of votes may not be registered until Tuesday April 22.
* The % of votes cast has been steadily increasing over time as investors have taken their governance and participation obligations more seriously. It is likely that the majority of votes cast will be from this list. [Note: high participation rate from US investors in RD may imply US investors more likely on average to vote, possibly due to legislation in the US requiring certain types of investor to participate.]
* Reasons for timing of proxy submission are part administrative, part a delay to gauge if certain resolutions are proving to require more thought than the usual cursory administrative tick in a box
* Investors on this list are more likely to make up their own minds on resolutions as they have more resource to consider issues or to set house guidelines. The smaller an investment entity, the more likely
they are to follow industry guidelines from bodies such as ABI, NAPF or PIRC.
* Lloyds (registrars) can only supply information about voting intentions of names on the register. In practice large blocks of shares are held in nominee accounts so it is far from easy to identify the real owners behind the nominee data (e.g. HSBC and State street hold around 20% of total stock in their nominee accounts but not for their own benefit). The spreadsheet above is based on information to get behind the nominee account, and is obtained monthly by IR. However linking directly to the data provided by Lloyds is far from straightforward. Hence, even if major shareholders were to vote early it may not be possible to identify the fact.
* For Royal Dutch last year around 24% of potential votes were cast at the AGM, 99% by proxy. Of these, over 90% were US based investors. Hence it is fair to assume that even with the now reduced US influence, RD resolutions are in effect decided in the US. European investors do not bother to vote at all. If our assumption about generic US investor attitudes towards remuneration are correct then the RD resolutions have a high probability of success.

We will aim to update this as John concludes his discussions and as the US investors are polled. We will consider potential further action after this.

Simon

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ROYAL DUTCH/SHELL GROUP OF COMPANIES

STRATEGY PRESENTATION
Exploration and Production
Gas & Power

WALTER van de VILVER
Group Managing Director

MATTHIAS BICHSEL, Director, Exploration

JOHN DARLEY
Director, Global EP Technology

LINDA COOK
Chief Executive Officer, Gas & Power

MALCOLM BRINDED
Group Managing Director

9:00 a.m.
Thursday, March 27, 2003
New York, New York

This document was prepared by ETX Corporation
WELCOME

MR. WALTER van de VUVER, Group Managing Director: Good morning, ladies and gentlemen. Welcome to the Exploration and Production and Gas & Power strategy presentation. You have all seen this slide before, the disclaimer, so I will not read it to you.

I am joined here by my colleague, Linda Cook, the CEO of Gas & Power, who will do the Gas & Power presentation. She will be joined by Malcolm Brinded, who will take over from Linda in the middle of this year as the CEO of Gas & Power. For the Exploration and Production presentation I will joined by John Darley, our head of technology, and by Matthias Bichsel, who is head of exploration, to give you a little of the story. Today is all about deepening the story on Gas & Power we had on February 6.

OVERVIEW

MR. van de VUVER: What do we want from EP and Gas & Power? We want more of it; we want to grow it. If you look at our current portfolio, about half our capital employed is tied up in EP and Gas & Power, but it generates about three-quarters of our earnings. Therefore, at the same time we strive to disproportionately grow EP and Gas & Power, about three-quarters of our investment level overall as a Group, which is about $12 billion, goes into Gas & Power so we can invest beyond depreciation and actually grow this business. It is very important for the future of the Group overall is why we are here today.

Just a reminder of the Group financial framework we showed you on February 6. Everything you hear today is consistent with that framework. On our returns targets we are getting back in the range in the short term, while at the same time investing in the future to insure we have the long-term value delivery and flow to the shareholders. Another thing
we hope you will see throughout this day of presentations is the view of our portfolio with the continuous balance between the short term, and medium term and the long term. We are very much focused on getting back in the range of 13 percent to 15 percent, while at the same time executing all the projects that will deliver medium-term growth and then creating new legacy positions for the future. You will see this again and again throughout the whole presentation.

Another thing we want to drive home today, and I hope we will be successful, is how very passionate we are about this business. We do feel we have the strongest and most balanced portfolio among our peers. We also feel, particularly when you look at the combination of EP and Gas & Power, that we are the absolute industry leader. That is not only when it comes our the resource volume—the highest among our peers—but also how we monetize that and have the overall value chain of technologies, costs and operational excellence that will deliver the value, not only today but also in the long term, in earnings and real, hard dollars. It is essential to get the message about our leading-edge portfolio across.

**EP—PORTFOLIO AND PERFORMANCE**

MR. van de VIJVER: Let's start with the Exploration and Production story. We believe our portfolio is second to none, looking at it on a global scale. The whole strategy of EP is focused around our existing business, in particular on areas we call our "heartlands." The heartlands are geographically spread over the globe, and we will focus on them today. These heartlands are also about leveraging leadership positions and growing them in the future. At the same time we will have the separate drive to build the long-term legacy positions that will deliver the value for many decades to come. We will drill down into the portfolio to give you a more inside look at the strength in that portfolio.

First, let's look at the portfolio from a reserves perspective on a global scale when it comes to distribution. On the Shell side we have a very balanced geographical spread in
our reserves. It is interesting to note that we all know where we want to grow our businesses, and you will see we are already present in many of these areas. Our competitors are still trying to grow in areas where we have been for many years. It is important to see that in perspective.

You should also recognize that we are by far the largest operator in the world. These are real data looking at where Shell operates and where we have a strong role, bringing our operational excellence to the table to the many areas of the world where we operate. It is a very large scale that brings true capability to leverage technology, leverages our overall cost structure and the staff capabilities you need to operate, not only in the North Sea and Gulf of Mexico, but in other areas of the world. We feel very strongly about our leadership position.

Another thing that should come out more clearly is the comparison around returns. We see a lot of comparisons of returns around the EP business and Shell versus our competitors, but people ignore how things are grouped in the portfolio. This is the like-for-like comparison looking at returns. This takes the EP business as we define it, as well as the Gas & Power business minus the power segment, and combines those two. We call that the midstream and LNG business with our EP business to reflect Shell returns. Compare that with ExxonMobil where we deduct from their results their power results in China. And with BP we take the totality of EP and Gas & Power because we cannot take out their power side.

This is the true story over the period 2000 to 2002. It is important to highlight here that this is with an average price environment of $26 Brent and $3.90 Henry Hub. It is a high-priced environment and we are still as competitive. There is always the issue around exposure in the U.S. and so on. You see that even in these high-priced environments we are very competitive when it comes to returns.
Another thing to recognize is the volatility of our results as part of the market prices for our commodities. We have a portfolio that is very robust against oil price volatility. You see that on the left-hand side of the chart. This is because we have a very large part of our portfolio, like the world outside the U.S., on the gas side where contracts are either long term or are tied to LNG where there is a time lag until prices come through. So we are very capable of absorbing these price differences and are less exposed than our competitors. On top of that, we have 16 percent of our portfolio on fixed margin. The other side of the equation, currently 10 percent of our volume is exposed to OPEC—always a sensitive issue. If we look forward to 2007, the prediction is that number will double. It is still modest in comparison to our total portfolio.

Let's go to reserves. I know there has been a bit of a debate on reserves and I will try to be open and transparent around where we feel we are on the reserve side. On the left side is a combination of proved and probable reserves—PP reserves. That is how we plan our business; this is used for our normal internal business planning. You see very healthy growth here, and this health growth gave a replacement on the PP of almost 44 percent in the last five years. Recognize that this is just PP—it does not include all the scope volumes that go above there some of our competitors show. This is purely the PP volume.

If you look at our proved reserves, again you can see the trend relative to our competition. You see we strongly believe you should not look at these measures on a short-term basis, but on a longer-term basis at 5 percent or 10 percent when the differences between us and the competition are not that stark. You should also recognize that when we look at our reserve replacement, for the last couple of years we have been struggling to replace reserves around the gas side. It is the gas side where we already have the strongest reserve base of our competitors. On top of that, we know the lumpiness of that measure will only come through if you look at it for a long-enough period, with some of these truly
major projects we have in the development phase. That is the story around reserve replacement.

The good thing about reserve replacement, if you look at the total Shell portfolio again, is the growth of our reserves over the various geographies we operate in and our ability to grow that reserve base while at the same time growing production. We are organically growing that production and at the same time growing our overall reserve base over the various areas.

Allow me to give a little tutorial on reserve replacements, because it is such an important issue. I will end by giving you some comments around the 2003 outlook. If we look at the total life cycle around reserves, this is the story. The message we want to get across is if you do not take the simple measure of unit finding and development cost over a long-enough period, you will have a totally flawed perspective of the real strength of the business.

Look at the metrics you can use to track resource development. We all know you start with exploration and prospects. You have undiscovered scope, then you go into your exploration appraisal cycle and you have discoveries. There are metrics around the exploration business that are often expressed in unit finding costs. They are out there, but not easily benchmarked; they very much depend on what you assign as the numerator and denominator when it comes to the numbers.

On the Shell side when we talk about unit finding costs, we apply basic SEC discipline around what we call "discovered volumes." That is what a particular well actually encounters in oil and does not take the full scope yet, since that will mature through appraisal and the final investment decision. That is why we talk about dollar per barrel on average, on unit finding costs, while at the same time you could talk far lower numbers if you looked at the total scope of some of our discoveries. We try to be very disciplined as part of that whole chain of discipline on SEC guidelines.
Another area that is a measure of the success of the business is around unit development cost. We think that is a very variable measure because it tries to depict the amount of money you spent on development and the production capital expenditure directly linked to the movement of developed, proved reserves. It is a bit more difficult to get out of the published numbers, but it is a true like-for-like comparison between expenditure and actual reserves. As you know, that is the great difficulty with unit finding and development costs, because people can put whatever range of numbers they would like in both categories.

If you actually start operating, you have a unit operating cost. We feel you need to look holistically at the total reserve cycle and all these metrics to give you a real feel for the strength of the portfolio and how these things move across it.

Here you see the comparison on unit development cost and adjusted production cost, based on a variety of external data as you see in the footnote. Key here is the competitive position of Shell versus the competition. Being the lowest in development costs and adjusted production costs all links directly to our capital efficiency where technology plays a major role, and is also linked to our technical and operational excellence when it comes to delivering the goodies on a day-to-day basis. The key element ultimately is what translates to the bottom line, whatever metrics you talk about.

Going forward, that depicts how we see both our cash and noncash costs that translate into our unit earnings. You see here both operating costs with ongoing trends, and you know our commitment on a 3 percent underlying unit cost reduction for 2003 and 2004. You see here the reduction on DD&A, which to an extent is also linked to the conservative depreciation we did on the Enterprise acquisition. That is why you see the DD&A coming down going forward. Overall you see the trend averages around $8 per boe. So whatever metrics we talk about in unit finding and development cost, because the numerator and denominator are out of sync and you can start looking backwards rather than
forward, what really matters is what comes through to your bottom line. There we have a positive trend going forward.

Before I go, I do want to make some comments on reserve replacements for 2003, knowing you will ask questions on it—and that is good, because we do like questions. There are quite a few things happening you will hear about later today on the gas side that could have a major impact on our reserve replacements for 2003. This is where all these projects—whether they are activities ongoing in the U.S. with onshore gas, or activities ongoing in the North Sea like an Ormen Lange, or the issues around Sakhalin defining the projects that will supply Train 4 and Train 5 in Nigeria—all those will come to pass as part of making those decisions that will impact our 2003 reserve replacements. I hope you get additional comfort that things are moving forward on the gas side after the last couple of years; at the same time, as we keep reminding you, don't just look at the individual year-to-year replacements.

Now let's start drilling down into our portfolio. We have a very balanced portfolio and we like to show you where the investment on that portfolio is going and why. Thirty percent of our investment still goes into our existing businesses, which are very focused around our heartlands; another 30 percent goes into growing the heartlands; and then we have about 30 percent linked to building these new legacy positions; and almost 10 percent around the discoveries, bringing them to reality. This is very balanced and centered around how we spent that $7 billion to $8 billion of capital expenditure.

Let's start with our heartlands. This is a very important part of our portfolio and I would like to spend some time today talking about things we normally do not talk about. Maybe we take their value to our overall portfolio too much for granted. I will drill down further on Europe and on Brunei and Malaysia, as just two examples of the strength of our portfolio.
Also at this time I will comment on some other areas. We have a lot of pressure around Oman with the current decline, after a very long successful buildup. We are going through a transition there and we are very optimistic about the future. I think it is important to recognize that in Oman, just on the oil side, we are playing with a massive portfolio. It has about 50 billion barrels of oil originally in place. To date we have only produced 13 percent of that. There is enormous potential still left in Oman. In the U.S. we have the leadership in unit earnings, as we have said in the past. I will come back later to Nigeria. Let's go into Malaysia, Brunei and Northwest Europe.

It is important to realize why we spend 30 percent of our money in these existing heartlands overall—because we made an average return of 40 percent ROACE on them. That is why we still like that business so much.

Looking at Europe, irrespective of some of the stories you might hear from competitors, it is very important to us and will continue to be important for a long time in the future. With all the stories about production decline, here is our outlook on production in Europe—still strong and stable with lots of opportunities. The other thing to recognize is that 40 percent of our overall EP earnings come out of Europe.

Let's have a look at the map on Europe and the North Sea. We currently have operations in Norway, Denmark, The Netherlands and the U.K., and we are developing things on offshore Ireland. Key here are a couple of things: We are the absolute cost leader in the North Sea. You don't have to believe our numbers; that is what MacKenzie confirms after very extensive benchmarking. We are number one in the central North Sea and number three in the southern North Sea. We still have many opportunities out there that will offset the decline in some of the more mature areas. We have lots of ongoing activities. We still see potential in the Atlantic margin, going all the way from Ireland to Norway, and we had an extremely exciting discovery, Dooish, at offshore Ireland. In the next couple of months we will be further appraised on this development.
There are a lot of key projects there, but also some little examples. You can see Nelson Oil Production on the right-hand side. We took over that operation from Enterprise. Guess what? In a very short time frame we were able to turn around the decline and actually build production again. Through applying our skills on execution and waterflood—managing the water—we are able to see a lot of life in a mature asset in the North Sea.

That is all I will say about Enterprise. Enterprise has disappeared into our portfolio. It is performing extremely well. We stick to all the synergy promises we made in February. There is future value potential there. You can imagine with Enterprise having delivered more than $1 billion, we are smiling all the way to the bank.

We have a very strong position in Europe, but we will go further. We are now putting up the next generation of management processes around EP Europe to manage it as a single entity. We see enormous potential there, not only for cost takeout, but also for value creation. We will finally break down the barriers between those various assets. We will be able to use standardized processes that will speed up learning and transfer of technologies. We see a lot of value creation coinciding with all the liberalization taking place in the European gas market. This is much like an alliance we want to do on the gas side, which Linda will cover. It is all about positioning ourselves for the future, seeing a lot of value creation and finally taking the next step of looking at Europe. It will be very important for a long time into the future.

Let’s look at some areas we do not talk about too much in Shell where we have very dominant positions and long-standing relationships with governments. They are Malaysia, Sarawak and Brunei. We have been there for a long time—Malaysia nearly 100 years and Brunei over 50 years. Amazingly enough, this is still a growing business. We continue to reinvent ourselves. We see continued growth with the scope we have in Sabah in the deepwater. Last year they reached a production record. If we look at areas around
Sarawak, last year they had liquid records coinciding with LNG volumes. We are at the startup of Train 3 and will continue to grow volume. This is a very important business with very high value for Shell overall.

Brunei is a typical example. Last year Brunei reached a production record. Brunei currently has more reserves than it had 20 years ago. That is the real strength of Shell—being able to apply all the leading-edge technologies. John Darley will show an example of how we still see the value in these very so-called mature areas that will be heartlands for a long time in the future.

Let's go through the next stage of growing our heartlands and highlighting why there is still so much growth for the deepwater. I don't think anyone dares contest our leadership in deepwater. This is not just talk, but actually doing and delivering in deepwater. It is a very competitive area and very important. We have been investing there for a long time, as you know, starting in the Gulf of Mexico. We still see enormous potential going forward.

Here is an example of our deepwater leadership. Mars Basin, one of the so-called mature deepwater assets in the Gulf of Mexico, last year delivered over $600 million of net income to our bottom line. Not a lot of people have these kinds of assets. Mars has been able to surprise us year after year in capability and potential. We had to adjust the facilities going forward, as you see on the step chart on the Mars TLP. There is still a lot potential left in Mars. Mars Basin overall has about five billion barrels of oil in place. At the same time we are still exploring and appraising in that area. This is where the Deimos discovery was made, and we are currently appraising that. That has high potential. Don't forget, we will only start waterflooding the Mars field in 2004—just the second stage of development. There is still a lot of scope left.

Let's go to Nigeria. We all know the misery around Nigeria at this time, but let's put it into context. We have a massive operation and potential in Nigeria. This is the only
area in West Africa where there is an integrated solution on both maximizing oil and gas reserves in the country. As you know, Shell has been instrumental in creating that integrated gas and oil company in Nigeria. Irrespective of all the troubles we have had in our western division over the last couple of weeks, we are still able to supply all the gas needs after the startup of the third train on Nigerian LNG.

We have that flexibility in our portfolio to do so. We have a very nice portfolio because these are all very big material assets. That is what this map shows—all the individual assets with over half a billion barrels of oil in place. We are now still in the buildup phase on our EA facility offshore Nigeria. It is doing about 60,000 barrels a day, so it is all going according to plan. It is a very successful operation with the right balance between onshore and offshore, the right balance in exposure, and still has lots of potential.

On our gas portfolio, this is the spread of our overall gas reserves across the world, which translates into an R/P of 15.5 years. We have a very strong position in Asia Pacific as the leader there. We are very strong in Africa and the Middle East. You will note scope for recovery is quite a thin sliver in North America. It does not make sense in a lot of these areas to find more reserves. You have to align it with monetizing your reserves, so you have to look at these things in context. You know the size of Europe when we sit on these assets around the [indistinguishable] of fuel to The Netherlands, which has huge potential for the future. I think we all recognize that the bars in America are a little thin.

Let’s go to the last stage of building new positions. We are trying to give you a feeling for how we carefully balance our funding to create some of these long-term positions that will deliver value. It is very geographically spread risk-wise over the globe in the places we want to be, like key areas around the Athabasca oil sands. As you know, they are now in the final stage of commissioning a startup and have now successfully commissioned the Scotsford upgrader, so that is all in train to start. In Brazil deepwater, again Shell has so far discovered close to four billion barrels of oil in place. It is now in
the process of commercializing those resources, knowing we are the strongest international oil company in the deepwater of Brazil after Petrobras. We have already talked about West Africa. In the Middle East there are still many select areas for growth. The Caspian in Russia is very much centered around Sakhalin. We have talked to you about China before.

This shows some of those world-class projects coming through. Here is a picture of Alhabasca. Again, recognize that Sakhalin is one step in a major development we are pursuing with $10 billion of overall investment, for a position that will be there for decades to come. We are currently in the final stages of setting up all the elements, including the marketing, which Linda will cover, to take it to the final investment decision. It is the same with Kashagan—there are a lot of activity happening now to arrive at the final awarding of the contract and get this development going.

Here are some more near-term things. Bonga FPSO will be the biggest offshore FPSO in Nigeria. The topsides are put on in the U.K. and will sail from there around September, moving slowly south to be installed in Nigeria for startup in April next year. Bijupira Salema is another present we got from Enterprise. We came in late in that project's development but were able to apply our skills in project management to accelerate the startup from September to three months earlier in July. Again that effectively shows our strength in overall project management.

With that, I will hand it over to Matthias for a deeper look into our exploration portfolio.

**EP PORTFOLIO—GLOBAL EXPLORATION**

**MR. MATTHIAS BICHESEL**, Director, Exploration: Thank you, Walter, and good morning, ladies and gentlemen. By choice we have the strategy of pursuing two distinctly different types of exploration. They are at different stages of the hydrocarbon life cycle and require quite different skills to be successful. Near field exploration, addressing by its very nature the smaller volumes but the high unit-value barrels, is in support of our
production in the heartlands. To be good at it one has to have a deep understanding of the interaction of geology and geophysics in a particular area. Conversely, exploring for new hubs requires an outstanding skill in understanding the hydrocarbon systems of the world. Obviously this type of exploration is in support of our growth in the heartlands as well as building our new positions, since it addresses the larger volumes.

In the second half of the 1990s and into the early part of this decade we have spent a lot of effort on near field exploration in terms of money, and in particular, manpower. In late 2001 at the presentation on the EP strategy, we indicated to you we would shift the focus of exploration towards the new-hub type exploration. Now we are drilling more “big cats,” as we call our material opportunities, than we were in the past.

Let me say a few words on the performance of exploration. We are very proud of our near field exploration track record with its high success rate. That success rate allows us to design our exploration wares as producers, which in turn enables us to shorten the cycle time between exploration and first oil to capture maximum value. To give you one example, the Gulf of Mexico last year had a success rate of over 80 percent. From this activity in 2003 we are producing 30,000 oil equivalent today, and that is increasing over time. You can imagine the value we have created through that activity. We are replicating that as a success across the world.

Our strategy to move to new hub-type exploration is paying off, as you can see on this slide that shows the discoveries we made last year in this category. These discoveries range from the Gulf of Mexico, where we have participated in all the big discoveries that industry has made, into Ireland—Walter already talked about Dooish—and over into the Far East and also in West Africa, where we are very successful. A study done by Deutsche Bank looking at the equity resources discovered in 2002 in giant discoveries—they have used a cutoff of 300 million barrels—compares Shell very favorably with the competition.
Exploration is there to underpin growth. The exploration discoveries are fueling the development opportunity funnel that is graphically represented on this slide. We have a very strong near field exploration performance, as I mentioned, close to its production. That is on purpose. We have a just-in-time approach to near field exploration, just in time as it becomes available. There is no point in drilling these wells too early; that would destroy value. At the same time, once again this picture underpins our shift of strategy and proves the new strategy of moving to new hub-type exploration is showing traction. We have more of those discoveries now populating this funnel and moving forward to production. It is clear that 2002 discoveries in particular require more work, appraisal drilling and studies to nail down the exact plan—when they come on stream and how we will develop them.

Ultimately exploration is all about creating value. This is a study conducted by Wood Mackenzie looking at the value added through organic exploration and appraisal activities over the period 1996 to 2002. It puts us squarely in the number-one position. That same study indicates that we are top tier in the finding costs, as Walter mentioned.

That was all about the past; we need to replicate that success into the future. We require a few ingredients. One is to have a portfolio of opportunities. Our acreage position is second to none, but that is not a static picture. We are continually rejuvenating our portfolio. Last year, for instance, we farmed out over 50 positions and relinquished 113 blocks. At the same time last year we acquired acreage in nine countries, excluding the acquisition of Enterprise. That keeps our portfolio rejuvenated, renewed and allows us to high grade the drilling opportunities.

I realize, of course, that having a portfolio per se has no value. The value lies in the capability to unlock that portfolio, to turn it into volumes and to transform that into cash. Shell has that inherent strength, a strength we have honed over years of successful exploration. Decade by decade, as this example of Oman will show you, we have found