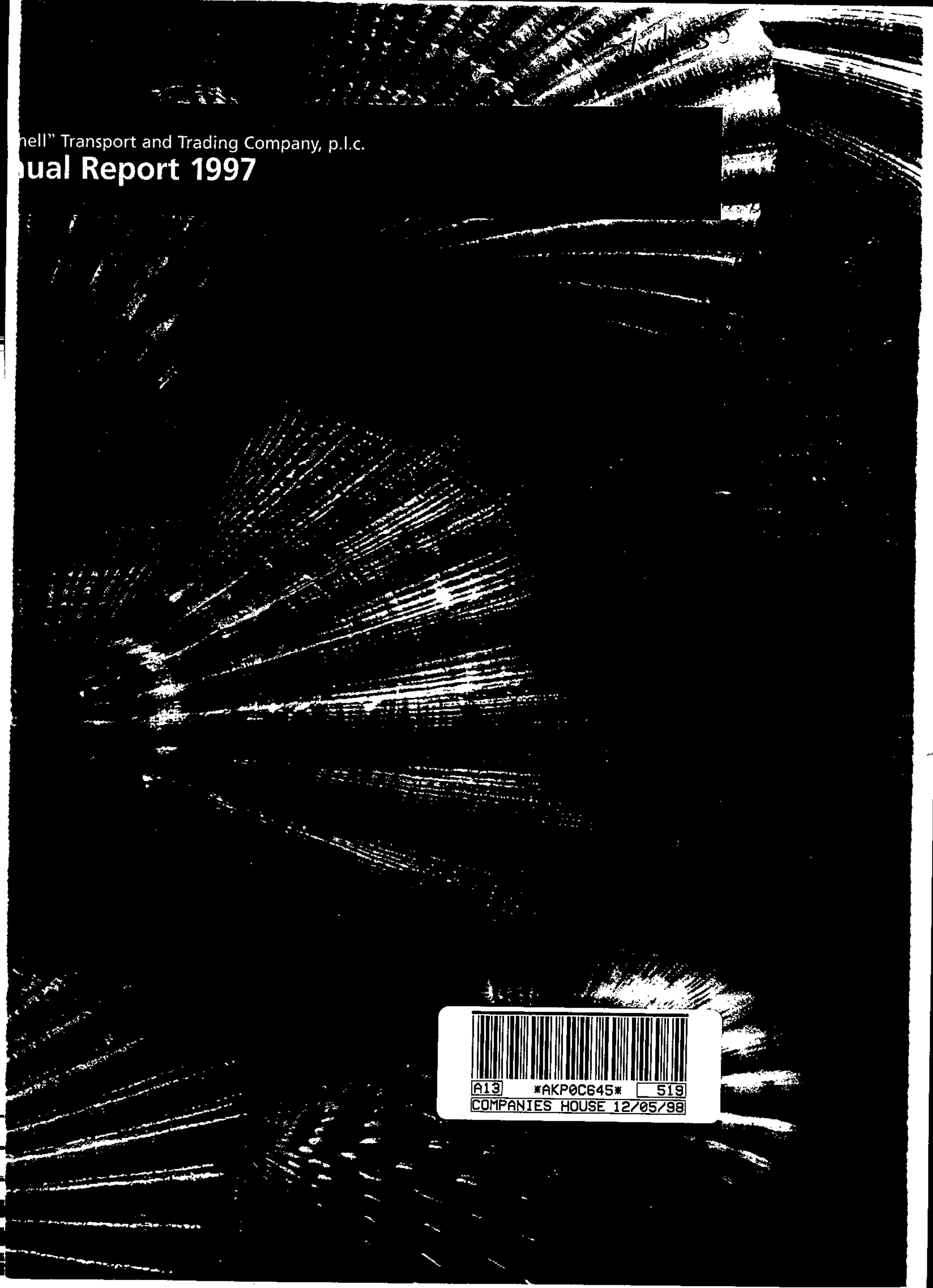
nell" Transport and Trading Company, p.l.c.

ıual Report 1997



The "Shell" Transport and Trading Company, p.l.c.

Contents

Royal Dutch/Shell Group of Companies

Contents

he "Shell" Transport and Trading Company, .l.c. (Shell Transport) has no operations f its own and virtually the whole of its ncome derives from its 40% interest in the ompanies known collectively as the Royal utch/Shell Group of Companies; the other 0% is owned by Royal Dutch Petroleum ompany, a Netherlands company. Shell ransport is a Parent Company of the roup, but is not itself part of the Group.

The Royal Dutch/Shell Group of Companies has grown out of an alliance made in 1907 between Royal Dutch Petroleum Company and The "Shell" Transport and Trading Company, p.l.c., by which the two companies agreed to merge their interests on a 60:40 basis while keeping their separate identities. Today, Shell companies are engaged in oil, natural gas, chemicals, renewable resources and other businesses throughout the world.

he 100th Annual General Meeting of The "Shell" ransport and Trading Company, p.l.c. will be eld at The Queen Elizabeth II Conference Centre, road Sanctuary, Westminster, London SW1P 3EE, n Friday May 8, 1998 at 10:30 a.m. The Notice onvening the Meeting is enclosed.

Throughout this Report a billion = 1,000 million.

he companies in which Royal Dutch Petroleum Company and The "Shell" Transport and Trading Company, p.l.c. directly or indirectly own investments re separate and distinct entities, but in this Report the collective expressions 'Shell', 'Group' and 'Royal Dutch/Shell Group of Companies' are sometimes sed for convenience in contexts where reference is made to the companies of the Royal Dutch/Shell Group in general. Those expressions are also used here no useful purpose is served by identifying the particular company or companies.

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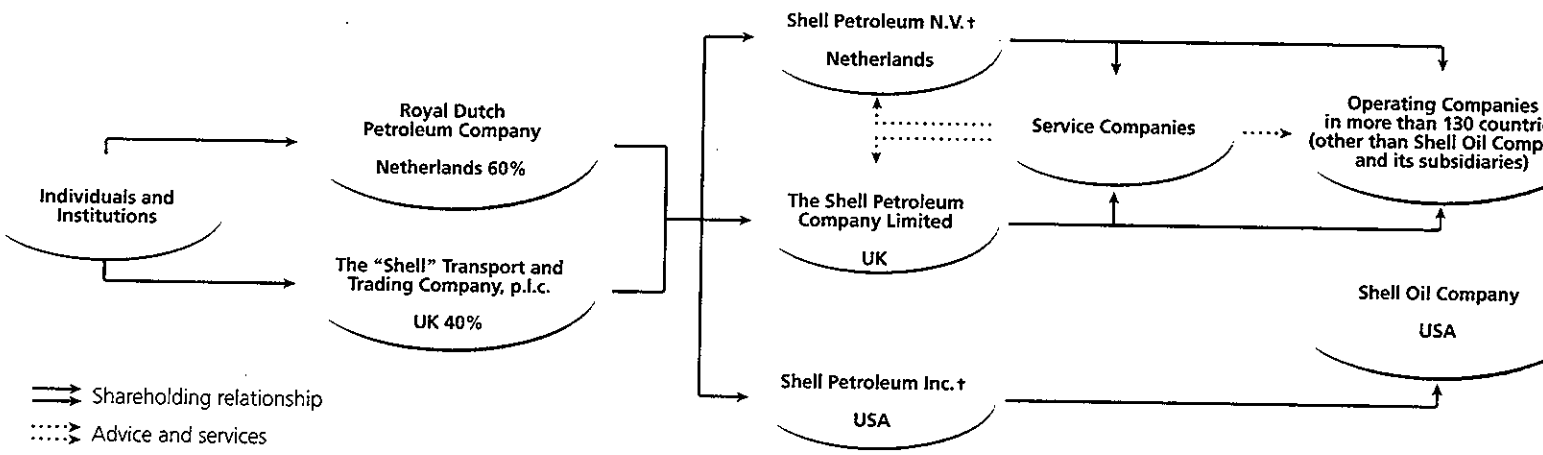
This is Shell
Structure of the Royal Dutch/Shell Group



Individuals and Institutions

There are some 600,000 shareholders of Royal Dutch and some 273,000 of Shell Transport. Shares of one or both companies are listed and traded on stock exchanges in eight European countries and in the USA.

The estimated geographical distribution of shareholdings at the end of 1997 was:

	Royal Dutch %	Shell Transport %	Combined %
United Kingdom	1	96	39
USA	43	4	27
Netherlands	43	*	26
Switzerland	9	*	5
France	3	*	2
Germany	1	*	1
Others	*	*	*

*Less than 1%

Parent Companies

As Parent Companies, Royal Dutch Petroleum Company and The "Shell" Transport and Trading Company, p.l.c. do not themselves directly engage in operational activities. They are public companies, one domiciled in the Netherlands, the other in the United Kingdom.

The Parent Companies directly or indirectly own the shares in the Group Holding Companies but are not themselves part of the Group. They appoint Directors to the Boards of the Group Holding Companies, from which they receive income in the form of dividends.

Royal Dutch/Shell Group of Companies

Group Holding Companies
Shell Petroleum N.V. and The Shell Petroleum Company Limited between them hold all the shares in the Service Companies and, directly or indirectly, all Group interests in the Operating Companies other than those held by Shell Petroleum Inc.

Service Companies
The main business of the Service Companies is to provide advice and services to other Group and associated companies, excluding Shell Petroleum Inc. and its subsidiaries.

Operating Companies
Operating Companies are engaged in various activities related to oil and natural gas, chemicals, renewable resources and other businesses throughout the world. The management of each Operating Company is responsible for the performance and long-term viability of its own operations, but can draw on the experience of the Service Companies and, through them, of other Operating Companies.

†Shell Petroleum N.V. holds equity shares in Shell Petroleum Inc. which are non-controlling but entitle it to the dividend flow from that company.

Chairman's Foreword

Shell companies continued to contribute to global economic development last year – by delivering the improved business performance which is the essential foundation of this contribution, by pursuing the business transformation on which future success depends, and by responding openly to public concerns and expectations.

Delivering profitable growth
Our objective is to deliver the profitable growth which will provide the basis for continuing improvement in the return to our shareholders – in a manner consistent with our business principles.

Our goal is to achieve strong growth in production and sales volumes, and in revenues – with a 15% return on capital employed by early next century.

A substantial increase in capital expenditure over the next few years will confirm the Group's position as one of the world's largest private investors. To support such investment existing operations must be run as effectively and profitably as possible. Growth will be greatest in Exploration and Production, which will employ an increasing share of the Group's capital.

Adverse business conditions affected the 1997 results, particularly in the fourth quarter. However, the underlying business performance gives us confidence in our ability to meet these long-term objectives.

The fall in oil prices hit upstream earnings, the impact being somewhat softened by lower operating costs. Although oil production rose slightly, warmer weather reduced gas sales. Oil product sales continued to grow strongly. Sales volumes of chemicals also increased.

Overall net income of £4.7 billion in 1997 was 17% down on the previous year. Excluding inventory holding effects, earnings were 6% lower. Results were affected by the Asian economic turmoil, as well as the strength of both sterling and the US dollar.

From 1998, Group financial statements will be reported in US dollars, making it easier to compare our performance with that of other energy companies.

Reserve levels increased: net additions exceeded the year's production by 29% in the case of oil and 110% in the case of gas.

Shell staff everywhere have responded to the need to adapt continuously to new business and societal challenges. The extent of these ceaseless changes – to a 'learning organisation' – truly merits the term 'transformation'. These changes build on long-standing technical and financial strengths: focusing on meeting customer needs; improving performance; and realising opportunities.

A major theme is 'openness' – to new ideas, about what we do, and to the ideas of others. The basis of this is our confidence in the strength of our own core values.

In adverse conditions, our underlying business performance gives us confidence in our ability to meet long-term goals. Shell staff are responding to the need for continuous learning to grasp new business and societal challenges. We value openness – to new ideas, about what we do, and to the views of others.

Preparing for the future
In the increasingly competitive and fast-moving global economy, businesses must be able to learn and adjust quickly to changing conditions. Shell staff have shown themselves eager to grasp new ideas which help drive forward their businesses.

In discussing these changes, I can point to many accomplishments – not just aspirations. These are some:

- increasing cost competitiveness in all business sectors;
- the creation of a global chemicals business and a European oil products organisation;
- the formation of Shell International Deepwater to capitalise on the Group's leadership in deep-water technology, and Shell Services International to offer commercial business services world-wide;
- the alliances with Gazprom to develop business in Russia and elsewhere, with Saudi Aramco to pursue opportunities in Asia, and with Texaco and Saudi Refining to meet commercial challenges in the USA;
- the purchase of Tejas Gas and the remaining 50% of Montell;
- the expansion of convenience retailing, the entry into power generation, and the commitment to the commercial future of renewable energy.

Each of these offers potential for the future. The creativity and drive which brought them about offer much more.

Mark Moody-Stuart

M Moody-Stuart, Chairman
March 12, 1998

Telling it like it is

We are responding to increasing public interest in Shell companies' activities by developing our reporting.

Shell companies have long been open about the values and principles which guide them. The Group's *Statement of General Business Principles* – our contract with society – has been publicly available for over 20 years. Last year's revision followed extensive internal and external consultation. It included commitments to support fundamental human rights and to contribute to sustainable development.

The first Group health, safety and environment (HSE) report was issued last year – as well as separate reports for the main businesses. The HSE reports published this year will be externally verified. Shell companies are committed to continuously improving their performance in these areas. This year's Group report will include improvement targets against which future progress can be measured.

In addition we will be presenting the contribution Shell companies make to economic, social and environmental progress in the new *Shell Report.* We are planning, as soon as practicable, to expand the scope to present a measured and verified annual report on the performance of Shell companies in fulfilling the responsibilities they committed themselves to in our business principles.

Engaging with the world

It is not enough just to tell people what Shell companies are doing. We must also take account of the views of others.

This must, of course, include our shareholders, whose views on any aspect of the Group's affairs I am always very happy to receive.

It must include Shell customers. Far more attention is being paid to finding out what they want – and to delivering it. And also to telling them more about what we offer.

It must include staff. Shell companies have become much more open, with far wider discussion about the directions they are taking. However, greater openness goes together with the ability to take decisive action at all levels.

And it must include others in society. We have devoted much effort to understanding how public expectations of international business are changing. This has involved widespread discussion with different strands of opinion around the world. And we have not been afraid to enter public debate where we believe we have something to say. Shell companies are increasingly working with community and environmental groups.

Contributing to human progress

Modern business life involves inevitable pressures, as well as opportunities for personal fulfilment. In thanking all Shell staff – and all who work with us – for their contribution to business success and the pursuit of necessary change, let me say that I recognise our responsibilities to help them manage these pressures.

We in Shell can look back on a history of many worthwhile accomplishments. But it is more important to consider how we are placed to contribute to progress in the future. We can look forward with real confidence, in the knowledge that we are doing what it takes to meet the challenges we foresee.

I believe that our shareholders, our customers, and the millions of people all over the world who have a stake in Shell operations can be equally confident.

Finally, I would like to express my appreciation of the contribution to the Company, in a time of change, made by my predecessor, Sir John Jennings. I am pleased that his counsel and experience will still be available to us as a member of the Board.

Energy for the 21st century

The world's economic and social transformation, which has enhanced human life over the past 150 years, has depended on the availability of increasing supplies of affordable energy from fossil fuels. Energy needs will continue to increase as population grows and living standards rise. But they will also change, and markets will evolve in response – as they have in the past. Last century wood gave way to coal. This century's transport revolution depended on oil. Natural gas is becoming increasingly important.

Competition between fuels will continue to drive this evolution. Although oil is likely to remain the most convenient transport fuel, supplies may peak within two or three decades. Consumption of gas could double in the first half of the next century, because of its efficiency and cleanliness. Renewable energy sources – wind, biomass and solar – could be supplying a tenth of the world's energy by 2020, and half by 2050. Energy efficiency has continuously improved. However, there are good reasons for expecting technological advance, better communications, market reform and social change to bring faster improvement in future.

This is the context in which the world must respond to the possibility that human activities are causing damaging climate change. Because wood and coal emit more carbon dioxide than oil or gas, the carbon intensity of energy supplies is steadily declining. Shell planning scenarios suggest that continuing changes in fuel supplies and increasing efficiency could mean that carbon emissions start falling in the first half of next century.

Nevertheless, we support prudent precautionary measures – which are flexible, economically realistic and long term – to encourage this process. Emissions trading between nations will help flexibility. Shell companies are contributing by reducing emissions from their own operations, playing a leading role in developing gas markets and investing in commercial renewable energy.

Financial Highlights

Earnings and Dividends

	1997	1996	1995
		pence per 25p Ordinary share	
Dividends			
Interim	**5.1**	4.8	4.3
Final	**8.0***	7.5	6.8
	13.1	12.3	11.1
Earnings	**17.8**	21.3	16.0
Net assets	**146.7**	149.6	153.9

*Proposed final dividend, subject to approval at the Annual General Meeting of the Company on May 8, 1998. The final dividend will be paid on May 15, 1998 to Members on the Register on April 24, 1998 and to holders of Bearer Warrants who surrender Coupon No. 200.

The proposed dividend will be paid as a foreign income dividend (FID).

	1997	1996	1995
		US dollars per New York Share†	
Dividends			
Interim	**0.64**	0.59	0.51
Final	‡	0.93	0.77
	‡	1.52	1.28
Earnings	**1.75**	1.99	1.52
Net assets	**14.58**	15.21	14.29

†One New York Share = six 25p Ordinary shares.

The US dollar figures for earnings and net assets are translations of the above sterling amounts (refer to page 62 for details).

In respect of dividends which are not FIDs, under the current Double Taxation Conventions between the UK and both the USA and Canada, qualifying US and Canadian resident holders of New York Shares receive an amount equal to the imputation tax credit concurrently with their dividend, less a deduction for UK income tax at 15% on the combined amount of the dividend and such tax credit. Amounts shown are US dollar equivalents of the dividend and tax credit at time of payment before deduction of income tax at 15%.

As the final 1997 dividend is a FID, there is no tax credit or withholding tax referable to it. Accordingly, United States and Canadian residents are not entitled to payments of any credits under the respective United States and Canadian double taxation conventions with the United Kingdom.

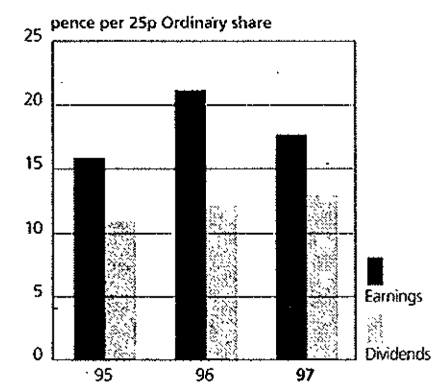
‡The actual amount to be paid will be determined by the US$/£ exchange rate ruling on May 15, 1998.

Share Prices

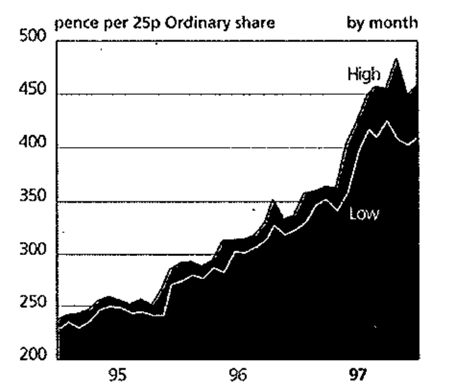
	1997	1996	1995
		London Stock Exchange pence per 25p Ordinary share	
Highest	**485**	352	287
Lowest	**331**	276	231
Year end	**440**	337	284
		New York Stock Exchange US dollars per New York Share†	
Highest	**47.31**	34.38	27.33
Lowest	**33.25**	25.54	21.42
Year end	**43.75**	34.13	27.13

Share data on this page have been restated to reflect the capitalisation issue which became effective on June 30, 1997, whereby two 25p Ordinary shares were issued for each 25p Ordinary share outstanding.

Earnings and Dividends



Share Prices
London Stock Exchange (closing prices)



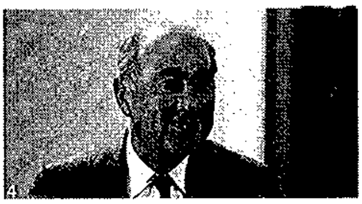
Board of Directors

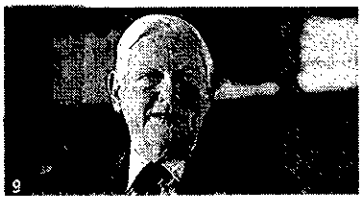
Managing Directors

1 Mark Moody-Stuart Chairman
Born September 15, 1940. A Director and a Managing Director of the Company since 1991 and Chairman since July 1997. A Group Managing Director since 1991.

2 Philip B Watts
Born June 25, 1945. A Director and a Managing Director of the Company and a Group Managing Director since July 1997. Most recent Group appointment prior to joining the Board was as Director – Planning, Environment and External Affairs.

Directors





3 Sir Antony Acland GCMG GCVO*
Born March 12, 1930. A non-executive Director since 1991. Entered Diplomatic Service in 1953. Permanent Under-Secretary of State, Foreign and Commonwealth Office, and Head of the Diplomatic Service 1982–86. H M Ambassador to the USA 1986–91. A Director of Booker plc. Provost of Eton College.

4 Teymour A Alireza*
Born September 7, 1939. Appointed a non-executive Director November 1997. President and Deputy Chairman, The Alireza Group. Chairman National Pipe Company Ltd, Saudi Arabia. Director Arabian Gulf Investments (Far East) Ltd, Hong Kong. Member of the International Board of Trustees of the World Wide Fund for Nature.

5 Sir Peter Holmes MC
Born September 27, 1932. A Director since 1982. Chairman 1985–93 and a Group Managing Director 1982–93.

6 Sir John Jennings CBE FRSE*
Born March 30, 1937. A Director since 1987. Chairman 1993–97 and a Group Managing Director 1987–97. A Director of Det Norske Veritas, The MITIE Group and Robert Fleming Holdings. Member of Board of Counsellors of Bechtel Corporation and of International Advisory Board of Toyota Corporation.

7 Professor Robert O'Neill AO
Born November 5, 1936. A non-executive Director since 1992. An Australian citizen, served in the Australian army 1955–68. Director of the International Institute for Strategic Studies 1982–87. Chichele Professor of the History of War and a Fellow of All Souls College, Oxford since 1987. Honorary Fellow of Brasenose College, Oxford.

8 Sir Ronald Oxburgh KBE FRS
Born November 2, 1934. A non-executive Director since January 1996. Scientific appointments 1960–88. Chief Scientific Adviser, Ministry of Defence 1988–93. Appointed Rector, Imperial College of Science, Technology and Medicine, in 1993.

9 Sir William Purves CBE DSO
Born December 27, 1931. A non-executive Director since October 1993. Joined The Hongkong and Shanghai Bank in 1954 and currently Chairman of HSBC Holdings plc. A Director of The Hongkong and Shanghai Banking Corporation Ltd, Marine Midland Bank, Midland Bank plc and East Asiatic Company Ltd A/S.

*Standing in 1998 for election or re-election as a Director of the Company

Company Secretary

Jyoti E Munsiff
Joined Group in 1969 as a Legal Adviser. Appointed Company Secretary August 1993.

Report of the Directors

Chairman
As previously reported Mr Mark Moody-Stuart was appointed as Chairman of the Board of Directors with effect from July 1, 1997, succeeding Sir John Jennings who retired from executive duties on June 30, 1997. The other Directors were delighted to be able to congratulate Sir John on the award of a knighthood by H M The Queen which was announced in the Birthday Honours on June 14, 1997.

Directors
The current Directors of the Company are shown on page 5; all served as Directors throughout 1997 except for Mr P B Watts who was elected as a Director at the 1997 Annual General Meeting and thereafter appointed a Managing Director of the Company, both with effect from July 1, 1997, and Mr Teymour A Alireza who was appointed as a non-executive Director by the Board with effect from November 12, 1997. The Lord Armstrong of Ilminster also served as a Director until his retirement on May 14, 1997.

The Board was pleased to welcome as a Director Mr Teymour A Alireza who is President and Deputy Chairman of the Alireza Group, a diversified international industrial group based in the Middle East. In accordance with the Articles of Association Mr Alireza will vacate office at the Annual General Meeting to be held on May 8, 1998 and, being eligible, will offer himself for election by the shareholders.

Sir Antony Acland and Sir John Jennings will retire by rotation at the Annual General Meeting in accordance with the Articles of Association and, being eligible, will offer themselves for re-election.

Under the Articles of Association, Managing Directors are not required to retire by rotation with the other Directors and offer themselves for re-election by the shareholders but, as announced last year, the Managing Directors will, in future, offer themselves for re-election on a regular basis. As Sir John Jennings, one of the Managing Directors until June 1997, is offering himself for re-election this year in accordance with the Articles of Association and the two current Managing Directors were elected at the Annual General Meeting in 1997, no retirements will take place under these arrangements at the 1998 Annual General Meeting.

No Director has, or during the financial year had, a contract of service with the Company. No Director is or was materially interested in any contract subsisting during or at the end of the year that was significant in relation to the Company's business.

Activities of the Company
The Company is a holding company which, in conjunction with Royal Dutch Petroleum Company, a Netherlands company, owns, directly or indirectly, investments in the numerous companies constituting the Royal Dutch/Shell Group of Companies and collectively referred to as 'the Group'. Royal Dutch Petroleum Company has a 60% interest in the Group and the Company a 40% interest.

The Company's principal investments are its direct shareholdings in The Shell Petroleum Company Limited, Shell Petroleum N.V. and Shell Petroleum Inc.

These three companies own, directly or indirectly, the investments representing the total Group interests in the other companies of the Group which are engaged in various activities related to oil and natural gas, chemicals, renewable resources and other businesses throughout the world. The structure of the Group is shown on page 1 and described in Note 6 to the financial statements of the Company.

Having regard to the fact that the Company has no subsidiaries, it is appropriate to draw attention to the Chairman's Foreword (pages 2 and 3) and the Discussion and Analysis of Financial Condition and Results of Operations and other information (pages 17 to 36) concerning Group companies generally which would have had to be included in this Report if such Group companies had been subsidiaries of the Company.

Substantial shareholdings
At March 9, 1998, the only interest in 3% or more of the Company's issued Ordinary share capital notified to the Company was that of Prudential Corporation Group of Companies which held 347,364,706 shares (3.49%).

Corporate Governance
Code of Best Practice
The Directors consider that Shell Transport fully complied with the operative provisions of the Code of Best Practice published by the Committee on the Financial Aspects of Corporate Governance. The Report of the Company's Auditors, Price Waterhouse, on corporate governance matters is set out on page 14.

The Directors believe that Shell Transport has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in the financial statements.

The Directors are responsible for, and have reviewed the effectiveness of, Shell Transport's system of internal financial control which is established to provide reasonable assurance of the safeguarding of its assets, the maintenance of proper accounting records and the reliability of financial information. Such a system of control can provide only reasonable and not absolute assurance against material misstatement or loss. Key procedures established which are designed to provide an effective system of internal financial control include segregation of duties and management authorisation and review. In addition, Shell Transport safeguards its 40% interest in the Group, from which it derives virtually the whole of its income, by appointing a number of Directors to the Boards of the Group Holding Companies; and by the appointment of 50% of the membership of the Group Audit Committee.

Group Audit Committee
The three non-executive Directors of the Company appointed to the Group Audit Committee are Sir Peter Holmes, Professor R J O'Neill and Sir William Purves (Chairman). The three members appointed by the Supervisory Board of Royal Dutch are Mr J M H van Engelshoven, Mr A G Jacobs and Mr J D Timmer. The Committee reviews the financial reports of the Royal Dutch/Shell Group of Companies and considers the Group internal control procedures as well as results of the Auditors' examination of the Group financial statements.

Remuneration and Succession Review Committee
The three non-executive Directors of the Company appointed to the Remuneration and Succession Review Committee are Sir Antony Acland, Sir John Jennings and Sir Ronald Oxburgh. The three members appointed by the Supervisory Board of Royal Dutch are

Mr K V Cassani, Jonkheer A A Loudon and Mr L C van Wachem (Chairman). The Committee makes recommendations on all forms of remuneration with respect to Group Managing Directors and reviews matters relating to the succession to the positions of Group Managing Directors.

The London Stock Exchange has published 'Best Practice' provisions regarding the composition and operation of remuneration committees and the remuneration policy, service contracts and compensation payments for Directors. The Board of Shell Transport confirms: (i) that the joint Committee's composition and operations comply with the Best Practice provisions and (ii) that in framing remuneration policy the joint Committee has given full consideration to the Best Practice provisions.

The philosophy for remuneration of Group Managing Directors, including those who are also Directors of the Company, is consistent with that for senior management throughout the Group: to attract and retain high-quality staff at all levels and motivate them towards exceptional performance. It seeks to align all senior staff with the goals of the Group and its various businesses, and with shareholders' interests.

The total remuneration of Managing Directors is reviewed annually. Particular attention is given to the relationship between Managing Directors' salaries and those of senior managers in the Group. The level and structure of remuneration in each country reflects the competitive environment within that country. The level of remuneration is based on scales which are adjusted in the light of both external and internal comparisons. Within these scales individual salaries of Managing Directors are usually progressed over a period of three years from appointment. In 1997 Managing Directors' salary scales were increased by 10%.

Pensions for Managing Directors are reviewed and maintained at a level comparable in relative terms to retirement benefits granted to other senior managers in the Group.

Performance-related remuneration is provided in the form of an annual non-pensionable bonus with a maximum level of 50% of salary. Bonuses from this plan also flow to certain senior managers. The bonus granted is based on an assessment of Group financial and operational performance.

Longer-term incentives for Managing Directors are provided through the Group Stock Option Plans which have been in operation since 1967, and which are believed to create an effective method of aligning the interests of Managing Directors and other Group senior managers with those of shareholders.

Consideration is given on an individual basis to the granting of options each year.

Details of the total remuneration and benefits of each Director are set out in Note 10 on pages 12 and 13.

Directors Nomination Committee

All Directors are members of the Directors Nomination Committee. The Committee is responsible for approving all nominations to the Board for new appointments or reappointments of non-executive Directors.

Social Responsibility Committee

This new Committee has been formed to act in an advisory capacity to the Supervisory Board of Royal Dutch and the Board of the Company and reviews the policies and conduct of the Royal Dutch/Shell Group of Companies with respect to the *Statement of General Business Principles* and the Group Policy and Commitment concerning Health, Safety and the Environment.

The three non-executive Directors of the Company appointed to the Social Responsibility Committee are Mr T A Alireza, Sir Peter Holmes and Sir Ronald Oxburgh (Chairman). The three members appointed by the Supervisory Board of Royal Dutch are Jonkheer A A Loudon, Mr H de Ruiter and Mr J D Timmer.

Directors' share interests in the Company

The interests of the Directors in Ordinary shares, including any interests of a spouse or infant child, are set out below.

	January 1, 1997*	December 31, 1997 25p Ordinary shares
M Moody-Stuart	180,000	260,000
P B Watts	–**	–
Sir Antony Acland	6,000	6,000
T A Alireza	–**	–
Sir Peter Holmes	60,768	60,888
Sir John Jennings	70,200	70,200
Professor R J O'Neill	6,951	7,211
Sir Ronald Oxburgh	2,865	2,865
Sir William Purves	3,000	3,000

*The holdings at January 1, 1997 have been adjusted to reflect the 2 for 1 capitalisation issue effective on June 30, 1997.

**As at date of appointment.

No Director had an interest in either of the two classes of Preference shares during the year.

There were no changes in the above interests during the period from December 31, 1997 to March 9, 1998 other than the completion of a purchase of 2,103 Ordinary shares on January 7, 1998 by a Personal Equity Plan Manager on behalf of Sir Ronald Oxburgh in accordance with instructions given before the end of the year.

Share options

Certain Group companies have option plans, the operation of which during 1997 is summarised in Note 23 to the Group Financial Statements on page 55. The Shell Petroleum Company Limited and Shell Petroleum N.V. are two of the companies with such plans for executives, the shares involved being those of the Company and Royal Dutch.

The Shell Petroleum Company Limited also operates a savings-related share option scheme which has been approved by the Inland Revenue under the Income and Corporation Taxes Act 1988. Under this scheme options over shares in the Company are granted to employees of UK Group companies at prices not less than the market value of the shares on a date not more than 30 days before the date of grant of the option and are normally exercisable after completion of either a five years' or a three years' (from 1997) contractual savings period.

No issue of new shares is involved under any of the plans or schemes mentioned above.

Details of Directors' interests in options relating to Shell Transport shares are set out in Note 10 on page 13.

Report of the Directors

Creditor payment policy
Statutory Regulations issued under the Companies Act 1985 require a public company to make a statement of its policy and practice on the payment of trade creditors. As a holding company with no business other than the holding of shares in companies of the Royal Dutch/Shell Group, the Company has no trade creditors but for the information of shareholders the statement that will appear in the Directors' Report for 1997 of Shell U.K. Limited, the principal operating company of the Group in the United Kingdom, will confirm that Shell U.K. complies with the CBI's Prompt Payers Code of Good Practice. Shell U.K. had approximately 30 days' purchases outstanding at December 31, 1997 based on the average daily amount invoiced by suppliers during the year.

Financial statements and dividends
The financial statements of the Company appear on pages 9 to 13. Earnings for the year amounted to £1,768.1 million, of which £1,303.9 million is available for distribution and £464.2 million represents the Company's share of earnings retained by companies of the Royal Dutch/Shell Group.

On November 3, 1997, an interim dividend of 5.1p per Ordinary share was paid.

The Directors have decided to recommend a final dividend for 1997 of 8.0p per Ordinary share which would make 13.1p per share for the year. Subject to approval at the Annual General Meeting, this will be paid on May 15, 1998 to Members on the Register on April 24, 1998 and to holders of Bearer Warrants who surrender Coupon No. 200. The proposed dividend will be paid as a foreign income dividend (FID).

Implications of FID for UK Shareholders
No tax credits attach to FIDs; instead FIDs received by individuals resident in the UK are treated as income which has suffered tax at the lower rate. As with a normal dividend, higher rate tax payers will have some additional tax to pay but other individuals will have no further tax liability. Individual shareholders, charities and exempt funds who have no liability to pay UK income tax are unable to recover tax on a FID as no tax credit is attached.

Capitalisation issue
Last year the Directors recommended that the Ordinary share capital of the Company should be increased to £2,500 million and a capitalisation issue made to Ordinary shareholders on the basis of two new shares for each existing share. The resolutions necessary to give effect to these recommendations were approved at the Annual General Meeting held on May 14, 1997 and 6,629,006,484 Ordinary shares of 25p were issued credited as fully paid on June 30, 1997.

Auditors
Price Waterhouse have signified their willingness to continue in office and a resolution for their reappointment will be submitted to the Annual General Meeting to be held on May 8, 1998.

By Order of the Board
J E Munsiff, Secretary
March 12, 1998

Financial Statements

Profit and Loss Account

	1997	1996	1995 £ million
Income from shares in companies of the Royal Dutch/Shell Group (Note 3)	**1,301.0**	1,121.9	1,099.4
Interest and other income	**12.3**	14.4	14.0
	1,313.3	1,136.3	1,113.4
Administrative expenses	**6.8**	3.9	3.8
Profit on ordinary activities before taxation	**1,306.5**	1,132.4	1,109.6
Tax on profit on ordinary activities (Note 4)	**2.6**	3.4	3.3
Distributable profit for the year	**1,303.9**	1,129.0	1,106.3
Share of earnings retained by companies of the Royal Dutch/Shell Group (Note 3)	**464.2**	986.2	485.7
Earnings for the year attributable to shareholders	**1,768.1**	2,115.2	1,592.0

Statement of Retained Profit

	1997	1996	1995 £ million
Distributable profit for the year	**1,303.9**	1,129.0	1,106.3
Distributable retained profit at beginning of year	**17.6**	112.3	110.3
	1,321.5	1,241.3	1,216.6
deduct			
Dividends on non-equity shares (Note 5)			
First Preference shares	**0.1**	0.1	0.1
Second Preference shares	**0.5**	0.5	0.5
	0.6	0.6	0.6
	1,320.9	1,240.7	1,216.0
deduct			
Dividends on equity shares; 25p Ordinary shares			
Interim of 5.1p in 1997, 4.8p in 1996 and 4.3p in 1995	**507.1**	477.3	427.6
Proposed final of 8.0p in 1997, final of 7.5p in 1996 and 6.8p in 1995	**795.5**	745.8	676.1
	1,302.6	1,223.1	1,103.7
Distributable retained profit at end of year	**18.3**	17.6	112.3

	1997	1996	1995 pence
Earnings per 25p Ordinary share			
on 9,943,509,726 shares in issue after the capitalisation issue in June 1997. The amounts shown for 1995 and 1996 have been adjusted for this issue.			
Distributable profit for the year	**13.1**	11.3	11.1
Share of earnings retained by companies of the Royal Dutch/Shell Group	**4.7**	10.0	4.9
Earnings for the year attributable to shareholders	**17.8**	21.3	16.0

Of the earnings per share amounts shown above, which are disclosed in accordance with Financial Reporting Standard No. 3, those relating to earnings for the year attributable to shareholders are, in the opinion of the Directors, the most meaningful since they reflect the full entitlement of the Company in the income of Group companies.

Balance Sheet

	December 31 1997	December 31 1996 £ million
Fixed assets		
Investments		
Shares (unlisted) in companies of the Royal Dutch/Shell Group (Note 6)	**14,580.9**	14,870.6
Current assets		
Debtors		
Dividends receivable from companies of the Royal Dutch/Shell Group	**791.5**	633.7
Other debtors	**4.1**	3.4
	795.6	637.1
Cash at bank		
Short-term deposits	**142.0**	254.0
Cash	**13.8**	6.3
	951.4	897.4
Creditors: amounts due within one year		
Amounts due to companies of the Royal Dutch/Shell Group	**129.5**	123.6
Corporation tax	**0.2**	4.1
Unclaimed dividends	**6.4**	5.9
Other creditors and accruals	**3.0**	1.9
Preference dividends accrued	**0.2**	0.2
Ordinary dividend proposed	**795.5**	745.8
	934.8	881.5
Net current assets	**16.6**	15.9
Total assets less current liabilities	**14,597.5**	14,886.5
Capital and reserves		
Equity interests		
Called-up share capital (Note 7) Ordinary shares	**2,485.9**	828.6
Revaluation reserve (Notes 3 and 6)	**12,081.3**	14,028.3
Profit and Loss Account	**18.3**	17.6
	14,585.5	14,874.5
Non-equity interests		
Called-up share capital (Note 7) First Preference shares	**2.0**	2.0
Second Preference shares	**10.0**	10.0
	12.0	12.0
Shareholders' funds (Note 8)	**14,597.5**	14,886.5

M Moody-Stuart

M Moody-Stuart, Chairman and Managing Director
March 12, 1998

Financial Statements

Statement of Recognised Gains and Losses

	1997	1996	1995 £ million
Distributable profit for the year	**1,303.9**	1,129.0	1,106.3
Unrealised surplus/(deficit) on revaluation of investments in companies of the Royal Dutch/Shell Group (Note 6)	**(289.7)**	(317.5)	792.9
Total recognised gains and losses relating to the year	**1,014.2**	811.5	1,899.2

Statement of Cash Flows

	1997	1996	1995 £ million
Returns on investments and servicing of finance			
Dividends received from companies of the Royal Dutch/Shell Group	**1,143.2**	1,144.8	972.6
Interest received	**11.6**	14.4	14.6
Dividends paid: Preference shares	**(0.6)**	(0.6)	(0.6)
Other	**(5.2)**	(3.1)	(4.0)
Net cash inflow/(outflow) from returns on investments and servicing of finance	**1,149.0**	1,155.5	982.6
Taxation			
Tax (paid)/recovered	**(6.5)**	(3.6)	(1.4)
Equity dividends paid			
Ordinary shares	**(1,252.9)**	(1,153.4)	(954.6)
Management of liquid resources (short-term deposits)			
Net cash inflow/(outflow) from management of liquid resources	**112.0**	(4.7)	(44.3)
Financing			
Net increase/(decrease) in amounts due to companies of the Royal Dutch/Shell Group	**5.9**	11.8	13.0
Increase/(Decrease) in cash	**7.5**	5.6	(4.7)
Cash at January 1	**6.3**	0.7	5.4
Cash at December 31	**13.8**	6.3	0.7

Net debt, being amounts due to companies of the Royal Dutch/Shell Group less cash, decreased during 1997 from £117.3 million to £115.7 million (1996: increased from £111.1 million to £117.3 million).

Notes to Financial Statements

1 Accounting policies and convention

The accounting policies of The "Shell" Transport and Trading Company, p.l.c. are explained in the relevant notes.

The financial statements on pages 9 to 13 herein have been prepared in accordance with the Companies Act 1985 and with applicable accounting standards apart from those disclosures described in Note 3 which are derived from the Royal Dutch/Shell Group financial statements. They have been prepared under the historical cost convention modified by the revaluation of the investments in companies of the Royal Dutch/Shell Group (see Note 6).

2 The Company

The "Shell" Transport and Trading Company, p.l.c., one of the Parent Companies of the Royal Dutch/Shell Group of Companies, is a holding company which, in conjunction with Royal Dutch Petroleum Company, owns, directly or indirectly, investments in the numerous companies referred to collectively as 'the Group'. Shell Transport has no investments in associated undertakings other than in companies of the Group.

Arrangements between Royal Dutch and Shell Transport provide, *inter alia*, that notwithstanding variations in shareholdings, Royal Dutch and Shell Transport shall share in the aggregate net assets and in the aggregate dividends and interest received from Group companies in the proportion of 60:40. It is further arranged that the burden of all taxes in the nature of or corresponding to an income tax leviable in respect of such dividends and interest shall fall in the same proportion.

The 60:40 arrangements referred to above have been supplemented by further arrangements, beginning with Group dividends payable to the Parent Companies in respect of 1977, whereby each Parent Company is to bring into account towards its share in the 60:40 division of dividends from Group companies tax credits and other tax benefits which are related to the liability to tax of a Group company and which arise to the Parent Company or which would arise to the holders of its Ordinary shares if there were to be an immediate full onward distribution to them of Group dividends (for which purpose all such shareholders are assumed to be individuals resident and subject to tax in the country of residence of the Parent Company in question). The tax benefit to Shell Transport for the 1994 dividend through to the 1997 interim dividend amounts to 8% of total Group income divisible for 60:40 purposes.

In 1997 the UK government announced changes to tax law in respect of company distributions, including the abolition of Advance Corporation Tax. The Parent Companies have agreed that the tax benefit to Shell Transport for the 1997 final dividend and the 1998 interim dividend will be 4% of total Group income divisible for 60:40 purposes and, subject to the abolition of Advance Corporation Tax being enacted, there will be no tax benefit to Shell Transport for the 1998 final and subsequent dividends which will have the effect of Shell Transport receiving the whole of its entitlement in cash.

3 Share in the income of Group companies

Shell Transport records income from shares in Group companies, in the form of dividends, in its profit and loss account. The Company's investments in Group companies are stated at the Directors' valuation at an amount equivalent to Shell Transport's 40% interest in the Group net assets as disclosed in the Group financial statements on pages 38 to 57. The difference between the cost and the amount at which the investments are stated in the balance sheet has been taken to Revaluation reserve.

Shell Transport's share in the net income of Group companies of £4,736.0 million, £5,690.9 million and £4,375.2 million for the years 1997, 1996 and 1995 respectively, is as follows:

	1997	1996	1995 £ million
Distributions from Group companies and tax benefit referable thereto	**1,516.3**	1,402.3	1,374.3
deduct Tax benefit	**215.3**	280.4	274.9
Distributions from Group companies	**1,301.0**	1,121.9	1,099.4
Share of earnings retained by Group companies out of net income (and reflected in the movements in the Revaluation reserve – Note 6)	**464.2**	986.2	485.7
	1,765.2	2,108.1	1,585.1

Shell Transport's share in the net income of Group companies before deducting Group and associated companies' tax and minority interests was £3,589.8 million (1996: £4,178.1 million; 1995: £3,025.8 million). Shell Transport's share of the deduction in respect of taxation was £1,813.8 million (1996: £2,001.8 million; 1995: £1,394.1 million) and in respect of minority interests was £10.8 million (1996: £68.2 million; 1995: £46.6 million). These amounts have been calculated in conformity with the accounting policies on pages 41 to 43 of the Group financial statements. These policies differ in certain respects from accounting principles generally accepted in the United Kingdom, notably in respect of the provision for deferred taxation. Provision for deferred taxation in the Group financial statements is made using the comprehensive liability method rather than by reference only to the amounts considered to become payable within the foreseeable future as required by Statement of Standard Accounting Practice No. 15.

4 Tax on profit on ordinary activities

	1997	1996	1995 £ million
Corporation tax at 31.5% (1996 and 1995: 33%) in respect of interest income less administrative expenses	**2.6**	3.4	3.3

No taxation liability arises in respect of income from shares in companies of the Group as this income consists of distributions from a UK resident company which are not subject to taxation.

Shell Transport's share of taxation borne by Group and associated companies is given in Note 3.

5 Preference dividends

Dividends on the First and Second Preference shares were formerly at the gross amounts of 5½% and 7% respectively. Under the Finance Act 1972, as confirmed by the Finance Act 1976, the dividend rights were reduced to 3.85% and 4.90% respectively. The tax credits available to some shareholders for the two classes of Preference shares are equivalent to 0.96% and 1.22% respectively.

6 Investments in Group companies

Shell Transport has 40% equity shareholdings in The Shell Petroleum Company Limited which is registered in England and Wales (consisting of the whole of its 102,342,930 issued 'B' shares of £1 each) and in Shell Petroleum N.V. which is incorporated in the Netherlands (consisting of the whole of its 44 issued 'B' shares of N.fl. 5,000,000 each). The remaining 60% equity shareholdings in these two companies (consisting of 153,514,395 'A' shares of £1 each of The Shell Petroleum Company Limited and 66 'A' shares of N.fl. 5,000,000 each of Shell Petroleum N.V.) are held by Royal Dutch.

Shell Transport also holds 1,600 Class 'B' shares of US $1 each in Shell Petroleum Inc. which is incorporated in the State of Delaware, USA. These shares, together with the 2,400 Class 'A' shares of US $1 each in that company held by Royal Dutch, carry voting control of Shell Petroleum Inc. but are restricted in regard to dividends to 12% of their par value per annum. Shell Petroleum N.V. holds the remaining 1,000 shares of US $1 each in Shell Petroleum Inc., which are unrestricted in regard to dividends.

The Shell Petroleum Company Limited, Shell Petroleum N.V. and Shell Petroleum Inc. own, directly or indirectly, the investments representing the total Group interest in the other companies which, with them, comprise the Group.

The Directors' valuation of Shell Transport's investments in Group companies comprises the following:

	1997	1996 £ million
Cost of Shell Transport's investments in Group companies	**178.4**	178.4
Shell Transport's share of:		
Profits capitalised by Group companies	**786.0**	785.0
Earnings retained by Group companies	**13,857.0**	13,393.8
Group currency translation differences (arising on aggregation)	**(240.5)**	513.4
	14,580.9	14,870.6

The movements in the Revaluation reserve are represented by:

	1997	1996 £ million
As at January 1	**14,028.3**	14,345.8
Share of earnings retained by Group companies out of net income	**464.2**	986.2
Share of Group currency translation differences for the year	**(753.9)**	(1,303.7)
	(289.7)	(317.5)
Applied towards the capitalisation issue of 6,629,006,484 Ordinary shares of 25p each	**(1,657.3)**	–
	(1,947.0)	(317.5)
As at December 31	**12,081.3**	14,028.3

The earnings retained by Group companies have been, or will be, substantially reinvested by the companies concerned and any taxation unprovided on possible future distributions out of any uninvested retained earnings will not be material.

The Company will continue to hold its investments in Group companies. However, if the investments were to be disposed of for the amount stated, a taxation liability of approximately £1,238 million would arise (1996: £1,522 million).

7 Share capital

In June, 1997 in connection with the 2 for 1 capitalisation issue, the authorised Ordinary share capital was increased by £1,587,000,000 and 6,629,006,484 Ordinary shares of 25p each were issued credited as fully paid, increasing the allotted, called-up and fully paid share capital by £1,657,251,621. At December 31, 1997 the share capital of the Company was:

	Authorised	Allotted, called-up and fully paid £
Equity shares		
Ordinary shares of 25p each	2,487,000,000	2,485,877,432
Non-equity shares		
First Preference shares of £1 each	3,000,000	2,000,000
Second Preference shares of £1 each	10,000,000	10,000,000
	13,000,000	12,000,000
	2,500,000,000	2,497,877,432

The First and Second Preference shares (the Preference shares) confer on the holders the right to a fixed cumulative dividend and rank in priority to Ordinary shares. On a liquidation the Preference shares also rank in priority to the Ordinary shares for the nominal value of £1 per share but do not have any further rights of participation in the profits or assets of the Company. The Preference shares do not have voting rights unless their dividend is in arrears or the proposal concerns a reduction of capital, winding up, an alteration of the Articles of Association or otherwise directly affects their class rights.

8 Reconciliation of movements in Shareholders' funds

	1997	1996 £ million
Distributable profit for the year	**1,303.9**	1,129.0
Dividends	**(1,303.2)**	(1,223.7)
Unrealised surplus/(deficit) on revaluation of investments in companies of the Royal Dutch/Shell Group (Note 6)	**(289.7)**	(317.5)
Net addition to/(reduction in) Shareholders' funds	**(289.0)**	(412.2)
Shareholders' funds at January 1	**14,886.5**	15,298.7
Shareholders' funds at December 31	**14,597.5**	14,886.5

9 Auditors' remuneration

Audit fees of Shell Transport amounted to £7,515 in 1997, £8,350 in 1996 and £8,200 in 1995. Other fees amounted to £4,080 in 1997, £3,130 in 1996 and £3,050 in 1995. All amounts are stated exclusive of Value Added Tax.

10 Emoluments of Directors in office during 1997

	1997	1996	1995 £
Sir John Jennings			
Salaries and fees	**450,214**	536,322	510,776
Benefits	**7,381**	17,381	14,543
Performance-related element	**182,350**	124,000	95,600
	639,945	677,703	620,919
Pensions	**16,875**	–	–
Realised share option gains	**588,000**	449,280	319,680
	1,244,820	1,126,983	940,599
M Moody-Stuart			
Salaries and fees	**491,718**	413,627	403,276
Benefits	–	–	–
Performance-related element	**141,750**	96,375	77,100
	633,468	510,002	480,376
Realised share option gains	**767,880**	561,600	–
	1,401,348	1,071,602	480,376
P B Watts			
Salaries and fees	**197,254**	–	–
Benefits	**4,829**	–	–
Performance-related element	–	–	–
	202,083	–	–
Realised share option gains	–	–	–
	202,083	–	–
Sir Antony Acland			
Directors' fees	**22,500**	20,000	20,000
Committee fees	**3,750**	3,750	3,750
	26,250	23,750	23,750
T A Alireza			
Directors' fees	**3,403**	–	–
	3,403	–	–
Lord Armstrong			
Directors' fees	**7,419**	20,000	20,000
Committee fees	**1,392**	3,750	3,750
	8,811	23,750	23,750
Sir Peter Holmes			
Directors' fees	**22,500**	20,000	20,000
Committee fees	**3,750**	3,750	1,875
Holding company fees	**19,152**	21,160	21,765
	45,402	44,910	43,640
Pensions	**25,346**	24,687	23,939
Realised share option gains	–	–	142,000
	70,748	69,597	209,579
Professor R J O'Neill			
Directors' fees	**22,500**	20,000	20,000
Committee fees	**3,750**	5,625	5,625
	26,250	25,625	25,625
Sir Ronald Oxburgh			
Directors' fees	**22,500**	19,516	–
Committee fees	**3,750**	1,875	–
	26,250	21,391	–
Sir William Purves			
Directors' fees	**22,500**	20,000	20,000
Committee fees	**5,600**	4,675	3,750
	28,100	24,675	23,750

Statutory aggregate Directors' emoluments

	1997	1996	1995 £
Salaries, fees and benefits	**1,315,862**	1,131,431	1,095,441
Performance-related element	**324,100**	220,375	172,700
	1,639,962	1,351,806	1,268,141
'Excess' retirement benefits (Note iv)	**4,128**	–	–
Realised share option gains	**1,355,880**	1,010,880	461,680

Notes

(i) The highest paid Director (inclusive of realised share option gains) in 1995 and 1996 was Sir John Jennings and in 1997 was Mr M Moody-Stuart.

(ii) The remuneration payable to Sir John Jennings in 1997 includes a 'full service bonus' of £123,125. This bonus (maximum 25% annual salary) is paid on retirement to all UK employees with qualifying service.

(iii) Of the emoluments disclosed £229,688 in 1997, £202,941 in 1996 and £195,317 in 1995 were borne by Shell Transport and charged in the Profit and Loss Account.

(iv) Excess retirement benefits are the amount of unfunded retirement benefits paid to or receivable by Directors and past Directors which exceed those to which they were entitled on the date on which the benefits first became payable or March 31, 1997, whichever is the later.

Pensions/Retirement benefits

During 1997 three Directors accrued retirement benefits under defined benefit schemes (1996: two; 1995: two). No Director has accrued benefits under a money purchase benefit scheme.

The principal sources of Managing Directors' pensions are the Shell Contributory Pension Fund (for service in the UK) and the Shell Overseas Contributory Pension Fund (for previous service overseas). Both Funds are defined benefit plans. Managing Directors contribute 4% of relevant earnings. Bonuses are not pensionable. Managing Directors retire on June 30 following their 60th birthday. The maximum pension is two-thirds of their remuneration excluding bonuses. There are also provisions, as for all members of the above Funds, for surviving dependant's benefit of 60% of actual or prospective pension, and a lump sum death-in-service benefit of three times salary.

Salaries/fees payable to Managing Directors, totalling £834,250 in 1997, £771,500 in 1996 and £730,750 in 1995, count for pension purposes in the Shell Contributory Pension Fund. The payment of employers' contributions to the Fund, which is open to United Kingdom employees of the member companies, has upon actuarial advice been suspended since January 1, 1990 because of the financial position of the Fund.

The following table shows details of the changes in pension benefits of the Managing Directors during the year. As required by the London Stock Exchange the transfer values are calculated using the cash equivalent transfer value method in accordance with Actuarial Guidance Note GN11.

	Age as at 31.12.97	Years of Group service as at 31.12.97	Increase in accrued pension during the year £000	Transfer value of pension increase £000	Accumulated annual pension as at 31.12.97 £000
Sir John Jennings	60	39	55	890	382
M Moody-Stuart	57	34	67	948	318
P B Watts	52	29	23	283	183

The increase in pension for Sir John Jennings is for the period January 1 to June 30, 1997 (his date of retirement) and has been calculated at that date. For Mr P B Watts the increase in pension is for the period from July 1, 1997 (his date of appointment as a Director).

Share options

The interests of the Directors under all the stock option plans of Group companies are shown below:

Number of options					Market prices at	
At 1.1.97	During the year Granted	Exercised	At 31.12.97	Exercise price	date of exercise	Expiry date
Sir John Jennings						
450,000	–	450,000	–	231p	362p	8.12.98
450,000	–	–	450,000	227p	–	14.12.99
474,000	–	–	474,000	286p	–	13.12.00
M Moody-Stuart						
324,000	–	324,000	–	182p	419p	10.12.97
324,000	–	–	324,000	231p	–	8.12.98
324,000	–	–	324,000	227p	–	14.12.99
333,000	–	–	333,000	286p	–	13.12.00
333,000	–	–	333,000	326p	–	11.12.01
–	387,000	–	387,000	439p	–	10.12.02
P B Watts						
139,200*	–	–	139,200	286p	–	13.12.00
194,700*	–	–	194,700	326p	–	11.12.01
–	272,000	–	272,000	439p	–	10.12.02
3,345,900	659,000	774,000	3,230,900			

*As at date of appointment, July 1, 1997. In addition Mr Watts also holds an option under The Shell Petroleum Company Limited Sharesave Scheme to purchase 5,214 Shell Transport Ordinary shares at 330p. This option was granted on December 12, 1996 and matures on February 1, 2002.

Notes

1 All the above figures have been adjusted to reflect the 2 for 1 capitalisation issue effective on June 30, 1997.

2 All the options listed above relate to Shell Transport Ordinary shares. No options lapsed during the year. All options are exercisable from grant at market price (no discount) at that time. The middle market price of the Ordinary shares on December 31, 1997 was 440p and the (adjusted) price range during the year was 331p to 484.5p.

3 There were no changes in the above interests in options during the period from December 31, 1997 to March 9, 1998.

Directors' Responsibilities

in respect of the preparation of financial statements

The Companies Act 1985 requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Reports of the Auditors

To the Members of The "Shell" Transport and Trading Company, p.l.c.
We have audited the financial statements on pages 9 to 13, which have been prepared under the historical cost convention, as modified by the revaluation of the investments in companies of the Royal Dutch/Shell Group, and the accounting policies set out on page 10.

Respective responsibilities of Directors and Auditors
As described above, the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free of material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion
In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at December 31, 1997, and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse
Chartered Accountants and Registered Auditors
London, March 12, 1998

To the Directors of The "Shell" Transport and Trading Company, p.l.c.
In addition to our audit of the financial statements we have reviewed the Directors' statement on page 6 concerning the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange and the adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v), if not otherwise disclosed.

Basis of opinion
We carried out our review having regard to guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Company's system of internal financial control or corporate governance procedures nor on the ability of the Company to continue in operational existence.

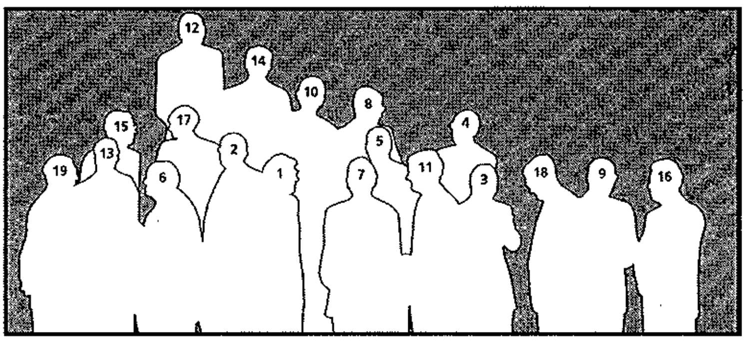
Opinion
In our opinion the Directors' statements on internal financial control and going concern on page 6 have provided the disclosures required by the Listing Rules referred to above and are consistent with the information which came to our attention as a result of our audit work on the financial statements.

In our opinion based on enquiry of certain Directors and Officers of the Company, and examination of relevant documents, the Directors' statement on page 6 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Price Waterhouse

Price Waterhouse
Chartered Accountants
London, March 12, 1998

The Boards of the Parent Companies



The members of the Supervisory Board and the Board of Management of Royal Dutch Petroleum Company (Royal Dutch) and the Directors and Managing Directors of The "Shell" Transport and Trading Company, p.l.c. (Shell Transport) meet monthly to receive information and discuss the major developments within the Royal Dutch/Shell Group.

Supervisory Board – Royal Dutch

1 **L C van Wachem**
Chairman

2 **K V Cassani**

3 **J M H van Engelshoven**

– **A G Jacobs** (not pictured)

4 **Jonkheer A A Loudon**

5 **H de Ruiter**

6 **J D Timmer**

Board of Management – Royal Dutch

7 **C A J Herkströter**
President and Managing Director

8 **M A van den Bergh**
Managing Director

9 **S L Miller**
Managing Director

10 **J van der Veer**
Managing Director

Board of Directors – Shell Transport

11 **M Moody-Stuart**
Chairman and Managing Director

12 **P B Watts**
Managing Director

13 **Sir Antony Acland**

14 **T A Alireza**

15 **Sir Peter Holmes**

16 **Sir John Jennings**

17 **Professor R J O'Neill**

18 **Sir Ronald Oxburgh**

19 **Sir William Purves**

Group Managing Directors and Principal Executives of the Service Companies

The members of the Board of Management of Royal Dutch and the Managing Directors of Shell Transport are also members of the Presidium of the Board of Directors of Shell Petroleum N.V., Managing Directors of The Shell Petroleum Company Limited and Directors of Shell Petroleum Inc. (the Group Holding Companies). As such, they are generally known as 'Group Managing Directors'. They are also appointed by the Boards of Shell Petroleum N.V. and The Shell Petroleum Company Limited to a joint committee known as the Committee of Managing Directors, which considers and develops objectives and long-term plans. The Chairman of this Committee is Mr C A J Herkströter and the Vice-Chairman Mr M Moody-Stuart.

Group Managing Directors and their special interests within the Committee of Managing Directors

S L Miller
Western Europe and Oil Products

M A van den Bergh
East Asia and Australasia; Gas and Coal; Finance (including Pensions); Social Investment Committee

M Moody-Stuart
Canada, Middle East, Francophone Africa and South Asia; Chemicals; Corporate Advice

C A J Herkströter
USA; Human Resources and Organisation; Legal; Planning, Environment and External Affairs

J van der Veer
CIS, Central and Eastern Europe; Renewables; Hague and London Offices; Group Research Advice; Services

P B Watts
Western Hemisphere and Africa; Exploration and Production

Principal Executives of the Service Companies

OIL PRODUCTS

F Coopman
Finance Manager
W Goebel
Director – South Zone
W A Loader
Director – East Zone
G J van Luijk
Director – Research and Technical Services
P D Skinner
Director – Strategy and Business Services
P G Turberville[1]
President – Shell Europe Oil Products B.V.
M Warwick
President and Managing Director – Shell International Trading and Shipping Company Limited

GAS AND COAL

W van de Vijver
Chief Executive – Shell International Gas Limited, Chairman – Shell Coal Pty. Limited

CORPORATE CENTRE

R M Cox
Group Controller
S M G Hodge
Group Treasurer

CHEMICALS

E Henkes[2]
Chief Executive Officer – Shell Chemicals Limited

CORPORATE CENTRE

C Mather
Director – Corporate Advice

CORPORATE CENTRE

P L Folmer
Director – Legal
J D Hofmeister
Director – Human Resources
R J W Walvis
Director – Planning, Environment and External Affairs

RENEWABLES

J W Dawson
President – Shell International Renewables

EXPLORATION AND PRODUCTION

J A Colligan
Director – Regional Business Asia-Pacific and South America
H G Dijkgraaf
Director – Strategy and Business Services
A J Parsley
Managing Director – Shell EP International Ventures B.V.
H J M Roels
Director – Regional Business Middle East and Africa
R M Sprague
Director – Regional Business Europe
T N Warren
Director – Research and Technical Services

[1] Mr Turberville took up the position of President in January 1998.
[2] Mr Henkes took up the position of Chief Executive Officer in January 1998.

Achievements

The Operating Companies of the Royal Dutch/Shell Group are located in more than 130 countries around the world. Whether engaged in the business of Exploration and Production, Oil Products, Chemicals, Downstream Gas, Power Generation or Renewable Resources, they earn the income received by the Group Holding Companies and, ultimately, the Parent Companies.

Shell around the world

Countries of Operations

The nature of the operations carried out in each country listed below is indicated by the letters shown in the key on the right.

KEY

- **E** Exploration
- **P** Production
- **R** Refining
- **M** Marketing – oil products/chemicals
- **N** Natural gas or power generation
- **C** Chemicals – manufacturing
- **Rn** Renewable resources
- **O** Other business interests

Western Europe

Austria EPMN
Belgium MNCO
Denmark EPRMNCO
Finland M
France RMCRn
Germany EPRMNCRn
Gibraltar M
Greece M
Iceland M
Ireland, Republic of EM
Italy RMCO
Luxembourg M
Netherlands EPRMNCRn
Norway EPRMN
Portugal MC
Spain MC
Sweden RM
Switzerland RM
United Kingdom EPRMNCRn

CIS, Central and Eastern Europe

Albania E
Bulgaria M
Croatia M
Czech Republic RM
Estonia M
Hungary M
Kazakhstan E
Latvia M
Poland M
Romania M
Russia EMN
Serbia M
Slovakia M
Slovenia M
Ukraine E

Africa

Angola E
Botswana M
Burkina Faso M
Cameroon EPRM
Cape Verde M
Chad EM
Congo ERn
Côte d'Ivoire ERM
Democratic Republic of Congo EPM
Djibouti M
Egypt EPMN
Eritrea M
Ethiopia M
Gabon EPRM
The Gambia M
Ghana M
Guinea M
Guinea-Bissau M
Kenya RM
Lesotho M
Mali M
Mauritius M
Morocco EM
Namibia EM
Niger M
Nigeria EPMN
Réunion M
Senegal ERM
Somalia E
South Africa RMCO
Sudan M
Swaziland M
Togo M
Tunisia M
Uganda M
Zimbabwe M

Middle East and South Asia

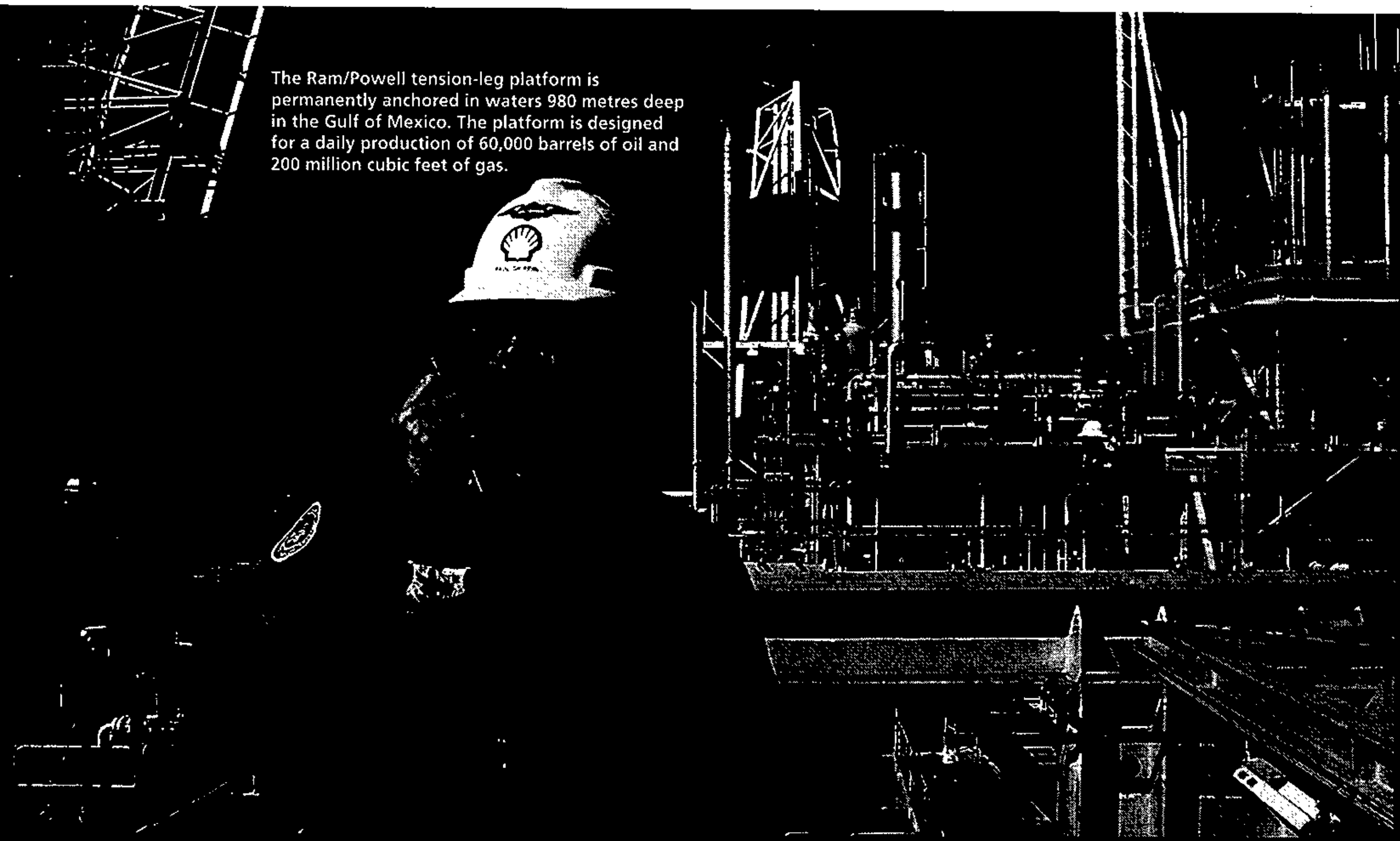
Bangladesh E
India EM
Jordan M
Oman EPMN
Pakistan ERM
Saudi Arabia RMC
Sri Lanka M
Syria EPN
Turkey RM
United Arab Emirates EPMN
Yemen EPM

Asia-Pacific

Australia EPRMNCO
Brunei EPRMN
Cambodia M
China EPM
Fiji M
Guam M
Indonesia EM
Japan RMCRn
Laos M
Malaysia EPRMN
New Zealand EPRMNCRn
Papua New Guinea M
Philippines ERMN
Singapore RMC
South Korea MC
Taiwan M
Thailand EPRMNC
Vanuatu M
Vietnam M

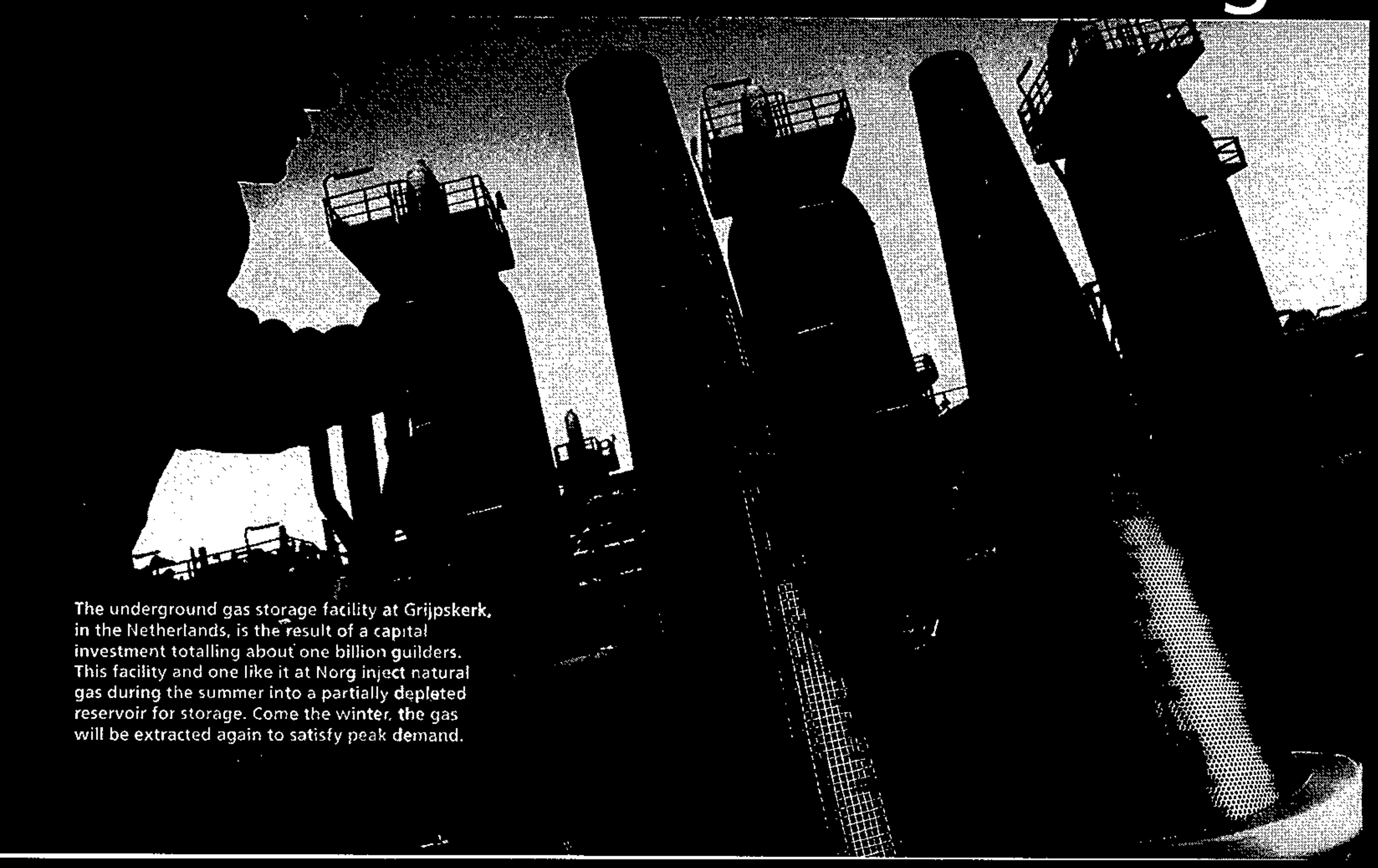
Americas

Argentina EPRMCRn
Bahamas M
Barbados M
Belize M
Bermuda M
Bolivia MN
Brazil PMNCRn
British Antilles & Guyana M
Canada EPRMNCO
Chile MCRn
Colombia EPMN
Costa Rica M
Dominican Republic RM
Ecuador M
El Salvador RM
Falklands E
French Antilles & Guiana RM
Guatemala M
Haiti M
Honduras M
Jamaica M
Mexico MN
Nicaragua M
Panama M
Paraguay MRn
Peru EM
Puerto Rico M
Surinam M
Trinidad & Tobago EM
Uruguay MRn
USA EPRMNCO
Venezuela PMO



The Ram/Powell tension-leg platform is permanently anchored in waters 980 metres deep in the Gulf of Mexico. The platform is designed for a daily production of 60,000 barrels of oil and 200 million cubic feet of gas.

Ensuring future supplies of oil and gas



The underground gas storage facility at Grijpskerk, in the Netherlands, is the result of a capital investment totalling about one billion guilders. This facility and one like it at Norg inject natural gas during the summer into a partially depleted reservoir for storage. Come the winter, the gas will be extracted again to satisfy peak demand.

Achievements

Exploration and Production

Wherever Group exploration and production companies operate – in the forests of Peru, on the tundra of Siberia or in the South China Sea – they strive to do so as a partner in sustainable development: providing cost-effective and reliable energy to society, whilst seeking to protect people and safeguard the environment.

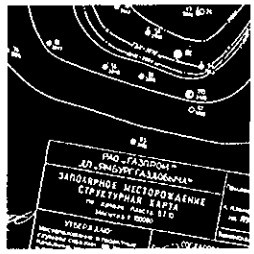
Camisea field development project
While appraisal drilling continued at the Camisea fields in Peru, engineering studies began for the design of the infrastructure necessary to produce natural gas and condensate from the fields' reservoirs and to transport them by pipeline over the Andes to Lima. If the project proceeds as planned, it could represent the biggest ever private-sector investment in the country.

The fields are located in a rain-forest environment inhabited by indigenous peoples. The Operating Company, Shell Prospecting and Development Peru, has striven to understand and address the concerns and sensitivities of local communities, regional authorities and the national government, as well as many national and international non-governmental organisations.

Gazprom/Shell alliance
Gazprom, the world's largest gas production company, has agreed to co-operate with the Royal Dutch/Shell Group on a wide range of projects covering the development of oil and natural gas reserves and other energy projects, both in Russia (Gazprom's base country) and internationally. As the first embodiment of their alliance, the partners have agreed to create – under equal ownership – a joint development company with the ambition to produce around 500,000 barrels per day of crude oil and natural gas liquids by 2003.

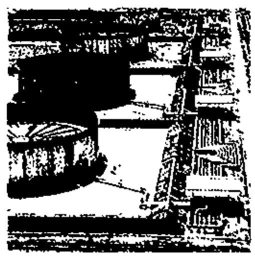
Deep-water expertise
During 1997 companies of the Royal Dutch/Shell Group continued their exploration and production activities in the waters of the Gulf of Mexico, West Africa, South-east Asia, North-west Europe and South America. In fact, two Shell projects in the Gulf of Mexico set world-record water depths that year: the Ram/Powell tension-leg production platform was installed in 980 metres of water, and the Mensa subsea field began producing gas from a wellhead located 1,615 metres underwater. Capitalising on this wealth of experience, Group companies are pursuing deep-water acreage with the aim of finding fields and developing them quickly. As part of this strategy, Shell International Deepwater Services B.V. was established.

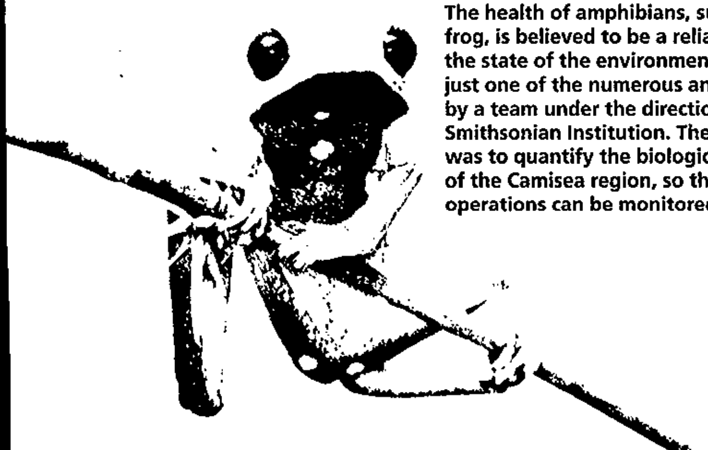
Malampaya gas-to-power project
As part of a set of initiatives that will move the Philippines towards energy self-sufficiency, the Malampaya gas fields in waters off Palawan island will be developed by Shell Philippines Exploration B.V. Calling for a total initial investment of over $4.5 billion, the overall project includes not only the development of the offshore fields but also the laying of a 510-kilometre pipeline to shore and the construction of several power plants. Group companies' investment in the gas production infrastructure will be over $2 billion.



The first joint project of the new Gazprom/Shell alliance will involve the development of a section of the Zapolyarnoye field in western Siberia.

The Forcados oil terminal in Nigeria will be re-commissioned in 1998, after a $445 million refurbishment (mostly completed in 1997) that included installation of modern safety and water-treatment systems.





The health of amphibians, such as this tree frog, is believed to be a reliable indicator of the state of the environment. This frog was just one of the numerous animals catalogued by a team under the direction of the US Smithsonian Institution. The team's objective was to quantify the biological diversity of the Camisea region, so the impact of operations can be monitored over time.

Students at Nembe Creek in the Niger Delta learn skills through a youth training scheme sponsored by Shell Petroleum Development Company of Nigeria.

Achievements

Oil Products

Companies of the Royal Dutch/Shell Group continue to find new ways of developing, manufacturing and marketing their products and services. At the same time, they endeavour to uphold the highest health, safety and environmental standards.

Global tracking study of brand
The annual global tracking study, covering almost 100 countries, revealed the Shell brand to be by far the most preferred of all oil company brands. Still, there is no room for complacency: the study also showed areas in which Shell companies could do better.

Liquefied petroleum gas
The year 1997 saw Shell companies throughout the world take various initiatives related to liquefied petroleum gas (LPG): the acquisition of assets in Argentina, Brazil and the UK; the construction of new terminals in India, China and Vietnam; the launch of the international LPG Academy training programme; and the introduction of the easy-to-handle LPG 'cube' container. All these initiatives aim to foster safety and customer satisfaction in this fast-growing sector.

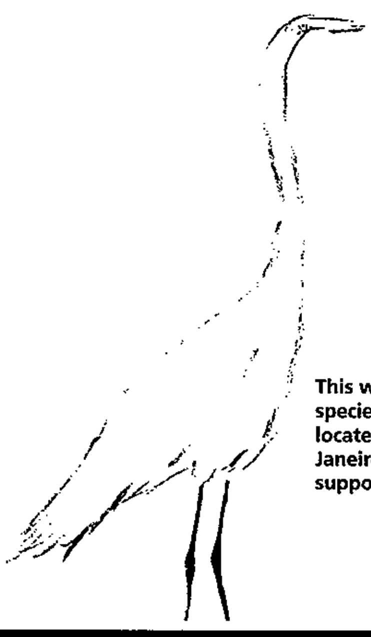
Development of retail portfolio
Shell retail sites continue to be developed throughout the world, progressively acquiring the new look and adding convenience stores. Indeed, some 5,000 stores – principally 'Select' stores – are now open in more than 50 countries, most of them for 24 hours a day. Acquisitions in the UK, Germany and France helped to extend the Shell network.

Reorganisation to increase customer focus
The Group's Aviation and Marine businesses were restructured in 1997. Further, a new organisation was introduced in Europe, effective January 1, 1998. These changes will help Shell companies to meet the market's competitive challenges with increased customer focus.

Start-up of Per+
The Per+ complex in Pernis, the Netherlands, began commercial operations in 1997. The $2 billion investment enables the Group's largest refinery in Europe to manufacture only high-quality 'light' products, such as gasoline and kerosine, with near-zero waste. An excellent health, safety and environmental performance was achieved during the construction, commissioning and start-up phases of the complex.

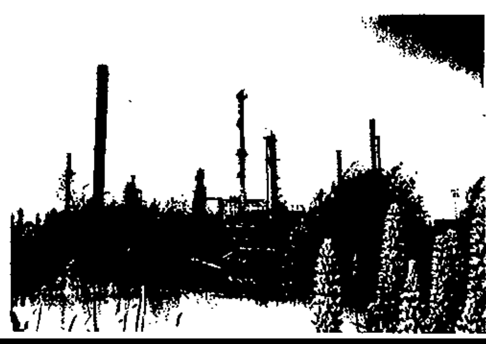
In response to changing consumer preferences, Shell Helix products can now be bought in many supermarkets and hypermarkets.

The lively 'Select' logo identifies convenience stores at Shell retail sites. Select stores are proving to be a success in markets as diverse as East Africa and Scandinavia.



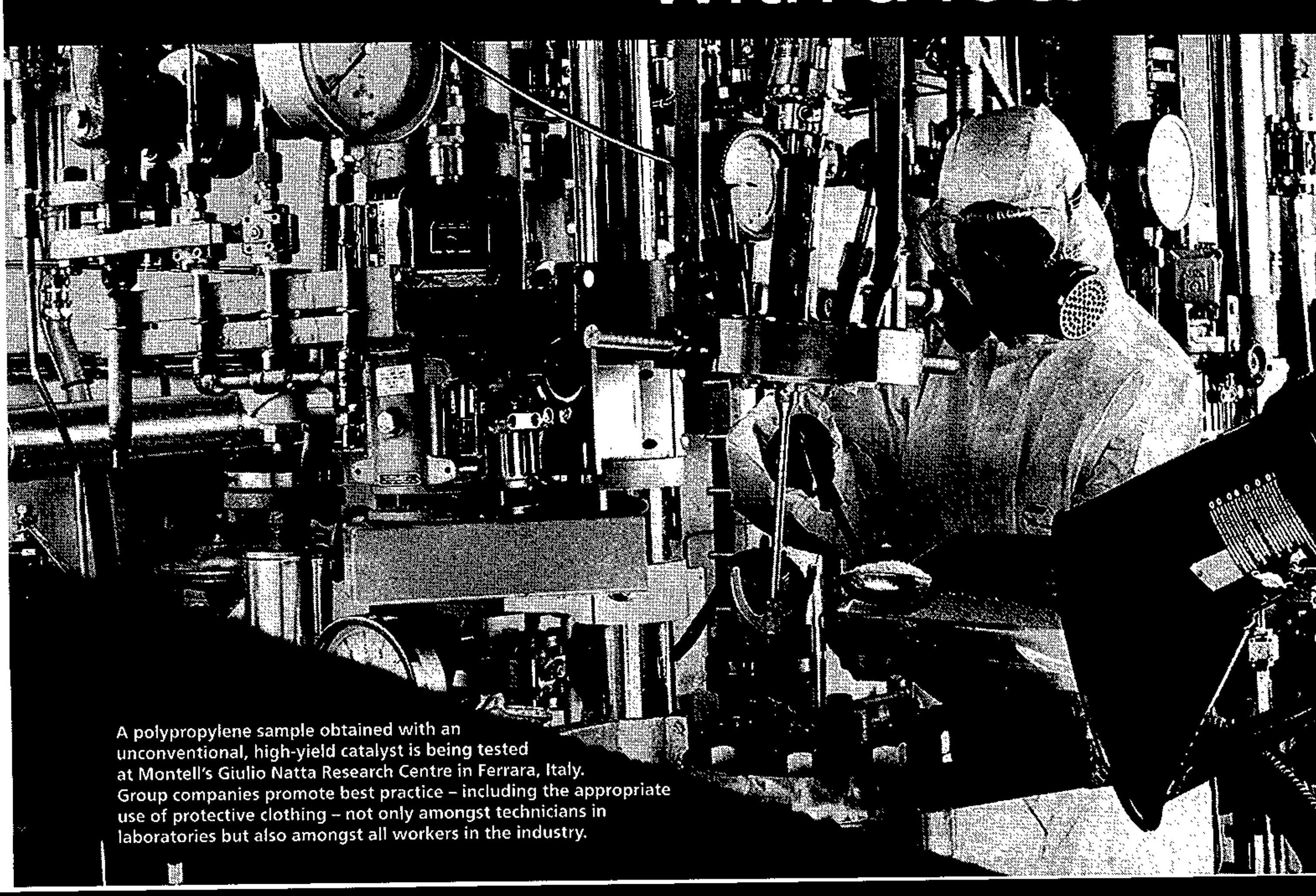
This wading bird, together with other migratory species, can nest safely at a mangrove reserve located close to a Shell lubricant plant in Rio de Janeiro. The reserve was established with the support of Shell Brasil.

The Group refinery in Gothenburg, Sweden, joins the growing list of Shell installations that were the first in their respective countries to earn ISO 14001 certification for environmental management systems.



A new styrene monomer/propylene oxide plant in Singapore reaffirms the commitment of Shell companies to further develop the Chemicals business in this part of the world. The plant, the largest investment of its type in the Asia-Pacific region, complements others in Europe.

Reaching across the globe with a local touc



A polypropylene sample obtained with an unconventional, high-yield catalyst is being tested at Montell's Giulio Natta Research Centre in Ferrara, Italy. Group companies promote best practice – including the appropriate use of protective clothing – not only amongst technicians in laboratories but also amongst all workers in the industry.

ean, portable cooking fuel is made available
ommunities in Senegal thanks to a new
efied petroleum gas (LPG) complex. LPG is
ected to progressively replace the charcoal and
od that are still widely used, thereby helping to
ice deforestation and make for a healthier
g environment.

he first choice of customers everywhere

et-research discussion groups give Shell companies
pportunity to listen to people and to learn
t their wishes and attitudes. Here, reactions
EGO® Ferrari model influence the
opment of a new global promotion.

Achievements

Chemicals

By maximising the use of existing assets, developing new products and processes, and entering into commercial partnerships, the Royal Dutch/Shell Group is compiling a portfolio of chemicals businesses, each of which aims to be the leader in its sector.

Globalisation
On January 1, 1998, the separate companies that comprise Shell Chemicals put into effect a series of agreements with a new management services company that will enable them to bring their combined resources to bear on world-wide markets, on the one hand, and on key product areas, on the other. The new company will provide global strategic advice through product business units. This globalisation is not centralisation, however. The companies will continue to support their network of local customers.

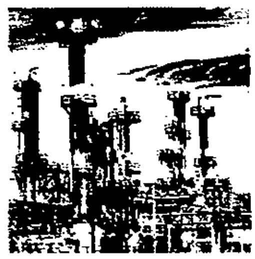
Full acquisition of Montell
Established in 1995 under equal ownership with Montedison, the Montell joint venture was immediately recognised as a key player in the polypropylene sector of the world plastics market. In 1997 the venture's ownership passed entirely into the hands of Shell companies, thereby demonstrating their belief in the development potential of polypropylene and their determination to remain the world leader in the production and marketing of this thermoplastic.

New plant in Moerdijk, the Netherlands
Shell companies and BASF have put in place a joint venture for the construction of a world-scale styrene monomer/propylene oxide plant at Moerdijk. This plant, together with a similar one in Singapore, strengthens Group companies' manufacturing status at opposite sides of the world.

Expansion of plant in Geismar, Louisiana
The Geismar plant is set to move further ahead of the competition with two investments: the introduction of a catalyst-based system to boost the output of detergent alcohols and the construction of a new plant to produce the Carilon engineering thermoplastic, for which ever more varied applications are being found.

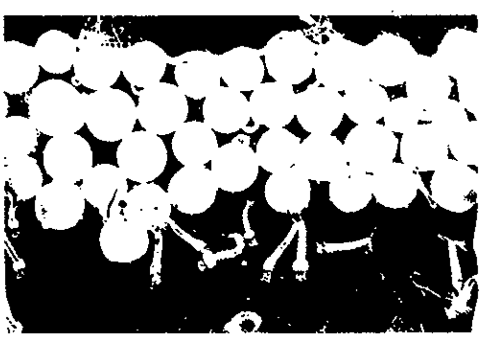
Polystyrene joint venture in China
A joint-venture agreement has led to the incorporation of the Jinling Shell Petrochemical Company in the People's Republic of China. The company, 60% of which is owned by Shell companies and 40% by the Jinling Petrochemical Corporation, will modernise a plant in Nanjing that has manufactured expandable polystyrene for several years under Shell licence.

Polyethylene joint venture in Europe
In another major initiative, Shell companies and BASF teamed up again to put in place a 50:50 joint venture in the polyethylene business. The joint venture, named Elenac, will have manufacturing sites across Europe that offer customers a wide range of product grades and services. It will be one of the major European polyethylene suppliers.



Shell Chemical Company's complex in Geismar, Louisiana, will be equipped with new technology developed at Shell research centres in Amsterdam and Houston.

For his contribution to lessening environmental impact and increasing safety, Hans van der Horst, an employee at the Pernis plant in the Netherlands, was duly recognised with an award.



A layer of expandable polystyrene beads prevents mosquito larvae from reaching the water surface. As a result, the larvae fail to develop. Such beads were donated by Shell Chemicals to a community in Zanzibar, providing the community with a remarkably effective measure against mosquito-borne disease.

The Responsible Care® logo symbolises the commitment of the Shell chemical companies to strive for the highest and most comprehensive standards of product stewardship.

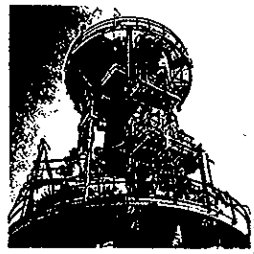
Achievements

Downstream Gas and Power Generation

Shell technology for liquefying and processing natural gas offers an efficient, environmentally attractive way of providing fuels that are increasingly in demand. Together with wide-ranging operational experience, it gives Shell companies an industry leadership position in discussions with business partners and governments.

Liquefied natural gas plants
Construction proceeds at two major plants to produce liquefied natural gas (LNG) for seaborne delivery to customers. One LNG plant, located at Qalhat in Oman, will supply about a quarter of Korea's gas needs at the turn of the century. The other, located on Bonny Island, Nigeria, will annually export more than five million tonnes of LNG to Europe.

Fifty-percent ownership of InterGen
The Group's strategic decision to move into electricity generation was reinforced when Bechtel Enterprises agreed to split the ownership of InterGen, a major international developer of private power projects and related assets, with the Royal Dutch/Shell Group. InterGen's power stations are under construction in the UK, Mexico, the Philippines and Colombia; nine other projects are under development.



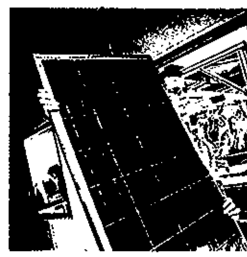
A heat exchanger is just the tip of the massive Karratha gas-treatment plant on the Burrup peninsula in Western Australia.

Renewable Resources

Renewable resources could provide between 5% and 10% of the world's energy within 25 years. To help meet future demands, the Royal Dutch/Shell Group intends to expand its existing solar-power operations and tree plantation business.

Establishment of new core business
With more than half a billion dollars to be invested over the next five years, a new organisation – Renewables – has been set up to consolidate the Royal Dutch/Shell Group's current activities in solar power, biomass (wood-based) power and renewable forestry.

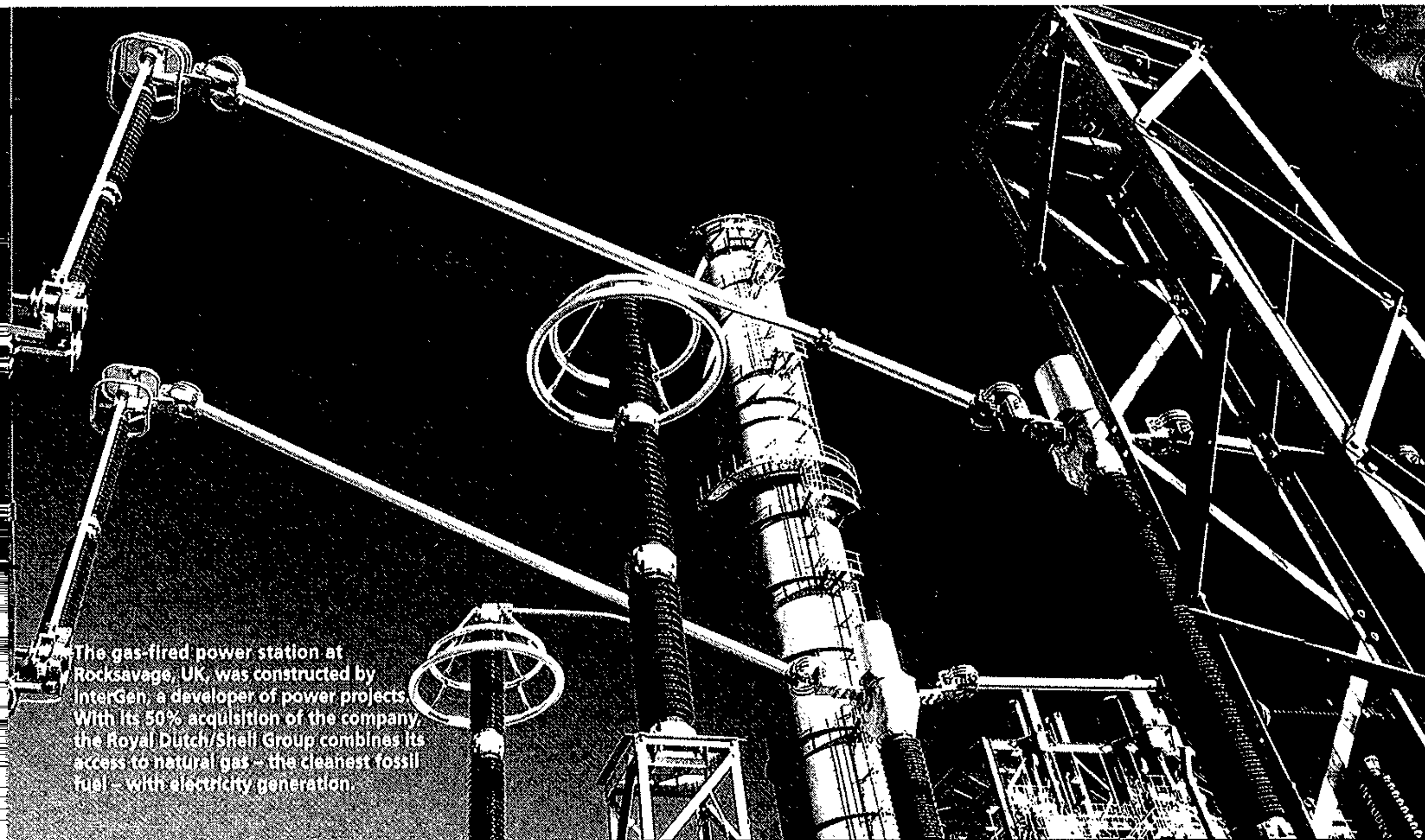
Construction of solar-cell plant in Germany
Deutsche Shell has announced its intention to build a solar-cell factory in Gelsenkirchen in co-operation with Pilkington Solar International. Once it is operational, the factory will be capable of producing enough solar cells to more than double the Group's current productive capacity.



Solar panels are assembled from polycrystalline silicon cells at the Shell Solar plant in Helmond, the Netherlands.

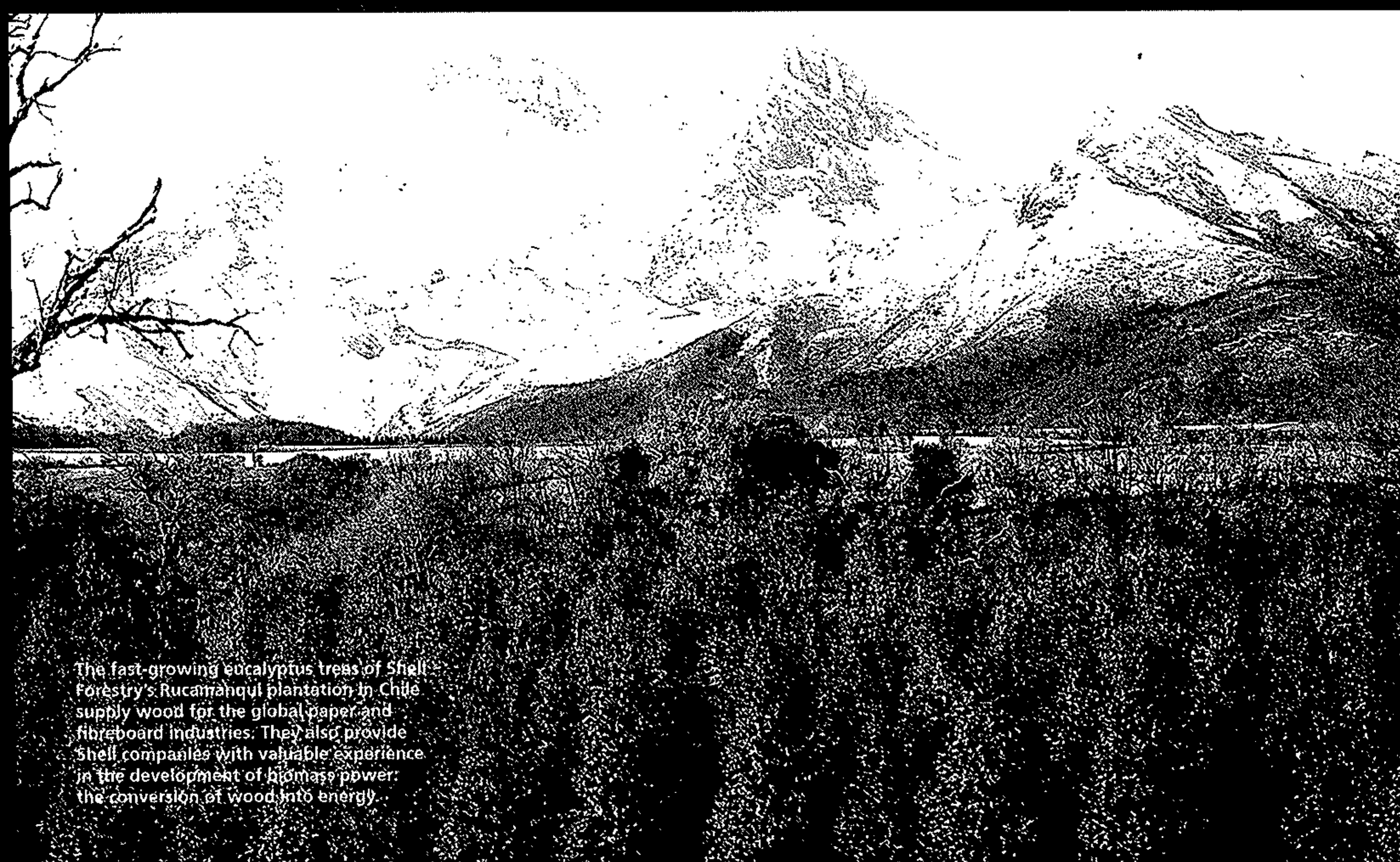
Health, safety and environment reports covering not only the Group as a whole but also its component business organisations have now become a regular feature of the reporting calendar.

Tree seedlings are handed out to school children in Chile as part of the social programme of a Shell forestry company.



The gas-fired power station at Rocksavage, UK, was constructed by InterGen, a developer of power projects. With its 50% acquisition of the company, the Royal Dutch/Shell Group combines its access to natural gas – the cleanest fossil fuel – with electricity generation.

Taking the long-term view



The fast-growing eucalyptus trees of Shell Forestry's Rucamanqui plantation in Chile supply wood for the global paper and fibreboard industries. They also provide Shell companies with valuable experience in the development of biomass power: the conversion of wood into energy.

Discussion and Analysis of Financial Condition and Results of Operations
Summary

Reported net income for the year 1997 was £4.7 billion, compared with the record-setting £5.7 billion a year ago. Earnings on an estimated current cost of supplies (CCS) basis excluding special items were £4.9 billion in 1997, 6% lower than the previous year in sterling terms but only 1% lower when expressed in dollar terms.

Crude oil production – at 2.3 million barrels per day – was 1% higher in 1997 than it was the previous year. Natural gas sales – at 8.0 billion cubic feet per day – were 4% lower, mainly because of the mild winter in the Northern Hemisphere. Total oil product sales increased by 4%, to 6.6 million barrels per day.

The trend of rising crude oil prices in 1996 was reversed in 1997. Whereas the average price of Brent crude was $20.65 per barrel in 1996, it was $19.10 per barrel in 1997. Compared to 1996 levels, complex refining margins were up $0.10 a barrel in Europe, up $0.35 a barrel in the US Gulf Coast and down $1 a barrel in the Asia-Pacific region. Average cracker margins in both Europe and the USA were higher in 1997 than in 1996.

The strengthening of sterling and the dollar over the last year has had an adverse impact on the results. Moreover, the economic turmoil in Asia resulted in significant currency exchange losses in the region, particularly in the fourth quarter.

The average effective tax rate increased from 46% to 49% due to a higher proportion of earnings arising in high-tax areas.

Outlook
Crude oil prices continued to fall in early 1998, and their weakness may persist at currently foreseen levels of OPEC and non-OPEC production. The slower economic growth in the Asia-Pacific region, combined with increasing refinery capacity, may limit improvements to refining margins in the region; in Europe and North America refining margins are likely to fluctuate around 1997 levels. The global impact of the downturn in Asia-Pacific economies will also affect the profitability of petrochemicals in 1998.

For 1998 Group companies plan to increase oil production to 2.6 million barrels per day, and gas sales to 8.5 billion cubic feet per day. During 1998 capital expenditure and exploration expense, together with new investments in associated companies, is expected to be somewhat higher than 1997 levels.

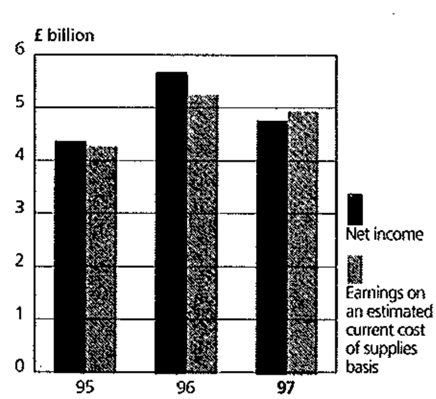
	1997	1996	1995 £ million
Net income for the year	**4,736**	5,691	4,375
% change	***–17***	*+30*	*+7*
of which: World outside USA	**3,717**	4,617	3,708
USA	**1,019**	1,074	667
Earnings based on estimated current cost of supplies	**4,963**	5,303	4,306
% change	***–6***	*+23*	*+8*
of which: World outside USA	**3,944**	4,229	3,730
USA	**1,019**	1,074	576
Net sales proceeds	**78,224**	82,079	69,595
% change	***–5***	*+18*	*+12*

Key Indicators

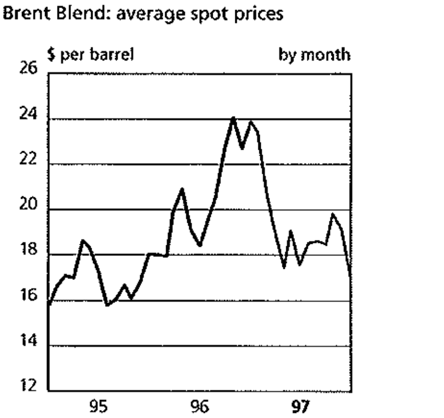
	1997	1996	1995
Return on average capital employed*	**11.4%**	13.2%	10.6%
Ratio of total debt to capital employed	**14.5%**	15.1%	17.1%
Effective tax rate	**49%**	46%	44%
Change in cash, cash equivalents and short-term securities	**–57%**	–1%	–1%

*Net income plus minority interests plus total interest expense less tax on the interest expense as a percentage of average capital employed, which is the sum of net assets, minority interests and total debt.

Group Results



Crude Oil Prices
Brent Blend: average spot prices



Key points of the 1997 results:

Exploration and Production
The impact of lower crude oil prices and reduced gas sales was mitigated by increased oil production and lower operating costs partly due to currency effects.

Proved oil and gas reserves increased substantially: net additions to proved reserves were equivalent to 129% of the year's production of crude oil and natural gas liquids, and 210% of the year's natural gas production.

Refining and Marketing
Improved performance in Europe and Canada led to an increase in earnings on a current cost of supplies basis; however, inventory holding losses in 1997 compared with gains in 1996 led to a reduction in reported earnings.

Chemicals
The results of continued cost reduction and higher sales volumes were more than offset by the impact of the stronger sterling.

Renewables
In line with Forestry's strategy to focus on tree plantations, a wood-pulp mill was sold for a gain of £70 million.

Corporate Items
The strengthening of sterling coupled with the weakening of Asian currencies resulted in currency exchange losses of £253 million.

Liquidity and Capital Resources
Cash, cash equivalents and short-term securities were down from £7.3 billion to £3.1 billion mainly because of higher capital investment and long-term investments.

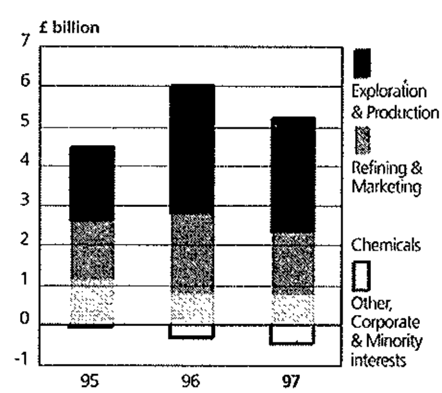
Total debt amounted to £6.4 billion, and the debt ratio decreased from 15.1% in 1996 to 14.5% in 1997.

Capital investment for the year totalled £9.2 billion, up 12% from 1996.

Reported Segment Earnings

	1997	1996	1995 £ million
Oil and gas:			
Exploration and Production	**2,914**	3,245	1,866
Refining and Marketing	**1,600**	2,036	1,517
Chemicals	**733**	762	1,092
Other industry segments:			
Coal	**24**	24	26
Other	**70**	(12)	85
Corporate items	**(578)**	(193)	(95)
Minority interests	**(27)**	(171)	(116)
Net income for the year	**4,736**	5,691	4,375

Reported Segment Earnings



Discussion and Analysis of Financial Condition and Results of Operations

Earnings by Industry Segment

Oil and Gas: Exploration and Production

The impact of lower crude oil prices and reduced gas sales was mitigated by increased oil production and lower operating costs partly due to currency effects. Proved oil and gas reserves increased substantially: net additions to proved reserves were equivalent to 129% of the year's production of crude oil and natural gas liquids, and 210% of the year's natural gas production.

Earnings for 1997

Despite lower operating costs (partly due to currency effects) and a modest increase in oil production, net income dropped to £2,914 million as a result of lower oil prices and reduced gas sales.

Outside the USA earnings dropped 10% from their 1996 level, to £2,270 million. In 1996, however, earnings included a special gain of £51 million from tax adjustments; in 1997 they did not include any special items. Excluding the 1996 gain on tax adjustments, earnings were down 9%. Oil production was down 1% from last year's levels. Increases – mainly from Venezuela, Syria, Oman and Denmark – did not compensate for declines in Malaysia, Nigeria and the UK. Natural gas sales were down 4%, mainly because of decreased sales in the Netherlands and Malaysia, partly compensated by increases in Norway, Denmark and the UK. Operating costs were lowered by currency exchange effects in both Europe and Asia.

Within the USA 1997 earnings excluding special items were £644 million, 5% lower than a year ago. The benefit of higher crude oil production and higher average natural gas prices was outweighed by the impact of lower crude oil prices, lower natural gas sales and higher operating costs. Crude oil production was up 9% from last year, as increases from the Gulf of Mexico more than offset natural declines elsewhere. Natural gas sales were 4% lower than in 1996, mainly because of the warmer weather in 1997.

Crude oil prices

Crude oil price realisations moved in line with the average Brent Blend spot price, but the 1996 trend of rising crude oil prices was reversed in 1997. The decline of oil prices in the first half of the year primarily reflected the resumption of Iraqi exports under UN auspices. In the latter half of the year an increase in OPEC production quotas, coupled with the growing impact on oil demand of the Asian economic crisis and a relatively mild winter in the Northern Hemisphere, increased market concerns about oversupply. As a consequence, prices weakened considerably, decreasing to around $16 per barrel by the end of the year.

Capital investment

Major investments in the UK, Oman, Egypt, Australia, Canada and Venezuela were largely responsible for the 23% increase (£443 million) in capital expenditure outside the USA from 1996 to 1997. Capital spending also increased in the USA, to cover field development in the Gulf of Mexico and the pipeline facilities that will transport the gas produced.

Exploration expense outside the USA, however, was down by £19 million – a decrease of 4%.

Reserves

Net additions to proved reserves in 1997 were equivalent to 129% of the year's production of crude oil and natural gas liquids and 210% of the year's natural gas production. (Definitions of reserves and figures for 1995–1997 are given on pages 58–59.) Additions to oil reserves were achieved through new projects in Nigeria (offshore) and Russia (Sakhalin); oil reserves also increased in the UK, Canada, Oman and Nigeria (onshore) as a result of new fields and improved field recoveries. The marked increase in gas reserves is largely the result of new fields in Australia, the Malampaya project in the Philippines and other new upstream gas ventures as well as new fields and improved recovery in the Netherlands and Canada.

Outlook

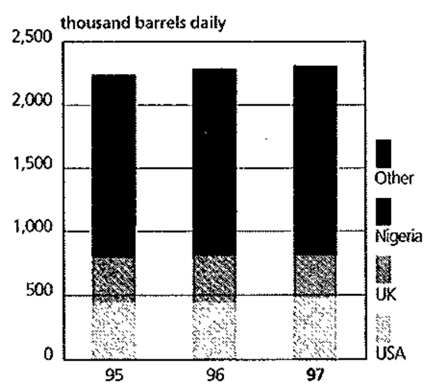
Oil prices are likely to remain volatile, although their general weakness may persist in view of the continued expansion of OPEC and non-OPEC production capacity. The economic problems affecting several

Oil and Gas: Exploration and Production

	1997	1996	1995 £ million
Reported earnings			
World outside USA	**2,270**	2,536	1,620
USA	**644**	709	246
Total	**2,914**	3,245	1,866
% change	***–10***	*+74*	*+21*
Production costs*	**3,236**	3,854	3,936
Exploration expense*†	**704**	713	553
Taxation	**3,313**	3,547	2,039

*Excluding associated companies.
†Excludes depreciation and release of currency translation differences.

Oil Production (including natural gas liquids)
Group companies, plus Group share of associated companies



Geographical Data

	1997	1996	1995
		thousand barrels daily	
Oil production	**2,328**	2,305	2,254
% change	***+1***	*+2*	*+3*
of which: USA	**491**	451	441
UK	**329**	353	349
Nigeria	**270**	278	268
		million cubic feet daily	
Natural gas sales*	**8,001**	8,354	7,624
% change	***–4***	*+10*	*+4*
of which: Netherlands	**1,636**	1,901	1,635
USA	**1,779**	1,859	1,907
Canada	**685**	734	721

*From own production (including Group share of associated companies).

Asia-Pacific countries may also keep prices from rising, since they are likely to slow the growth in oil and gas demand.

Group oil production is planned to grow at an average annual rate of 5% over the coming five years – a slightly slower pace than anticipated last year. Lower production estimates for some countries are partially offset by the better-than-expected performance in Norway and new projects in the UK, which are anticipated to come on stream in 2000. The large capital expenditures over the next five years are expected to deliver substantial longer-term production growth.

In 1997 Gazprom, a Russian gas production company, and the Royal Dutch/Shell Group signed an agreement to establish a strategic alliance. Although no oil or gas production is expected from the Gazprom/Shell alliance before 2003, it offers major opportunities, since it makes Group companies the preferred partner in certain future developments. Two other alliances were formed in 1997: Altura Energy, Ltd., a limited partnership (owned approximately 36% by a Group company and 64% by Amoco) whose operations are concentrated in west Texas and south-east New Mexico, and Aera Energy, LLC, a joint venture (owned approximately 59% by a Group company and 41% by Mobil) whose operations are centred in California.

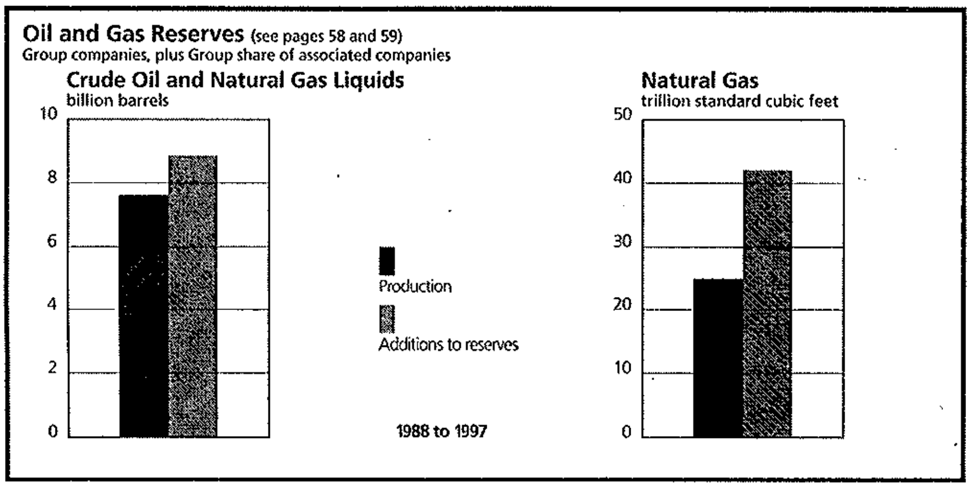
Gas sales are expected to grow at an average annual rate of 7% over the next five years. New field developments in Norway, the Rosetta discovery in Egypt, the Malampaya field in the Philippines and the Kudu field in Namibia have all now been included in current plans. Annual capital expenditure on gas projects is expected to double in five years, and proved reserves are expected to grow substantially. Not only new projects but also aggressive expansions in existing acreage have been identified as production opportunities.

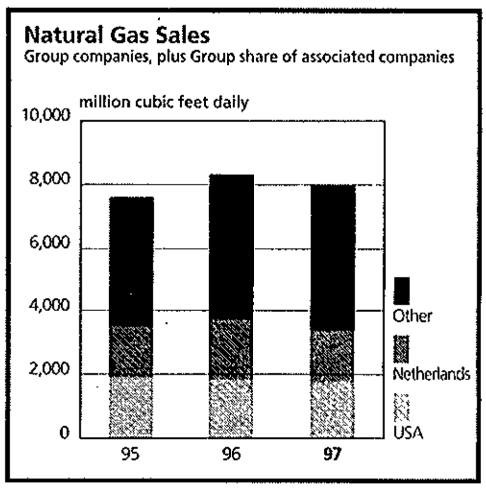
Overall strategy

Group exploration and production companies are pursuing a strategy predicated on expansion of the current portfolio, the full use of existing infrastructure, and prudent portfolio management.

Another component of the strategy seeks to maximise the global leverage of technology, skills and practices through a central new business development company and, more recently, a deep-water services company, and through operating unit initiatives and cross-fertilisation.

To execute this strategy, Group companies are relying on information management and technology, financial versatility and research and development (R&D). By being the fastest and most innovative developer, supplier and applier of technology in exploration and production, R&D aims to support Group companies as the preferred partner of resource holders and of other companies in the industry.





Discussion and Analysis of Financial Condition and Results of Operations

Earnings by Industry Segment
Oil and Gas: Refining and Marketing

Improved performance in Europe and Canada led to an increase in earnings on a current cost of supplies basis; however, inventory holding losses in 1997 compared with gains in 1996 led to a reduction in reported earnings.

Earnings for 1997

On a current cost of supplies (CCS) basis, earnings increased by £188 million, from £1,648 million in 1996 to £1,836 million in 1997. These earnings included special charges of £26 million.

Redundancy and restructuring costs of £72 million, mostly in Europe but also Australia, were partially offset by a credit of £46 million resulting from a tax adjustment in the USA. For comparison, the 1996 earnings included special charges of £106 million for the restructuring of refining and lubricant-production facilities in Europe. Excluding these special charges in both years, the increase in earnings in 1997 was £108 million, a rise of 6%.

In 1997 there were also inventory holding losses of £236 million, as prices declined over the year. (In 1996 there were inventory holding gains of £388 million.) Accordingly, total reported net income fell from £2,036 million to £1,600 million.

Outside the USA earnings on an estimated CCS basis at £1,562 million were 13% higher. If special items are excluded, CCS earnings rose from £1,490 million in 1996 to £1,634 million, an increase of 10%. The improvement in earnings applied to both the refining and marketing segments.

During 1997 stronger-than-expected demand for gasoline supported industry refining margins in the Atlantic Basin. Compared to 1996 levels, industry complex refining margins in Rotterdam were up by $0.10 per barrel. By contrast, Asia-Pacific margins were lower due to the overbuilding of refinery capacity coupled with slower demand growth, which resulted from the Asian economic crisis in the latter part of the year. As a result, average Singapore industry margins fell by $1 barrel from their 1996 level. However, better overall operational performance and lower costs more than offset both the lower Singapore margin and the depreciation charges for new refining facilities in the Netherlands and Thailand. Refining throughput increased by 7%.

Marketing continued to provide the main contribution to earnings, benefiting from higher volumes and lower operating costs. Marketing margins were essentially unchanged, although margins in Asia were squeezed over the second half of the year as a result of the currency crisis. A 3% increase in inland product sales (which exclude exports) was achieved, with growth in all regions.

Improved margins, a continued focus on costs and higher sales volumes contributed to a record performance in Canada.

Within the USA earnings amounted to £274 million. Excluding special items, earnings were £228 million, compared with £264 million a year ago. Results were lower in 1997 than in 1996 because the benefit of higher refining margins and a 7% growth in refined-product sales volumes was overshadowed by higher operating and selling costs. Fixed operating costs in particular increased significantly as a result of brand initiatives and the formation of new refining and marketing alliances.

Capital investment

Capital investment for the year, amounting to £3,105 million, was broadly similar to the 1996 levels. Investments were made to enhance asset utilisation and reduce environmental impact not only of the refineries but also of their products. With the completion of the modernisation of the Pernis refinery in the Netherlands, new refining investment was significantly lower.

Marketing investment, in contrast, was higher. The retail segment remained the major focus with progressive implementation of the new 'Retail Visual Identity' across some 100 countries together with increased investment in convenience stores and other high-quality customer facilities. There was higher expenditure to support the establishment of positions in new markets across the Asia-Pacific region, Eastern Europe and South America. Expenditures also continued to sustain Group companies' leading position in specialities: liquefied petroleum gas (LPG); lubricants; and

Oil and Gas: Refining and Marketing

	1997	1996	1995 £ million
Reported earnings			
World outside USA	**1,326**	1,772	1,210
USA	**274**	264	307
Total	**1,600**	2,036	1,517
% change	***–21***	*+34*	*–27*
Earnings based on estimated current cost of supplies			
World outside USA	**1,562**	1,384	1,232
USA	**274**	264	216
Total	**1,836**	1,648	1,448
% change	***+11***	*+14*	*–28*
			thousand barrels daily
Oil products sales			
World outside USA	**5,061**	4,915	4,655
USA	**1,499**	1,401	1,316
Total	**6,560**	6,316	5,971
% change	***+4***	*+6*	*+5*

bitumen. Several acquisitions were made during 1997, including the marketing assets of Gulf UK and LPG assets in South America.

Investment continued in the two liquefied natural gas (LNG) projects under construction in Nigeria and Oman, both of which were begun in 1996. A 50% interest was acquired in InterGen, a major independent power producer currently constructing four plants. Other interests acquired in 1997 included a stake in COMGAS, a Brazilian gas distributor and Transredes, a Bolivian pipeline company.

Outlook
Refining margins will remain under pressure in 1998 because of a potential excess of supply. The economic problems in the Asia-Pacific region combined with increasing refinery capacity may adversely affect margins there. Although refinery utilisation in Europe is increasing, the incremental additions to capacity in existing refineries, the knock-on effects of the economic problems in the Asia-Pacific region, and the potential redirection of some product exports from the Middle East to Europe may hold European margins at levels similar to or lower than those evident in 1997.

Gross marketing margins for retail fuels will also continue to remain under heavy competitive pressures in a number of major markets. Although margins in the UK showed some improvement in 1997 relative to 1996, the aggressive tactics of new entrants in retail markets are seen across a widening array of countries. Nevertheless, these margin pressures are accelerating the pace of industry restructuring and offering acquisition opportunities.

Early in 1998 a Group company acquired Tejas Gas Corporation. The merged businesses will create one of the largest companies engaged in natural gas transportation, processing and storage within the USA.

On December 25, 1997, an explosion occurred at the Shell Middle Distillate Synthesis (SMDS) plant at Bintulu, Malaysia, causing equipment damage. Fortunately there were only a few minor injuries. The accident was unrelated to the basic SMDS technology, which converts natural gas into high-value liquids and waxes. The results of an investigation into the incident are awaited before options for the future of the plant are assessed.

Overall strategy
The overall strategy in Refining and Marketing is to increase the value of a managed portfolio of Oil Products businesses that are focused on Shell-branded sales and services.

In existing markets the balance between growth and cost effectiveness will be key. Gross margin growth will be driven by improving the customer offer and through extended participation in convenience retailing. Brand management will focus on initiatives to make the most of the brand reputation. Cost effectiveness will be delivered through initiatives to adopt the best practices in refining and marketing.

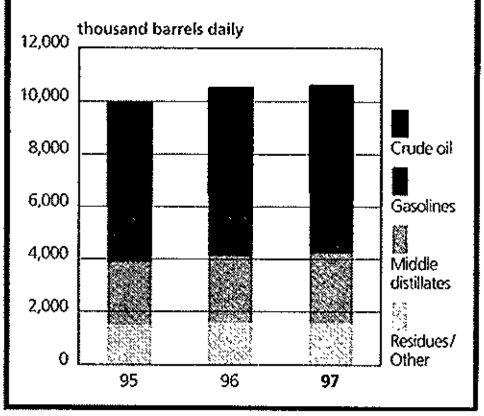
Further improvement in performance in Europe is crucial, given that it represents around one-third of the capital employed in the Refining and Marketing portfolio. For that reason, with effect from January 1998, a new organisation came into being whose aim is to enhance customer focus and capture pan-European synergies. Additional benefits from organisational change can be expected from new global structures for the Aviation and Marine businesses, the commercialisation of research and technology activities and a restructuring of central marketing services. Further integration of Group companies' oil and freight trading operations is planned.

In addition to the LNG plants in Nigeria and Oman, new LNG prospects are being pursued in Russia, Australia and Malaysia. Other opportunities being pursued include: power generation; gas distribution; LNG re-gasification; gas-to-liquid conversion; and coal gasification.

Outside the USA capital investment for 1998 and beyond will focus on growth opportunities. Retail expenditure will represent the major element, including the phased plan to increase the number of 'Select' convenience stores from some 5,000 to 10,000 by the end of 2000. Continued investment is expected to support the establishment of positions in new markets.

Within the USA the portfolio is also being enhanced through co-operation with partners. An alliance between a Group company and Texaco, Inc., has been formed that will combine major elements of the companies' western and mid-western downstream operations. Further, a joint venture has been proposed that will combine the eastern and Gulf Coast refining and marketing businesses of a Group company, Texaco and Saudi Aramco.

Oil Sales



Discussion and Analysis of Financial Condition and Results of Operations

Earnings by Industry Segment

Chemicals

The results of continued cost reduction and higher sales volumes were more than offset by the impact of the stronger sterling.

Earnings for 1997

Earnings for 1997 were £733 million, down from £762 million in 1996. Both years' earnings benefited from asset sales, amounting to £41 million in 1997 and £84 million in 1996. If these special items are excluded, 1997 earnings showed a modest growth of 2%, reflecting the combined result of a number of competing factors.

Strong economic growth in many major industrial nations, notably those of North America and Europe, generated upward pressure on margins that partially offset the downward pressure on margins due to new capacity coming on stream in 1997. Cracker margins in local currencies increased significantly during the first half of the year but eased somewhat in the last two quarters. Much of this increase was negated in Europe by the weakening of the Deutschmark against sterling, in which the results are reported.

Total sales volumes showed a small increase from last year, but unit proceeds and unit margins were slightly down. Both absolute and unit costs were lower, reflecting exchange rate movements and a continuing focus on cost cutting.

Earnings suffered from an explosion and fire in June at the olefins unit in the Deer Park chemical plant in Texas and later in the year from the economic deterioration in the Asia-Pacific region.

Capital investment

Capital investment in the year was £1,510 million, compared with £930 million in 1996. A significant item in 1997 was the acquisition of 50% of the shares of Montell, giving Group companies full ownership of this company.

Outlook

In 1998 the petrochemicals industry is likely to suffer from the economic situation in the Asia-Pacific region and the start-up of extra manufacturing capacity both there and in the USA. Operating margins will probably also be affected by the resulting supply/demand imbalance, particularly in the Asia-Pacific region although knock-on effects may be felt elsewhere. Profitability will therefore come under pressure. Normal production at the Deer Park plant resumed in February 1998.

Overall strategy

Chemicals will continue to focus on a well-integrated portfolio where world-scale, leading technology and excellence in customer service enable competitive advantage. The foundations of the portfolio are major base and essential derivative products. In addition, there is substantial investment in polymers – a class of product offering enhanced profitability and growth. The Chemicals business will also continue to exploit close links to Group companies' oil and gas activities.

Businesses continue to be strengthened through selective capital investment, such as: the proposed development of an integrated petrochemical complex in China; the expansion of the styrene monomer/propylene oxide plant in the Netherlands; the construction of a world-scale phenol plant in the USA; and the building of a new ethylene glycol plant in Canada.

New products are in the process of commercialisation, and research continues both to develop more new products and to enhance the position of existing ones.

During 1997 a polyethylene joint venture with BASF was announced, and work continued towards the finalisation of an agreement on an additives joint venture with Exxon, announced in 1996.

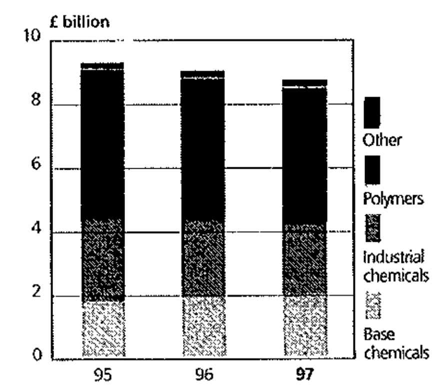
A decision taken in 1997 to create a chemicals management services company and a number of globally focused product business units was implemented in January 1998.

Chemicals

	1997	1996	1995 £ million
Reported earnings			
World outside USA	**453**	493	747
USA	**280**	269	345
Total	**733**	762	1,092
% change	***–4***	*–30*	*+221*
			thousand tonnes
Sales volumes*			
Base chemicals	**7,482**	7,907	6,904
Industrial chemicals	**5,388**	5,295	4,984
Polymers	**6,640**	6,139	5,797

*The three product categories account for virtually all chemical sales volumes of Group companies.

Chemicals Sales Proceeds



Other Industry Segments and Corporate Items

In line with Forestry's strategy to focus on tree plantations, a wood-pulp mill was sold for a gain of £70 million. The strengthening of sterling coupled with the weakening of Asian currencies resulted in currency exchange losses of £253 million.

Renewables
In October 1997 the Group established a new core business that intends to invest some half a billion dollars over the next five years in renewable resources. To that end, Group companies' activities in solar power, biomass (wood-based) power and forestry have been consolidated in a new organisation, Shell International Renewables.

At present, solar-panel manufacturing operations are based in the Netherlands and Japan. Plans were announced to establish another manufacturing facility in Germany as part of a joint venture. There will also be an expansion of existing tree plantations, currently covering 120,000 hectares in South America, Congo and New Zealand.

In 1997 Renewables earnings included a special credit of £70 million from the sale of the Group's share in a Chilean wood-pulp mill, which was part of a restructuring in the Group's Forestry business. Other Renewables earnings yielded a small profit for the year.

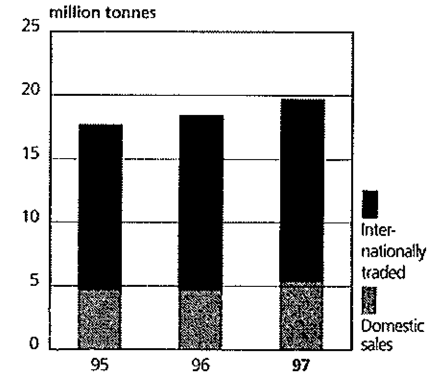
Coal
Coal earnings for 1997, at £24 million, included gains from the divestment of Shell's South African coal interests as well as the sale of the South Bulli mine and the sale of a 12% interest in the new Moranbah North mine (both in Australia). The Moranbah North mine commenced underground development in July and is planned to become fully operational as a coking-coal producer in 1999. Geological difficulties at two Australian mines adversely affected operational results. These results were further depressed by weak thermal and coking coal prices arising from a slow-down in demand growth in the Asia-Pacific region and excess production capacity within Australia.

Corporate items
Corporate items for 1997 resulted in a charge to income of £578 million, which included a net special charge of £66 million in respect of a provision for Group insurance companies that arose from an accident in December 1997 at the SMDS plant in Malaysia. Currency exchange rate movements in Asia and the further strengthening of sterling against other major European currencies during 1997 resulted in losses of £253 million, compared with losses of £59 million in 1996.

Interest income and other items decreased by £178 million to £299 million because of a decline in cash and cash equivalents. Interest expense increased by £46 million to £714 million.

The income applicable to minority interests decreased by £144 million to £27 million, mainly as a result of losses in Asia.

Coal Sales
Group companies, plus Group share of associated companies



Corporate Items

	1997	1996	1995 £ million
Corporate income/(losses)	**(578)**	(193)	(95)
of which:			
Currency exchange gains/(losses)	**(253)**	(59)	163
Interest income and other items	**299**	477	434
Interest expense	**(714)**	(668)	(779)
Taxation	**90**	57	87

Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

Cash, cash equivalents and short-term securities were down from £7.3 billion to £3.1 billion mainly because of higher capital investment and long-term investments. Total debt amounted to £6.4 billion, and the debt ratio decreased from 15.1% in 1996 to 14.5% in 1997. Capital investment for the year totalled £9.2 billion, up 12% from 1996.

Statement of cash flows

Cash flow generated by operations decreased from £10.7 billion to £10.2 billion, of which £8.3 billion was reinvested in the businesses. After payment of dividends of £3.1 billion to the Parent Companies, Royal Dutch and Shell Transport, there was a deficit before financing of £1,179 million. (For comparison, in 1996 there was a surplus of £1,037 million, and in 1995 a deficit of £23 million.)

Within cash flow generated by operations, working capital decreased by £1,698 million compared with an increase of £681 million in 1996.

Capital expenditure and new investments in associates increased by £995 million. Proceeds from sales of assets and disposals of investments in associates contributed £952 million to cash flow. (In 1996 such proceeds amounted to £989 million.) There was a net repayment of debt amounting to £62 million. Dividends paid to the Parent Companies decreased by 2%, to £3.1 billion (after increases of 11% in 1996 and 16% in 1995).

The net effect of this flow of funds for the year as a whole was a decrease of £1,933 million in cash and cash equivalents.

Financial condition

Liquidity, whilst remaining robust, was reduced. Cash, cash equivalents and short-term securities were £3.1 billion at the end of 1997, down £4.2 billion on 1996, mainly attributed to higher capital investment and long-term investments and the use of cash to establish a pension trust for a previously unfunded Operating Company plan. Long-term and short-term debt, at £6.4 billion, was £569 million lower than a year ago. The total debt ratio decreased from 15.1% to 14.5% in 1997.

Net assets decreased by £725 million, to £36.5 billion during the year. As in 1996, a significant portion of the decrease was a reflection of movements in year-end exchange rates. In 1997, sterling strengthened against the other major European and Asian currencies whilst weakening slightly against the US dollar. Excluding these currency effects, net assets would have increased by £1,161 million in 1997.

Capital investment

Group companies' capital expenditure and exploration expense, plus new investments in associated companies, rose by almost £1.0 billion to £9.2 billion, which is 6% above last year's forecast of £8.7 billion for the year 1997. Oil and gas exploration and production expenditure was the largest component at £4.4 billion, up £490 million on the 1996 figure. Refining and Marketing, at £3.1 billion, was slightly lower than in 1996. Chemicals investment increased by 62%, from £930 million to £1,510 million mainly because of the Montell acquisition.

In 1998 capital investment is expected to be somewhat higher than 1997 levels, with more than half attributable to Exploration and Production. The Group companies' investment programme is expected to be financed largely from internally generated funds.

Statement of Cash Flows (see Note 17)
(translated at average rates of exchange)

	1997	1996	1995 £ million
Cash flow provided by operating activities	**10,229**	10,653	9,424
% change	***–4***	*+13*	*+23*
of which: (increase)/decrease in net working capital	**1,698**	(681)	(92)
Cash flow used in investing activities	**8,283**	6,412	6,557
% change	***+29***	*–2*	*+40*
of which: capital expenditure	**7,474**	7,039	6,951
Cash flow provided by/(used in) financing activities	**(423)**	(368)	(313)
Dividends paid to Parent Companies	**3,125**	3,204	2,890
% change	***–2***	*+11*	*+16*
Increase/(Decrease) in cash and cash equivalents	**(1,933)**	180	(261)

Financial Condition
(translated at year-end rates of exchange)

	1997	1996	1995 £ million
Net assets	**36,452**	37,177	37,970
Net current assets	**2,237**	5,927	4,773
of which: cash, cash equivalents and short-term securities	**3,123**	7,282	7,335
Total debt*	**6,402**	6,971	8,256
of which: short-term*	**2,894**	3,357	3,509
long-term*	**3,508**	3,614	4,747

*Including capitalised lease obligations.

Capital Investment
(by industry segment)

	1997	1996	1995 £ million
Capital expenditure	**7,474**	7,039	6,951
Exploration expense†	**708**	716	552
New investments in associated companies‡	**1,052**	492	350
Total	**9,234**	8,247	7,853
of which:			
Oil and gas:			
Exploration and Production	**4,444**	3,953	3,397
Refining and Marketing	**3,105**	3,178	3,357
Chemicals	**1,510**	930	836
Coal	**86**	104	102
Other	**89**	82	161

†Exploration expense excludes depreciation and release of currency translation differences.

‡Note 5(b) on pages 44–45 sets out 1996–1997 changes in investments in associated companies.

Other Matters

Internal controls
The Royal Dutch/Shell Group of Companies has a number of control mechanisms that are considered to provide a reasonable balance between a comprehensive internal control structure and the need for a strong entrepreneurial decentralised culture. The primary control mechanisms are self-appraisal processes in combination with strict accountability for results underpinned by a number of checks and balances including mandatory policies, procedures (within the framework of the Royal Dutch/Shell Group of Companies' *Statement of General Business Principles*), and appraisals and reviews.

Business control reviews of Group companies are regularly carried out to demonstrate to the Group Holding Companies and the Group Audit Committee (comprising three members of the Supervisory Board of Royal Dutch and three non-executive Directors of Shell Transport) that controls of the key business processes are in place and operate effectively. There is an annual review and appraisal process as part of the planning cycle and a formal Letter of Representation process in respect of over 1,500 companies. The Letter of Representation, which was introduced in 1978, is a declaration by the management of these companies regarding the operation of sound financial controls, the proper recording of transactions and any instances of bribes or illegal payments. The results of this process and any qualifications made are reviewed by the Group Audit Committee and support representations made to external auditors.

Environmental and decommissioning costs
Group companies operate in over 130 countries throughout the world and are subject to a number of different environmental laws, regulations and reporting requirements. It is the responsibility of each Group company to implement a health, safety and environmental management system that is suited to its particular circumstances.

The costs of prevention, control, abatement or elimination of releases into the air and water and disposal and handling of wastes at operating facilities are considered to be an ordinary part of business, and as such these amounts are not accounted for separately. An estimate of the order of magnitude of amounts incurred in 1997 for Group companies mostly in Europe and North America, based on allocations and managerial judgement, is £700 million. (In 1996 such an estimate amounted to £800 million.) These estimates include the costs of reformulated fuels in the USA.

Expenditures of a capital nature to limit or monitor hazardous substances or releases include both remedial measures on existing plants and integral features of new plants. Whilst some environmental expenditures are discrete and readily identifiable, others must be reasonably estimated or allocated based on technical and financial judgements which develop over time. Consistent with the preceding, estimated environmental capital expenditures made by companies with major capital programmes during 1997 were £400 million (1996: £500 million). Those Group companies are expected to incur environmental capital costs of at least £400–500 million per year during both 1998 and 1999. These estimates include costs related to reformulated fuels in the USA.

It is not possible to predict with certainty the magnitude of the effect of required investments in existing facilities on Group companies' future earnings, since this will depend amongst other things on the ability to recover the higher costs from consumers and through fiscal incentives offered by governments. Nevertheless, it is anticipated that over time there will be no material impact on the total of Group companies' earnings. These risks are comparable to those faced by other companies in similar businesses.

At the end of 1997, the total liabilities being carried for environmental clean-up were £412 million (1996: £467 million), whilst additions to provisions in 1997 amounted to £53 million.

Provisions being carried for expenditures on decommissioning and site restoration, including oil and gas platforms, amounted to £1,403 million (1996: £1,408 million).

Discussion and Analysis of Financial Condition and Results of Operations
Other Matters

Dollar reporting
With effect from the first quarter of 1998, the financial statements of the Royal Dutch/Shell Group of Companies will be reported in US dollars instead of sterling.

Employees
Overall, the number of employees in Group companies is expected to decline over the next year or two as the companies continue their efforts to streamline operations and as businesses are transferred to associated joint ventures. The decline, however, will not be uniform throughout the companies: in certain activities and areas personnel numbers may well increase. Group companies will still need to recruit many people every year around the world.

Risk management
As further discussed in Note 25 on pages 56–57, Group companies, in the normal course of their business, use financial instruments of various kinds for the purposes of managing exposure to currency, commodity price and interest rate movements. The Group has Treasury Guidelines applicable to all Group companies, and each Group company is required to adopt a treasury policy consistent with these guidelines. These policies cover financing structure, foreign exchange and interest rate risk management, insurance, counterparty risk management and derivative instruments, as well as the treasury controls framework. Wherever possible the Group seeks to centralise treasury operations in specialist central organisations without removing from each Group company the responsibility to formulate and implement appropriate treasury policies.

Each Group company measures its foreign currency exposures against the underlying currency of its business (its 'functional currency'), reports foreign exchange gains and losses against its functional currency and has hedging and treasury policies in place which are designed to minimise foreign exchange exposure so defined. The functional currency for most upstream companies and for other companies with significant international business is the US dollar, but other companies normally have their local currency as their functional currency.

The financing of most Group Operating Companies is structured on a floating-rate basis and, except in special cases, further interest-rate risk management is discouraged.

Apart from forward foreign exchange contracts to meet known commitments, the use of derivative financial instruments by most Group companies is not permitted by their treasury policies.

Some Group companies operate as traders in crude oil and products and use commodity swaps and options as a means of managing price and timing risks arising from this trading. In effecting these transactions the companies concerned operate within procedures and policies designed to ensure that risks, including those relating to the default of counterparties, are minimised.

Except in exceptional cases, the use of derivative instruments is generally confined to specialist oil trading and central treasury organisations which have appropriate skills, experience, supervision, and control and reporting systems.

The Group's Operating Companies insure against most major property and liability risks with the Group's captive insurance companies. These captive insurance companies reinsure part of their major catastrophe risks with a variety of international insurers. The effect of these arrangements is that uninsured losses for any one incident are unlikely to exceed $400 million.

Year 2000
Group companies are currently addressing Year 2000 problems, whether caused by IT systems, industrial automation (embedded chips), hardware, communications or the business chain. The Group's aim is to ensure that corrective measures are taken to prevent interruptions to business operations and to have contingency plans in place where necessary. Each Group company is addressing the issue with a managed programme aimed at containing the problem before the critical date. Total costs for the Group are as yet unknown, but they are not anticipated to be material to the Group's financial position.

Cautionary Statement
The forward-looking discussion and analysis in this Report contains statements that are subject to risk factors associated with the oil, gas, chemicals, renewable resources and coal businesses. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a variety of variables which could cause actual results or trends to differ materially, including, but not limited to: price fluctuations; currency fluctuations; drilling and production results; reserve estimates; loss of market; environmental risks; physical risks; and legislative, fiscal and regulatory developments.

Report of the Auditors

To Royal Dutch Petroleum Company and The "Shell" Transport and Trading Company, p.l.c.

We have audited the financial statements appearing on pages 38 to 57 of the Royal Dutch/Shell Group of Companies for the years 1997, 1996 and 1995. The preparation of financial statements is the responsibility of management. Our responsibility is to express an opinion on financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Royal Dutch/Shell Group of Companies at December 31, 1997 and 1996 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1997 in accordance with generally accepted accounting principles in the Netherlands and the United States.

KPMG Accountants N.V., The Hague

Price Waterhouse, London

March 12, 1998

Group Financial Statements and Operational Data

Financial Statements

Statement of Income

	1997	1996	1995 £ million
Sales proceeds	**104,772**	110,034	95,449
Sales taxes, excise duties and similar levies	**26,548**	27,955	25,854
Net proceeds	**78,224**	82,079	69,595
Cost of sales	**61,276**	63,610	54,182
Gross profit	**16,948**	18,469	15,413
Selling and distribution expenses	**6,702**	7,071	6,857
Administrative expenses	**691**	472	758
Exploration	**715**	745	606
Research and development	**403**	449	483
Operating profit of Group companies	**8,437**	9,732	6,709
Share of operating profit of associated companies (Note 5)	**1,302**	1,234	1,201
Operating profit	**9,739**	10,966	7,910
Interest and other income (Note 6)	**557**	595	681
Interest expense (Note 7)	**714**	668	779
Currency exchange gains/(losses)	**(284)**	(26)	164
Income before taxation	**9,298**	10,867	7,976
Taxation (Note 8)	**4,535**	5,005	3,485
Income after taxation	**4,763**	5,862	4,491
Income applicable to minority interests	**27**	171	116
Net income for the year	**4,736**	5,691	4,375

Statement of Parent Companies' Interest in Group Net Assets

	1997	1996	1995 £ million
Interest at beginning of year	**37,177**	37,970	35,988
Net income for the year (Note 3)	**4,736**	5,691	4,375
	41,913	43,661	40,363
Net distributions to Parent Companies (Note 3)	**3,575**	3,226	3,161
Currency translation differences for the year (Note 17)	**(1,886)**	(3,258)	768
Interest at end of year (Note 4)	**36,452**	37,177	37,970
Applicable to: Royal Dutch (60%)	**21,871**	22,306	22,782
Shell Transport (40%)	**14,581**	14,871	15,188
	36,452	37,177	37,970

Statement of Assets and Liabilities

		December 31 1997	December 31 1996 £ million
Fixed assets	Tangible fixed assets (Note 9)	**39,580**	42,083
	Investments: associated companies (Note 5)	**7,868**	5,218
	securities (Note 12)	**891**	86
	other	**621**	408
Total fixed assets		**48,960**	47,795
Current assets	Inventories (Note 10)	**4,533**	4,849
	Accounts receivable – including £2,938 million (1996: £2,790 million) due after one year (Note 11)	**12,531**	13,321
	Short-term securities (Note 12)	**524**	2,750
	Cash and cash equivalents (Note 12)	**2,599**	4,532
Total current assets		**20,187**	25,452
Current liabilities: amounts due within one year			
	Short-term debt (Note 13)	**2,894**	3,357
	Accounts payable and accrued liabilities (Note 15)	**10,106**	10,865
	Taxes payable (Note 8)	**2,864**	3,542
	Dividends payable to Parent Companies	**2,086**	1,761
Total current liabilities		**17,950**	19,525
Net current assets		**2,237**	5,927
Total assets less current liabilities		**51,197**	53,722
Long-term liabilities: amounts due after more than one year			
	Long-term debt (Note 13)	**3,508**	3,614
	Other (Note 16)	**1,426**	1,737
		4,934	5,351
Provisions	Deferred taxation (Note 8)	**5,360**	5,245
	Pensions and similar obligations (Notes 19 and 20)	**1,710**	2,526
	Decommissioning and restoration costs	**1,403**	1,408
		8,473	9,179
Group net assets before minority interests		**37,790**	39,192
	Minority interests	**1,338**	2,015
Net assets		**36,452**	37,177

Financial Statements

Statement of Cash Flows (see Note 17)

		1997	1996	1995 £ million
Cash flow provided by operating activities				
Net income for the year		**4,736**	5,691	4,375
Adjustments to reconcile net income to cash flow provided by operating activities:				
Depreciation, depletion and amortisation (Note 9)		**4,387**	4,677	5,141
Movements in:	inventories	**(89)**	(559)	9
	accounts receivable	**84**	(1,322)	(1,102)
	accounts payable and accrued liabilities	**(102)**	1,098	1,000
	taxes payable	**(379)**	(70)	22
	short-term securities	**2,184**	172	(21)
Associated companies: dividends more/(less) than net income (Note 5)		**(81)**	(64)	21
Deferred taxation and other provisions		**(258)**	760	(186)
Long-term liabilities and other		**(280)**	99	49
Income applicable to minority interests		**27**	171	116
Cash flow provided by operating activities		**10,229**	10,653	9,424
Cash flow used in investing activities				
Capital expenditure (including capitalised leases) (Note 9)		**(7,474)**	(7,039)	(6,951)
Proceeds from sale of assets		**631**	868	682
New investments in associated companies (Note 5)		**(1,052)**	(492)	(350)
Disposals of investments in associated companies		**321**	121	181
Other investments		**(709)**	130	(119)
Cash flow used in investing activities		**(8,283)**	(6,412)	(6,557)
Cash flow provided by/(used in) financing activities				
Long-term debt (including short-term part)				
	New borrowings	**2,357**	581	736
	Repayments	**(2,513)**	(1,113)	(1,047)
		(156)	(532)	(311)
Net increase/(decrease) in short-term debt		**94**	4	(361)
Minority interests		**(361)**	160	359
Cash flow provided by/(used in) financing activities		**(423)**	(368)	(313)
Dividends paid:	to Parent Companies	**(3,125)**	(3,204)	(2,890)
	to minority interests	**(154)**	(96)	(86)
Currency translation differences relating to cash and cash equivalents		**(177)**	(393)	161
Increase/(Decrease) in cash and cash equivalents		**(1,933)**	180	(261)
Cash and cash equivalents at January 1		**4,532**	4,352	4,613
Cash and cash equivalents at December 31		**2,599**	4,532	4,352

Notes to Financial Statements

1 The Royal Dutch/Shell Group of Companies

The Parent Companies, Royal Dutch Petroleum Company (Royal Dutch) and The "Shell" Transport and Trading Company, p.l.c. (Shell Transport) are holding companies which together own, directly or indirectly, investments in numerous companies known collectively as the Royal Dutch/Shell Group. Group companies are engaged in all principal aspects of the oil and natural gas business throughout the world. They also have substantial chemical and coal interests. These activities are conducted in more than 130 countries and are subject to changing economic, regulatory and political conditions.

Arrangements between Royal Dutch and Shell Transport provide, *inter alia*, that notwithstanding variations in shareholdings, Royal Dutch and Shell Transport shall share in the aggregate net assets and in the aggregate dividends and interest received from Group companies in the proportion of 60:40. It is further arranged that the burden of all taxes in the nature of or corresponding to an income tax leviable in respect of such dividends and interest shall fall in the same proportion.

The 60:40 arrangements referred to above have been supplemented by further arrangements, beginning with Group dividends payable to the Parent Companies in respect of 1977, whereby each Parent Company is to bring into account towards its share in the 60:40 division of dividends from Group companies tax credits and other tax benefits which are related to the liability to tax of a Group company and which arise to the Parent Company or which would arise to the holders of its ordinary shares if there were to be an immediate full onward distribution to them of Group dividends (for which purpose all shareholders are assumed to be individuals resident and subject to tax in the country of residence of the Parent Company in question). The tax benefit to Shell Transport for the 1994 dividend through to the 1997 interim dividend amounts to 8% of total Group income divisible for 60:40 purposes.

In 1997 the UK government announced changes to tax law in respect of company distributions, including the abolition of Advance Corporation Tax. The Parent Companies have agreed that the tax benefit to Shell Transport for the 1997 final dividend and the 1998 interim dividend will be 4% of total Group income divisible for 60:40 purposes and, subject to the abolition of Advance Corporation Tax being enacted, there will be no tax benefit to Shell Transport for the 1998 final and subsequent dividends which will have the effect of Shell Transport receiving the whole of its entitlement in cash.

2 Accounting policies

Nature of the financial statements

The accounts of the Parent Companies are not included in the financial statements, the objective of which is to demonstrate the financial position, results of operations and cash flows of a group of undertakings in which each Parent Company has an interest in common whilst maintaining its separate identity. The financial statements reflect an aggregation in sterling of the accounts of companies in which Royal Dutch and Shell Transport together, either directly or indirectly, have control either through a majority of the voting rights or the right to exercise a controlling influence. Investments in companies over which Group companies have significant influence but not control are classified as associated companies and are accounted for on the equity basis. Certain joint ventures are taken up in the financial statements in proportion to the relevant Group interest.

The financial statements have been prepared under the historical cost convention. They have been prepared in all material respects in accordance with generally accepted accounting principles in the Netherlands and the United States. Group accounting policies are also substantially consistent with accounting principles generally accepted in the United Kingdom, with the notable exception of the provision for deferred taxation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and notes thereto. Actual results could differ from those estimates.

Currency translation

Assets and liabilities of non-sterling Group companies are translated to sterling at year-end rates of exchange, whilst their statements of income and cash flows are translated at quarterly average rates. Translation differences arising on aggregation are taken directly to a currency translation differences account, which forms part of Parent Companies' interest in Group net assets. Upon disinvestment or liquidation of a non-sterling Group company, cumulative currency translation differences related to that company are taken to income.

The sterling equivalents of exchange gains and losses arising as a result of foreign currency transactions (including those in respect of inter-company balances unless related to transactions of a long-term investment nature) are included in Group net income.

Securities

Securities of a trading nature are carried at fair value with unrealised holding gains and losses being included in net income. Securities intended to be held to maturity are carried at cost, unless permanently impaired in which case they are carried at fair value. All other securities are classified as available for sale and are carried at fair value, with unrealised holding gains and losses being taken directly to Parent Companies' interest in Group net assets. Upon sale or maturity, the net gains and losses are included in net income.

Short-term securities with a maturity from acquisition of three months or less that are readily convertible into known amounts of cash are classified as cash equivalents. Securities forming part of a portfolio which is required to be held long-term are classified under fixed assets – investments.

Cash flows resulting from movements in securities of a trading nature are reported under cash flow provided by operating activities while cash flows resulting from movements in other securities are reported under cash flow used in investing activities.

Financial instruments

The accounting method used for derivative financial instruments is determined by whether or not the instrument is designated as a hedge of an existing exposure or a firm commitment and, if so, by the accounting method used for the item being hedged. Hedges of existing exposures are accounted for in the same way as the item being hedged. Forward exchange contracts and currency swaps used to hedge exchange rate exposure are valued at market with

Notes to Financial Statements

resulting gains and losses taken to income when the gains and losses on the underlying hedged transactions are recognised. Gains or losses on hedges of firm commitments are deferred and recognised when any gains or losses on the hedged transactions are recognised. Derivative financial instruments that are not designated as hedges are valued at market and gains and losses are taken to income.

The effect of derivative financial instruments is reflected in the financial statements as follows:

Statement of Income: premiums or discounts on derivative instruments that are designated as hedges are reflected as adjustments to interest income or expense. Interest differentials on interest rate derivatives used to hedge debt or debt securities are included within interest expense and interest income respectively. Gains or losses on foreign currency contracts used to hedge assets or liabilities are included within currency exchange gains/losses. Gains or losses on commodity derivative contracts, other than those designated as hedges of firm commitments, are included within cost of sales.

Statement of Assets and Liabilities: the carrying amounts of foreign exchange derivatives that hedge debt or debt securities are included within investments – securities, short-term securities, cash and cash equivalents, short-term debt or long-term debt as applicable. The carrying amounts of other derivatives are included within current assets or liabilities.

Statement of Cash Flows: the effect of interest rate derivatives on interest payments and the effect of commodity derivative contracts are included within cash flow provided by operating activities. The effect of foreign exchange derivatives is included within the movement in the item being hedged.

Oil trading

Oil trading contracts such as futures and forward contracts and swaps are entered into by some Group companies, generally in order to hedge exposure to price fluctuations which arise on purchases and sales of crude oil and oil products. Contracts designated as hedges are valued at market and resulting gains and losses are taken to income when the gains and losses on the underlying hedged transactions are recognised. The gains and losses on contracts that are not designated as hedges are taken to income in the period in which they arise.

Inventories

Inventories are stated at cost to the Group or net realisable value, whichever is lower. Such cost is determined for the most part by the first-in first-out method (FIFO), but relatively important amounts are determined on the basis of the last-in first-out method (LIFO). Cost comprises direct purchase costs, cost of production, transportation and manufacturing expenses and taxes.

Exploration costs

Group companies follow the successful efforts method of accounting for oil and gas exploration costs. Exploration costs are charged to income when incurred, with the exception that exploratory drilling costs are initially included in tangible fixed assets pending determination of commercial reserves; should the efforts be determined unsuccessful, they are then charged to income.

Interest capitalisation

Interest is capitalised, as an increase in tangible fixed assets, on significant capital projects during construction. Interest is also capitalised, as an increase in investments in associated companies, on funds invested by Group companies which are used by associated companies for significant capital projects during construction.

Depreciation, depletion and amortisation

Tangible fixed assets related to producing activities are depreciated on a unit-of-production basis over the proved developed reserves of the field concerned, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case the straight-line method is applied. Rights and concessions are depleted on the unit-of-production basis over the total proved reserves of the relevant area. Unproved properties are amortised as required by particular circumstances. Other tangible fixed assets are generally depreciated on a straight-line basis over their estimated useful lives.

The carrying amounts of fixed assets are reviewed for possible impairment whenever events or changes in circumstances indicate. For this purpose, assets are grouped based on separately identifiable and largely independent cash flows. Where impairment is indicated, the carrying amounts of assets are written down to fair value, usually determined as the amount of estimated discounted future cash flows. Assets held for sale are written down to the amount of estimated net realisable value.

Environmental expenditures

Liabilities for environmental remediation resulting from past operations or events are recognised in the period in which an obligation to a third party arises and the amount can be reasonably estimated. Measurement of liabilities is based on current legal requirements and existing technology. Recognition of any joint and several liability is based upon Group companies' best estimate of their final pro-rata share of the liability. Liabilities are determined independently of expected insurance recoveries. Recoveries are recognised and reported as separate events and brought into account when reasonably certain of realisation. The carrying amount of liabilities is regularly reviewed and adjusted for new facts or changes in law or technology.

Decommissioning and restoration costs

Estimated decommissioning and restoration costs are based on current requirements, technology and price levels. In respect of oil and gas producing activities, the estimated cost is provided over the life of the proved developed reserves on a unit-of-production basis. For other activities, the estimated cost is provided over the remaining life of a facility on a straight-line basis once an obligation crystallises and the amount can be reasonably estimated. Changes in estimates of costs are accrued on a prospective basis.

Deferred taxation

Deferred taxation is provided using the comprehensive liability method of accounting for income taxes based on provisions of enacted laws. Recognition is given to deferred tax assets and liabilities for the expected future tax consequences of events that have been recognised in the financial statements or in the tax returns. In estimating these tax consequences consideration is given to expected future events. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance representing the amount of any tax benefits for which there is uncertainty of realisation.

Employee retirement plans
Retirement plans to which employees contribute and many non-contributory plans are generally funded by payments to independent trusts. Where, due to local conditions, a plan is not funded, a provision which is not less than the present value of accumulated pension benefits, based on present salary levels, is included in the financial statements. Valuations of both funded and unfunded plans are carried out by independent actuaries.

Pension cost primarily represents the increase in actuarial present value of the obligation for pension benefits based on employee service during the year and the interest on this obligation in respect of employee service in previous years, net of the expected return on plan assets.

Postretirement benefits other than pensions
Some Group companies provide certain postretirement health care and life insurance benefits to retirees, the entitlement to which is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the periods employees render service to the Group. These plans are not funded. A provision is included in the financial statements which is sufficient to cover the present value of the accumulated postretirement benefit obligation based on current assumptions. Valuations of these obligations are carried out by independent actuaries.

Intra-Group sales
Sales between Group companies are based on prices generally equivalent to commercially available prices.

Administrative expenses
Administrative expenses are those which do not relate directly to the activities of a single business segment and include expenses incurred in the management and co-ordination of multi-segment enterprises.

Research and development
Research and development expenditure is charged to income as incurred, with the exception of that on buildings and major items of equipment which have alternative use.

Reclassifications
Certain prior-year amounts have been reclassified to conform with current-year presentation.

3 Division of Group net income between the Parent Companies
The division of Group net income, in accordance with Note 1, is as follows:

	Total	Royal Dutch	Shell Transport £ million
1997			
Group net income	**4,736**		
less undistributed net income	**1,161**		
Net distributions to Parent Companies	**3,575**	**2,274**	**1,301**
Tax benefit referable to net distributions accruing to Shell Transport (see Note 1)	**215**	**–**	**215**
Divisible for 60:40 purposes	**3,790**	(60%) **2,274**	(40%) **1,516**
Undistributed net income	**1,161**	(60%) **697**	(40%) **464**
1996			
Group net income	5,691		
less undistributed net income	2,465		
Net distributions to Parent Companies	3,226	2,104	1,122
Tax benefit referable to net distributions accruing to Shell Transport (see Note 1)	280	–	280
Divisible for 60:40 purposes	3,506	(60%) 2,104	(40%) 1,402
Undistributed net income	2,465	(60%) 1,479	(40%) 986
1995			
Group net income	4,375		
less undistributed net income	1,214		
Net distributions to Parent Companies	3,161	2,062	1,099
Tax benefit referable to net distributions accruing to Shell Transport (see Note 1)	275	–	275
Divisible for 60:40 purposes	3,436	(60%) 2,062	(40%) 1,374
Undistributed net income	1,214	(60%) 728	(40%) 486

Notes to Financial Statements

4 Parent Companies' interest in Group net assets

	1997	1996	1995 £ million
Invested by Parent Companies	**447**	447	447
Profits capitalised by Group companies	**1,965**	1,963	1,958
Cumulative currency translation differences	**(601)**	1,285	4,543
Retained earnings of Group companies	**34,641**	33,482	31,022
Balance at December 31	**36,452**	37,177	37,970

Earnings retained by the subsidiary and associated companies of the Group Holding Companies (namely Shell Petroleum N.V., The Shell Petroleum Company Limited and Shell Petroleum Inc.) amounted to £17,752 million at December 31, 1997 (1996: £18,693 million; 1995: £15,844 million). Provision has not been made for taxes on possible future distribution of these undistributed earnings as these earnings have been, or will be, substantially reinvested by the companies concerned. It is not, therefore, meaningful to provide for these taxes nor is it practicable to estimate their full amount or the withholding tax element.

5 Associated companies

(a) Income

Associated companies engage in similar businesses to Group companies and play an important part in the overall operating activities of the Group. Consequently, the Group share of operating profits arising from associated companies is seen as a contribution to the total Group operating profit and is shown as such in the Statement of Income. The Group share of interest income, interest expense, currency exchange gains/losses and taxation of associated companies has been included within those items in the Statement of Income.

A summarised Statement of Income, together with a segment analysis, with respect to Group share of net income from associated companies, is set out below:

	1997	1996	1995 £ million
Income			
Net proceeds	**14,098**	14,423	14,980
Cost of sales	**11,742**	11,793	12,513
Gross profit	**2,356**	2,630	2,467
Other operating expenses	**1,054**	1,396	1,266
Operating profit	**1,302**	1,234	1,201
Interest and other income	**30**	37	42
Interest expense	**139**	145	187
Currency exchange gains/(losses)	**(5)**	14	7
Income before taxation	**1,188**	1,140	1,063
Taxation	**436**	492	456
Net income for the year	**752**	648	607
Income by segment			
Oil and gas:			
Exploration and Production	**307**	186	108
Refining and Marketing	**401**	403	342
Chemicals	**131**	140	266
Other	**(87)**	(81)	(109)
	752	648	607

(b) Investments

	Shares	Loans	Total 1997	Total 1996 £ million
At January 1	**4,679**	**539**	**5,218**	5,368
New investments	**817**	**235**	**1,052**	492
Disposals and other movements[1]	**2,132**	**(30)**	**2,102**	(86)
Net income	**752**	**–**	**752**	648
Dividends	**(671)**	**–**	**(671)**	(584)
Currency translation differences	**(515)**	**(70)**	**(585)**	(620)
At December 31	**7,194**	**674**	**7,868**	5,218

[1]Other movements include non-cash movements such as asset transfers to associates; see also Notes 9, 17 and 22.

A summarised Statement of Assets and Liabilities, together with a segment analysis, with respect to Group share of investments in associated companies, is set out below:

	1997	1996 £ million
Assets/Liabilities		
Fixed assets	**10,306**	8,275
Current assets	**3,301**	3,147
Total assets	**13,607**	11,422
Current liabilities	**3,266**	3,123
Long-term liabilities	**2,473**	3,081
Net assets	**7,868**	5,218

Investments by segment		
Oil and gas:		
Exploration and Production	**3,738**	1,209
Refining and Marketing	**2,555**	2,482
Chemicals	**1,429**	1,372
Other	**146**	155
	7,868	5,218

(c) Transactions between Group companies and associated companies
Transactions between Group and associated companies mainly comprise sales and purchases of goods and services in the ordinary course of business and in total amounted to:

	1997	1996	1995 £ million
Charges to associated companies	**7,356**	7,679	5,084
Charges from associated companies	**2,747**	2,518	1,931

Balances outstanding at December 31 in respect of the above transactions are shown in Notes 11 and 15.

6 Interest and other income

	1997	1996	1995 £ million
Group companies			
Interest income	**493**	486	579
Other income	**34**	72	60
	527	558	639
Associated companies	**30**	37	42
	557	595	681

Other income of Group companies in 1997 includes net unrealised holding losses on trading securities of £3 million (1996: £20 million losses; 1995: £38 million gains).

7 Interest expense

	1997	1996	1995 £ million
Interest incurred	**628**	665	757
less interest capitalised	**53**	142	165
Interest expense of Group companies	**575**	523	592
Interest expense of associated companies	**139**	145	187
	714	668	779

8 Taxation

(a) Taxation charge for the year

	1997	1996	1995 £ million
Current tax charge	**3,829**	3,895	3,319
Deferred tax charge/(credit)	**270**	618	(290)
Taxation charge of Group companies	**4,099**	4,513	3,029
Taxation charge of associated companies	**436**	492	456
	4,535	5,005	3,485

Reconciliations of the expected tax charge of Group companies to the actual tax charge are as follows:

	1997	1996	1995 £ million
Expected tax charge at statutory rates	**4,229**	4,578	3,170
Adjustments of valuation allowance	**(5)**	(7)	(78)
Adjustments in respect of prior years	**(53)**	(228)	(110)
Other	**(72)**	170	47
Taxation charge of Group companies	**4,099**	4,513	3,029

The taxation charge of Group companies includes not only income taxes of general application but also income taxes at special rates levied on income from oil and gas producing activities and various additional income and other taxes to which these activities are subject.

Notes to Financial Statements

8 Taxation (continued)

(b) Taxes payable

	1997	1996 £ million
Taxes on activities of Group companies	**1,185**	1,901
Sales taxes, excise duties and similar levies and social law taxes	**1,679**	1,641
	2,864	3,542

(c) Provision for deferred taxation

The provision for deferred taxation comprises the following tax effects of temporary differences:

	1997	1996 £ million
Tangible fixed assets	**7,175**	7,387
Other items	**1,087**	994
Total deferred tax liabilities	**8,262**	8,381
Tax losses carried forward	**(1,376)**	(1,692)
Provisions		
Pensions and similar obligations	**(490)**	(516)
Decommissioning and restoration costs	**(682)**	(640)
Environmental and other provisions	**(258)**	(271)
Other items	**(1,575)**	(1,486)
Total deferred tax assets	**(4,381)**	(4,605)
Asset valuation allowance	**1,479**	1,469
Net deferred tax assets	**(2,902)**	(3,136)
Net deferred tax liability	**5,360**	5,245

The Group has tax losses carried forward amounting to £3,638 million at December 31, 1997. Of these, £918 million can be carried forward indefinitely. The remaining £2,720 million expires in the following years:

	£ million		£ million
1998	243	2001	49
1999	487	2002–2006	1,113
2000	83	2007–2012	745

9 Tangible fixed assets by industry segment

Tangible fixed assets are classified, consistent with oil and gas industry practice, according to operating activities. Such a classification, rather than one according to type of asset, is given in order to permit a better comparison with other companies having similar activities.

	Oil and gas: Exploration and Production	Oil and gas: Refining and Marketing	Chemicals	Other industry segments	Total Group 1997	Total Group 1996 £ million
Cost						
At January 1	**40,608**	**31,298**	**11,524**	**1,670**	**85,100**	88,811
Capital expenditure	**3,493**	**2,353**	**1,467**[1]	**161**	**7,474**	7,039
Sales, retirements and other movements	**(6,450)**[2]	**11**	**(1,088)**	**(420)**	**(7,947)**	(2,377)
Currency translation effects	**(1,367)**	**(2,781)**	**(246)**	**(108)**	**(4,502)**	(8,373)
At December 31	**36,284**	**30,881**	**11,657**	**1,303**	**80,125**	85,100
Depreciation						
At January 1	**22,612**	**14,632**	**5,100**	**673**	**43,017**	44,088
Depreciation, depletion and amortisation charge for the year	**2,236**	**1,616**	**562**	**87**	**4,501**	4,974
Sales, retirements and other movements	**(3,809)**[2]	**(276)**	**(240)**	**(223)**	**(4,548)**	(1,693)
Currency translation effects	**(889)**	**(1,284)**	**(212)**	**(40)**	**(2,425)**	(4,352)
At December 31	**20,150**	**14,688**	**5,210**	**497**	**40,545**	43,017
Net 1997	**16,134**	**16,193**	**6,447**	**806**	**39,580**	
1996	17,996	16,666	6,424	997		42,083

[1] 1997 includes goodwill arising from the purchase of the remaining 50% interest in Montell.
[2] Includes transfers to associated companies.

At December 31, 1997, goodwill, related to Group companies, with a carrying amount of £956 million (1996: £105 million) is included in tangible fixed assets and is amortised over its estimated useful economic life, mainly 20 years.

The net tangible fixed assets balances at December 31 include:

	1997	1996 £ million
Capitalised costs in respect of assets not yet used in operations		
Unproved properties	**1,319**	1,158
Proved properties under development and other tangible fixed assets in the course of construction	**3,214**	4,650
	4,533	5,808

Depreciation, depletion and amortisation charges for the year in the table on the previous page are included within the following expense headings in the Statement of Income.

	1997	1996	1995 £ million
Cost of sales	**3,408**	3,858	4,211
Selling and distribution expenses	**834**	695	767
Administrative expenses	**79**	49	74
Exploration	**8**	14	19
Research and development	**58**	61	70
Included within the Statement of Income	**4,387**	4,677	5,141
Profit/(Losses) on disposals	**114**	297	(37)
	4,501	4,974	5,104

1997 includes £22 million (1996: £113 million; 1995: £486 million) relating to the impairment of tangible fixed assets.

10 Inventories

	1997	1996 £ million
Inventories of oil, chemicals and coal	**3,980**	4,290
Inventories of materials	**553**	559
	4,533	4,849

Of the total inventories, £825 million at December 31, 1997 (1996: £556 million) wholly in North America are valued by the LIFO method. The excess of FIFO cost over the carrying amount of such LIFO inventories was £379 million at December 31, 1997 (1996: £607 million).

11 Accounts receivable

	1997	1996 £ million
Trade receivables	**6,197**	7,133
Amounts owed by associated companies	**944**	929
Other receivables	**2,490**	2,499
Amounts due from Shell Transport in respect of UK advance corporation tax	**127**	122
Deferred charges and prepayments	**2,773**	2,638
	12,531	13,321

Provisions for doubtful items deducted from accounts receivable amounted to £75 million at December 31, 1997 (1996: £124 million). Amounts of £668 million at December 31, 1997 (1996: £716 million) included under Other receivables and £2,270 million (1996: £2,074 million) included under Deferred charges and prepayments are due after more than one year.

12 Investments – securities and short-term securities

(a) Investments – securities

Investments – securities mainly includes a portfolio of equity and debt securities required to be held long-term by the Group insurance companies as security for their insurance activities. These securities are classified as available for sale. Of these, £384 million at December 31, 1997 are debt securities, the maturities of the greater part of which exceed five years.

(b) Short-term securities (including those classified as cash equivalents)

The total carrying amount of short-term securities, including those classified as cash equivalents, is £882 million at December 31, 1997, (1996: £4,798 million). Of these, £321 million are of a trading nature (1996: £4,046 million). The remaining securities, which are classified as available for sale, include £266 million of debt securities.

Short-term securities at December 31, 1997 include £573 million (1996: £4,200 million) which are listed on recognised stock exchanges.

Notes to Financial Statements

13 Debt

(a) Short-term debt

	1997	1996 £ million
Debentures and other loans	**838**	737
Amounts due to banks and other credit institutions (including long-term debt due within one year)	**2,033**	2,593
	2,871	3,330
Capitalised lease obligations	**23**	27
Short-term debt	**2,894**	3,357
less long-term debt due within one year	**988**	1,268
Short-term debt excluding long-term debt due within one year	**1,906**	2,089

The following relates only to short-term debt excluding long-term debt due within one year:

	1997	1996 £ million
Maximum amount outstanding at the end of any quarter	**2,772**	3,227
Average amount outstanding	**2,331**	2,833
Amounts due to banks and other credit institutions	**1,706**	1,688
Unused lines of short-term credit	**4,923**	4,393
Approximate average interest rate on:		
average amount outstanding	**7.0%**	6.4%
amount outstanding at year end	**8.0%**	6.9%

(b) Long-term debt

	1997	1996 £ million
Debentures and other loans	**799**	991
Amounts due to banks and other credit institutions	**2,547**	2,435
	3,346	3,426
Capitalised lease obligations	**162**	188
Long-term debt	**3,508**	3,614
add long-term debt due within one year	**988**	1,268
Long-term debt including long-term debt due within one year	**4,496**	4,882

Pledges of assets have been given, mainly in respect of bank loans, to the extent of £951 million at December 31, 1997 (1996: £879 million).

Unused lines of long-term credit amounted to £1,626 million at December 31, 1997 (1996: £673 million).

The remainder of this note relates to long-term debt including the short-term part but excluding capitalised lease obligations.

Long-term debt denominated in US dollars amounted to £3,308 million at December 31, 1997 (1996: £3,344 million). The weighted average interest rate in 1997 was 6.6% for US dollar debt and 6.8% for total debt.

The aggregate maturities of long-term debts are:

	£ million		£ million
1998	965	2002	796
1999	513	2003–2007	1,135
2000	311	2008–2017	16
2001	394	2018 and after	181

14 Commitments

(a) Leasing arrangements

The future minimum lease payments under operating leases and capital leases, and the present value of net minimum capital lease payments at December 31, 1997 were as follows:

	Operating leases	Capital leases £ million
1998	846	32
1999	585	30
2000	452	24
2001	378	20
2002	350	17
2003 and after	1,339	115
Total minimum payments	3,950	238
less executory costs and interest		53
Present value of net minimum capital lease payments		185

In general, the above future minimum operating lease payments are calculated on a time basis. The figures represent minimum commitments existing at December 31, 1997 and are not a forecast of future total rental expense.

Total rental expense for all operating leases was as follows:

	1997	1996	1995 £ million
Minimum rentals	**994**	1,208	1,093
Contingent rentals	**106**	113	136
Sub-lease rentals	**(142)**	(152)	(145)
	958	1,169	1,084

(b) Long-term purchase obligations

Group companies have unconditional long-term purchase obligations associated with financing arrangements. The aggregate amount of payments required under such obligations at December 31, 1997 is as follows:

	£ million
1998	89
1999	81
2000	73
2001	68
2002	64
2003 and after	154
	529

The agreements under which these unconditional purchase obligations arise relate mainly to the purchase of utilities and of chemicals feedstock, and to the transportation of crude oil and natural gas by pipeline.

Actual payments under these agreements, which include additional sums paid depending upon actual quantities of supplies, amounted to £91 million in 1997 (1996: £102 million).

15 Accounts payable and accrued liabilities

	1997	1996 £ million
Trade payables	**4,860**	5,432
Amounts due to associated companies	**715**	483
Pensions and similar obligations	**108**	162
Other payables	**1,687**	2,075
Accruals and deferred income	**2,736**	2,713
	10,106	10,865

16 Long-term liabilities – Other

These amounts are mainly in respect of environmental and redundancy liabilities, deposits and deferred credits. They include £271 million at December 31, 1997 (1996: £300 million) which do not fall due until more than five years after the respective balance sheet dates.

17 Statement of Cash Flows

This statement reflects the cash flows arising from the activities of Group companies as measured in their own currencies translated to sterling at quarterly average rates of exchange.

Accordingly, the cash flows recorded in the Statement of Cash Flows exclude both the currency translation differences which arise as a result of translating the assets and liabilities of non-sterling Group companies to sterling at year-end rates of exchange (except for those arising on cash and cash equivalents) and non-cash investing and financing activities. These currency translation differences and non-cash investing and financing activities must therefore be added to the cash flow movements at average rates in order to arrive at the movements derived from the Statement of Assets and Liabilities.

	Movements arising from currency translation	Movements from Statement of Cash Flows	Major non-cash movements	Movements derived from Statement of Assets and Liabilities £ million
1997				
Tangible fixed assets	**(2,077)**	**2,453**	**(2,879)**	**(2,503)**
Deferred taxation and other provisions	**321**	**258**	**127**	**706**
Inventories	**(409)**	**89**	**4**	**(316)**
Accounts receivable	**(593)**	**(84)**	**(113)**	**(790)**
Accounts payable and accrued liabilities	**590**	**102**	**67**	**759**
Taxes payable	**299**	**379**	**–**	**678**
Long-term debt	**326**	**(113)**	**(107)**	**106**
Short-term part of long-term debt	**11**	**269**	**–**	**280**
Short-term debt	**252**	**(94)**	**25**	**183**
Cash and cash equivalents	**(177)**	**(1,756)**	**–**	**(1,933)**
Short-term securities	**(31)**	**(2,195)**	**–**	**(2,226)**
Investments – associates	**(585)**	**765**	**2,470**	**2,650**
Other	**187**	**1,088**	**406**	**1,681**
	(1,886)	**1,161**	**–**	**(725)**

The main non-cash movements relate to the contribution of fixed assets to newly-formed associated companies.

Notes to Financial Statements

18 Employee emoluments and numbers

(a) Emoluments

	1997	1996	1995 £ million
Remuneration	**3,366**	3,562	3,457
Social law taxes	**312**	336	334
Pensions and similar obligations (Notes 19 and 20)	**50**	131	164
	3,728	4,029	3,955

(b) Average numbers

	1997	1996	1995 thousands
Oil and gas:			
Exploration and Production	**17**	18	17
Refining and Marketing	**62**	58	57
Chemicals	**21**	23	21
Other industry segments, including Corporate	**5**	5	11
	105	104	106

19 Employee retirement plans

Retirement plans are provided for permanent employees of all major Group companies. The nature of such plans varies according to the legal and fiscal requirements and economic conditions of the country in which the employees are engaged. Generally the plans provide defined benefits based on employees' years of service and average final remuneration.

Pension cost for the year represents:

	1997	1996	1995 £ million
Increase in present value of the obligation for pension benefits based on employee service during the year	**405**	394	413
Interest on the obligation for pension benefits in respect of employee service in previous years	**1,159**	1,257	1,312
Actual return on plan assets	**(3,782)**	(2,941)	(2,705)
Difference between the actual and expected return on plan assets	**2,212**	1,332	1,043
Net total of other components	**(54)**	(34)	–
Cost of defined benefit plans	**(60)**	8	63
Payments to defined contribution plans	**72**	72	74
Pension cost for the year	**12**	80	137

During 1997 two previously unfunded pension plans were funded, but to an extent that was less than the accumulated pension obligations.

The status of the funded employee retirement plans is as follows:

	1997 Assets exceed accumulated benefits	1997 Accumulated benefits exceed assets	1996 Assets exceed accumulated benefits £ million
Present value of pension benefits based on present salary levels	**14,975**	**1,297**	14,048
Present value of the effect of estimated projected remuneration growth	**2,015**	**154**	1,621
Obligation for pension benefits based on employee service to date	**16,990**	**1,451**	15,669
Plan assets held in trusts at fair value	**22,277**	**881**	20,170
Plan assets in excess of/(less than) the present value of obligation for pension benefits	**5,287**	**(570)**	4,501
Consisting of:			
Unrecognised net gains/(losses) remaining from the adoption of current method of determining pension costs	**233**	**(32)**	287
Unrecognised net gains/ (losses) since adoption	**3,850**	**(139)**	3,218
Unrecognised prior service cost	**(190)**	**57**	(225)
Adjustment required to recognise minimum liability	**–**	**139**	–
Prepaid pension costs/(pension liabilities)	**1,394**	**(595)**	1,221

Vested benefits included in the present value of pension benefits based on present salary levels are £15,731 million at December 31, 1997 (1996: £13,592 million). Prepaid pension costs and pension liabilities are included in the Statement of Assets and Liabilities. Prepaid pension costs/(pension liabilities) represents the surplus/(deficit) of accumulated contributions in relation to cumulative pension costs.

Plan assets principally comprise marketable securities and property holdings.

Discount rates, projected rates of remuneration growth and expected rates of return on plan assets vary for the different plans as they are determined in the light of local conditions. The weighted averages applicable for the principal pension plans in the Group for 1997 and 1996 are:

	1997	1996
Discount rate	**6.4%**	7.1%
Projected rate of remuneration growth	**4.6%**	4.9%
Expected rate of return on plan assets	**8.1%**	8.3%

The obligation for pension benefits at December 31, 1997 in respect of unfunded plans was £380 million (1996: £1,981 million) of which £358 million (1996: £1,807 million) related to vested benefits. The excess of the obligation for pension benefits over the provision for pension obligations at December 31, 1997 was £19 million (1996: £129 million) and will be recognised in future pension expense.

20 Postretirement benefits other than pensions

Some Group companies have established unfunded defined benefit plans to provide certain postretirement health care and life insurance benefits to their retirees, the entitlement to which is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period.

Changes in accumulated postretirement benefit obligation are as follows:

	USA	Other	Total 1997	USA	Other	Total 1996 £ million
Provision for postretirement benefit obligation at January 1	**600**	**178**	**778**	655	202	857
Postretirement benefit cost for the year	**24**	**14**	**38**	30	21	51
Benefit payments made during the year	**(25)**	**(11)**	**(36)**	(27)	(12)	(39)
Currency translation effects/other movements	**14**	**(18)**	**(4)**	(58)	(33)	(91)
Provision for postretirement benefit obligation at December 31	**613**	**163**	**776**	600	178	778

Provision for postretirement benefit obligation

	USA	Other	Total 1997	USA	Other	Total 1996 £ million
Accumulated postretirement benefit obligation						
Retirees	**277**	**111**	**388**	266	158	424
Fully eligible participants	**42**	**31**	**73**	37	61	98
Other active participants	**225**	**10**	**235**	177	9	186
Status of plans	**544**	**152**	**696**	480	228	708
Unrecognised prior service (cost)/credit	**9**	**(2)**	**7**	10	(2)	8
Unrecognised net gain/(loss)	**60**	**13**	**73**	110	(48)	62
Provision for postretirement benefit obligation at December 31	**613**	**163**	**776**	600	178	778

Assumptions used in calculating the accumulated postretirement benefit obligation

	USA	Other 1997	USA	Other 1996
Average discount rate	**7.0%**	**6.5%**	7.5%	6.8%
Health care cost trend rate in reporting year	**7.5%**	**1.9%**	8.5%	3.7%
Health care cost trend rate in year after reporting year	**7.0%**	**1.9%**	7.5%	3.6%
Ultimate health care cost trend rate	**5.0%**	**1.3%**	5.0%	3.2%
Year ultimate health care cost trend rate is applicable	**2002**	**2002**	2002	2002

Cost-sharing assumptions changed in several companies outside the USA during 1997.

The effect of a one percentage point increase in the annual rate of increase in the assumed health care cost trend rates would be to increase annual postretirement benefit cost by approximately £9 million and the accumulated postretirement benefit obligation by approximately £93 million.

Notes to Financial Statements

21 Information by geographical area and by industry segment

(a) Geographical area

£ million	Excluding inter-area	Inter-area	Net proceeds Total	Earnings from operations	Identifiable assets
1997					
Europe	**36,005**	**3,442**	**39,447**	**1,972**	**24,167**
Other Eastern Hemisphere	**14,678**	**3,476**	**18,154**	**1,586**	**15,733**
USA	**17,426**	**354**	**17,780**	**1,186**	**17,759**
Other Western Hemisphere	**10,115**	**232**	**10,347**	**599**	**6,590**
Elimination of inter-area proceeds/unallocated	**–**	**(7,504)**	**(7,504)**	**(2)**	**11**
Total Group	**78,224**	**–**	**78,224**	**5,341**	**64,260**

£ million	Excluding inter-area	Inter-area	Net proceeds Total	Earnings from operations	Identifiable assets
1996					
Europe	38,681	3,551	42,232	2,290	24,831
Other Eastern Hemisphere	15,039	3,770	18,809	1,980	17,406
USA	18,576	425	19,001	1,212	16,625
Other Western Hemisphere	9,783	268	10,051	577	5,920
Elimination of inter-area proceeds/unallocated	–	(8,014)	(8,014)	(4)	71
Total Group	82,079	–	82,079	6,055	64,853

(b) Industry segment

£ million	Total Group	Oil and gas: Exploration and Production	Oil and gas: Refining and Marketing	Chemicals	Other industry segments
1997					
Sales: third parties	**78,224**	**6,559**	**62,452**	**8,702**	**511**
inter-segment		**7,215**	**1,868**	**565**	**–**
Net proceeds	**78,224**	**13,774**	**64,320**	**9,267**	**511**
Earnings from operations before taxation:					
Group companies[1]	**8,663**	**5,920**	**1,796**	**847**	**99**
Group share of associated companies	**1,302**	**541**	**586**	**170**	**5**
	9,965	**6,461**	**2,382**	**1,017**	**104**
Taxation	**4,624**	**3,547**	**782**	**284**	**10**
Earnings from operations	**5,341**	**2,914**	**1,600**	**733**	**94**
Corporate items[2]	**(578)**				
Income applicable to minority interests	**27**				
Net income for the year	**4,736**				
Identifiable assets	**64,260**	**22,633**	**29,840**	**10,876**	**911**
Corporate assets	**4,887**				
Total fixed and current assets	**69,147**				

£ million	Total Group	Oil and gas: Exploration and Production	Oil and gas: Refining and Marketing	Chemicals	Other industry segments
1996					
Sales: third parties	82,079	7,022	65,558	8,978	521
inter-segment		8,385	1,828	553	–
Net proceeds	82,079	15,407	67,386	9,531	521
Earnings from operations before taxation:					
Group companies[1]	9,882	6,605	2,354	922	1
Group share of associated companies	1,234	506	563	167	(2)
	11,116	7,111	2,917	1,089	(1)
Taxation	5,061	3,866	881	327	(13)
Earnings from operations	6,055	3,245	2,036	762	12
Corporate items[2]	(193)				
Income applicable to minority interests	171				
Net income for the year	5,691				
Identifiable assets	64,853	22,158	30,941	10,588	1,166
Corporate assets	8,394				
Total fixed and current assets	73,247				

	Excluding inter-area	Inter-area	Net proceeds Total	Earnings from operations	Identifiable assets £ million
1995					
Europe	32,704	2,539	35,243	1,807	24,500
Other Eastern Hemisphere	13,197	2,984	16,181	1,401	17,931
USA	15,372	433	15,805	846	16,580
Other Western Hemisphere	8,322	299	8,621	551	5,992
Elimination of inter-area proceeds/unallocated	–	(6,255)	(6,255)	(19)	279
Total Group	69,595	–	69,595	4,586	65,282

	Total Group	Oil and gas: Exploration and Production	Oil and gas: Refining and Marketing	Chemicals	Other industry segments £ million
1995					
Sales: third parties	69,595	5,493	54,135	9,239	728
inter-segment		6,761	1,443	280	–
Net proceeds	69,595	12,254	55,578	9,519	728
Earnings from operations before taxation:					
Group companies[1]	6,957	3,797	1,772	1,303	85
Group share of associated companies	1,201	284	576	335	6
	8,158	4,081	2,348	1,638	91
Taxation	3,572	2,215	831	546	(20)
Earnings from operations	4,586	1,866	1,517	1,092	111
Corporate items[2]	(95)				
Income applicable to minority interests	116				
Net income for the year	4,375				
Identifiable assets	65,282	22,271	30,586	11,233	1,192
Corporate assets	10,683				
Total fixed and current assets	75,965				

[1]Excludes certain items included in Corporate which form part of Operating profit in the Statement of Income and includes certain currency exchange gains/losses which are allocated to the appropriate segment.

[2]Corporate includes currency exchange losses of £253 million in 1997 (1996: losses of £59 million; 1995: gains of £163 million).

Notes to Financial Statements

22 Oil and gas exploration and producing activities

(a) Capitalised costs

The aggregate amount of tangible fixed assets of Group companies relating to oil and gas exploration and producing activities and the aggregate amount of the related depreciation, depletion and amortisation at December 31 are shown in the table below:

	1997	1996	1995 £ million
Cost			
Proved properties	**33,698**	38,001	39,525
Unproved properties	**1,546**	1,357	1,222
Support equipment and facilities	**1,040**	1,250	1,170
	36,284	40,608	41,917
Depreciation			
Proved properties	**19,500**	21,672	21,797
Unproved properties	**142**	220	210
Support equipment and facilities	**508**	720	709
	20,150	22,612	22,716
Net capitalised costs	**16,134**	17,996	19,201

Group share of associated companies' capitalised costs:
The Group share of net capitalised costs was £3,735 million at December 31, 1997 (1996: £1,542 million; 1995: £1,251 million).

(b) Costs incurred

Costs incurred by Group companies during the year in oil and gas property acquisition, exploration and development activities, whether capitalised or charged to income currently, are shown in the table below. Development costs exclude costs of acquiring support equipment and facilities, but include depreciation thereon.

	Eastern Hemisphere		Western Hemisphere		
	Europe	Other	USA	Other	Total £ million
1997					
Acquisition of properties					
Proved	**–**	**196**	**4**	**175**	**375**
Unproved	**3**	**56**	**105**	**27**	**191**
Exploration	**219**	**290**	**390**	**85**	**984**
Development	**1,057**	**607**	**783**	**134**	**2,581**
1996					
Acquisition of properties					
Proved	–	11	111	135	257
Unproved	3	14	90	19	126
Exploration	232	273	380	63	948
Development	1,208	394	737	91	2,430
1995					
Acquisition of properties					
Proved	–	1	9	122	132
Unproved	7	–	39	10	56
Exploration	204	240	280	52	776
Development	1,148	554	661	95	2,458

Group share of associated companies' costs incurred:
The Group share of costs incurred was £222 million in 1997 (1996: £260 million; 1995: £233 million).

(c) Earnings

Earnings of Group companies from exploration and producing activities are given in the table below. Certain purchases of traded product are netted into sales.

	Eastern Hemisphere		Western Hemisphere		
	Europe	Other	USA	Other	Total £ million
1997					
Sales: third parties	**3,065**	**831**	**958**	**571**	**5,425**
intra-group	**1,459**	**4,035**	**1,400**	**260**	**7,154**
Net proceeds	**4,524**	**4,866**	**2,358**	**831**	**12,579**
Production costs[1]	**985**	**1,487**	**560**	**204**	**3,236**
Exploration expense	**196**	**236**	**205**	**67**	**704**
Depreciation, depletion and amortisation	**801**	**536**	**645**	**180**	**2,162**
Other income/(costs)	**(192)**	**(74)**	**(159)**	**(132)**	**(557)**
Earnings before taxation	**2,350**	**2,533**	**789**	**248**	**5,920**
Taxation	**1,132**	**1,729**	**322**	**130**	**3,313**
Earnings from operations	**1,218**	**804**	**467**	**118**	**2,607**
1996					
Sales: third parties	3,372	904	1,064	624	5,964
intra-group	1,499	4,492	1,864	350	8,205
Net proceeds	4,871	5,396	2,928	974	14,169
Production costs[1]	1,167	1,735	734	218	3,854
Exploration expense	241	224	195	53	713
Depreciation, depletion and amortisation	785	768	802	180	2,535
Other income/(costs)	(55)	(13)	(209)	(184)	(461)
Earnings before taxation	2,623	2,656	988	339	6,606
Taxation	1,250	1,824	320	153	3,547
Earnings from operations	1,373	832	668	186	3,059
1995					
Sales: third parties	2,877	772	683	507	4,839
intra-group	1,264	3,691	1,491	315	6,761
Net proceeds	4,141	4,463	2,174	822	11,600
Production costs[1]	1,252	1,733	698	253	3,936
Exploration expense	165	212	135	41	553
Depreciation, depletion and amortisation	793	750	911	205	2,659
Other income/(costs)	(113)	(224)	(154)	(164)	(655)
Earnings before taxation	1,818	1,544	276	159	3,797
Taxation	765	1,149	56	69	2,039
Earnings from operations	1,053	395	220	90	1,758

[1] Includes certain royalties paid in cash amounting to £761 million in 1997 (1996: £868 million; 1995: £714 million).

Group share of associated companies' earnings:
The Group share of associated companies' earnings was £307 million in 1997 (1996: £186 million; 1995: £108 million) after deducting taxation of £234 million in 1997 (1996: £320 million; 1995: £176 million).

In the USA comparative data between 1997 and the previous years have been affected by the new alliances Altura and Aera, which began operations in March and June 1997 respectively and are accounted for as associated companies.

23 Stock options and Parent Companies' shares held by Group companies

Certain Group companies have outstanding stock options granted to executives and other key employees of those and other Group companies. The options are granted, according to the particular option plan, for periods of not more than five or ten years at prices not less than the market value at the date of granting the option.

The Senior Executive Stock Option Scheme has been in operation for 30 years providing stock options to the most senior executives of the Group from time to time. Beginning in 1995, options were granted to a larger group of over 900 managers. This enlargement of an otherwise unchanged scheme was part of a move to performance-related pay for the wider management cadre of the Group which, by aligning remuneration with shareholder interest, is intended to support the drive for improved business performance.

The following table shows, in respect of these plans, the options exercised and options granted during the year, and the number of shares under option at December 31, 1997. The share data given below take into account the 1997 stock splits by Royal Dutch and by Shell Canada and the capitalisation issue by Shell Transport.

	Exercised	Granted	Under option
Royal Dutch ordinary shares	1,426,680	2,352,320	5,213,940
Shell Transport ordinary shares	7,090,420	11,323,598	30,110,218
Shell Canada common shares	595,795	268,200	970,469†

†Unissued

In connection with certain of these plans 5,212,340 shares of Royal Dutch and 30,110,218 shares of Shell Transport were held at December 31, 1997 at an aggregate cost of £233 million.

In addition, 33,600 shares of Royal Dutch were held by Group companies.

The Shell Petroleum Company Limited operates a savings-related share option scheme, under which options are granted over shares of Shell Transport at prices not less than the market value on a date not more than 30 days before the date of the grant of option and are normally exercisable after completion of a three or five year contractual savings period. At December 31, 1997 options were outstanding over an aggregate of 31,987,211 shares of Shell Transport and 24,754,517 shares to back these options have been purchased by a Group company at a cost of £62 million. During 1997, options over 10,853,723 shares were exercised and options over 5,698,262 shares granted.

24 Contingencies and litigation

Two production joint ventures, in which the Group has an interest and which are based in the Netherlands and in Germany respectively, have co-operated to extract gas on an equal basis from a common border area. In the process of the final redetermination of gas reserves in the common area it emerged that the German joint venture has in good faith received considerable quantities of gas in excess of its entitlement. In 1991 the two joint ventures reached an agreement on the quantification of the excess, and this was subsequently approved by the respective governments. Due to differences of opinion between the parties involved relating to compensation in respect of the over-delivery, arbitration proceedings were commenced and are on-going in Zurich under the rules of the International Chamber of Commerce with respect to that issue.

Apart from the issue subject to arbitration proceedings, there are other substantive issues which remain outstanding: in particular, the recovery of royalties paid in respect of the over-delivery and governmental levies on any compensation.

Since the ultimate Group interest in the ventures and the tax regimes applicable to them are different, this over-delivery could lead to a net cost to the Group. In 1996 an interim award was made by the arbitrators. During the year there were no developments which resulted in any changes to the provisions already made in respect of this matter. However, at this time, the ultimate cost cannot be established with reasonable certainty.

Group companies are subject to a number of other loss contingencies arising out of litigation and claims brought by governmental and private parties, including product liability claims against Shell Oil involving the failure of plumbing systems constructed with polybutylene plastic pipe.

Certain other contingent liabilities of Group companies, arising mainly from guarantees for customs duties and third party indebtedness, amounted to £929 million at December 31, 1997 (1996: £953 million).

In the judgement of the Directors of the Group Holding Companies no losses, in excess of provisions made, which are material in relation to the Group financial position are likely to arise in respect of the foregoing matters, although their occurrence may have a significant effect on periodic results.

The operations and earnings of Group companies continue, from time to time, to be affected to varying degrees by political, legislative, fiscal and regulatory developments, including those relating to environmental protection, in the countries in which they operate. The industries in which Group companies are engaged are also subject to physical risks of various types. The nature and frequency of these developments and events, not all of which are covered by insurance, as well as their effect on future operations and earnings, are unpredictable.

Notes to Financial Statements

25 Financial instruments

Group companies, in the normal course of business, use various types of financial instruments which expose the Group to market or credit risk. These include those recognised in the Statement of Assets and Liabilities ('on-balance sheet') and derivative financial instruments. To the extent that financial instruments are used to manage exposures, estimated fair values of these instruments will offset, and be recognised concurrently with, gains and losses associated with the underlying transactions.

Group companies have procedures and policies in place to limit the amount of credit exposure to any counterparty or market. These procedures and the broad geographical spread of Group companies' activities limit the Group's exposure to concentrations of credit or market risk.

In the event of a counterparty defaulting on payments due to Group companies the resulting losses, if any, would be limited to the fair values of the instruments on which the default occurred. The contract/notional amounts of the financial instruments outstanding give an indication of the extent that these financial instruments are used but not of the exposure to credit or market risk.

Additional data related to derivatives and risk disclosures, required by the United States Securities and Exchange Commission, are given in the 1997 Annual Report on Form 20-F of Royal Dutch and Shell Transport. See inside back cover for details of where to obtain a copy.

(a) On-balance sheet financial instruments

Financial instruments in the Statement of Assets and Liabilities include fixed assets: investments – securities, trade receivables, short-term securities, cash and cash equivalents, short-term and long-term debt. The estimated fair values of these instruments approximate their carrying amounts.

The remainder of this note relates to derivative instruments.

(b) Interest rate risk

Some Group companies, primarily those with specialist treasury operations, use derivatives, such as interest-rate swaps/forward-rate agreements and interest rate caps, to manage their exposure to movements in interest rates and thus to help achieve target levels of interest income or expense. The financing of most Group Operating Companies is structured on a floating-rate basis and, except in special cases, further interest-rate risk management is discouraged. The effect of these derivatives is reflected, as appropriate, in interest expense or interest income.

The total contract/notional amounts and estimated fair values of Group companies' interest rate swaps/forward rate agreements and interest rate caps at December 31 are given in the table below:

	Contract/ notional amount	Estimated fair value 1997	Contract/ notional amount	Estimated fair value 1996 £ million
Interest rate swaps/forward rate agreements and interest rate caps	**3,779**	**2**	3,932	(16)

The amount of hedging gains or losses on these instruments which had been deferred at December 31, 1997 and at December 31, 1996 in respect of firm commitments was not significant.

(c) Foreign exchange risk

Foreign exchange derivatives, including forward exchange contracts and currency swaps/options, are used by some Group companies. Group companies do not trade in these derivatives, but rather use forward exchange contracts to maintain an appropriate currency balance for investments of a trading nature. Group companies also use these instruments to hedge future transactions and cash flows.

The total contract/notional amounts and estimated fair values of Group companies' forward exchange contracts and currency swaps/options at December 31 are given in the table below:

	Contract/ notional amount	Estimated fair value 1997	Contract/ notional amount	Estimated fair value 1996 £ million
Forward exchange contracts	**2,698**	**(32)**	3,458	79
Currency swaps/options	**451**	**47**	596	(1)

The amount of hedging gains or losses on these instruments which had been deferred at December 31, 1997 and at December 31, 1996 in respect of firm commitments was not significant.

(d) Commodities

Some Group companies operate as traders in crude oil and products. These companies use commodity swaps and options in the management of their price and timing risks. In addition, some other Group companies use commodity swaps and options to hedge the price and timing risks on underlying business transactions. The effects of transactions in these instruments are reflected in sales and purchase costs.

The total contract/notional amounts and estimated fair values of Group companies' commodity swaps/options at December 31 are given in the table below:

	Contract/ notional amount	Estimated fair value	Contract/ notional amount	Estimated fair value
		1997		1996 £ million
Trading purposes				
Assets	**368**	**35**	392	27
Liabilities	**378**	**(47)**	538	(33)
Not for trading purposes	**15**	**1**	219	113

The average fair values of commodity swaps/options used for trading purposes during 1997 were: assets of £19 million (1996: £31 million) and liabilities of £22 million (1996: £32 million). Trading gains of £25 million arising on commodity swaps/options were included in 1997 income (1996: losses of £7 million).

Group companies also enter into forward sales and purchase contracts for commodities which may be settled by the physical delivery or receipt of the commodity. These contracts are not included in the above amounts.

Supplementary Information – Oil and Gas

Reserves

Net quantities of proved oil and gas reserves are shown in the tables on this and the following page. Proved reserves are the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are those reserves which can be expected to be recovered through existing wells with existing equipment and operating methods. The reserves reported exclude volumes attributable to oil and gas discoveries which are not at present considered proved. Such reserves will be included when technical, fiscal and other conditions allow them to be economically developed and produced. Proved reserves are shown net of any quantities of crude oil or natural gas that are expected to be taken by others as royalties in kind but do not exclude certain quantities related to royalties expected to be paid in cash or those related to fixed margin contracts. Commencing in 1996, proved reserves include certain quantities of crude oil or natural gas which will be produced under arrangements which involve Group companies in upstream risks and rewards but do not transfer title of the product to those companies.

Oil and gas reserves cannot be measured exactly since estimation of reserves involves subjective judgement and arbitrary determinations. Therefore all estimates are subject to revision.

Crude oil and natural gas liquids

Group companies' estimated net proved reserves of crude oil and natural gas liquids at the end of the year, their share of the net proved reserves of associated companies at the end of the year, and the changes in such reserves during the year are set out below.

	Eastern Hemisphere		**Western Hemisphere**			**Eastern Hemisphere**		**Western Hemisphere**			**Eastern Hemisphere**		**Western Hemisphere**		
	Europe	Other	USA	Other	**Total 1997** million barrels	Europe	Other	USA	Other	**Total** 1996 million barrels	Europe	Other	USA	Other	**Total** 1995 million barrels
Proved developed and undeveloped reserves															
Group companies:															
Beginning of year	**1,436**	**4,887**	**2,035**	**691**	**9,049**	1,236	4,812	2,018	412	8,478	1,317	4,731	2,040	481	8,569
Revisions and reclassifications	**100**	**568**	**(35)**	**49**	**682**	207	353	(8)	255	807	65	323	(34)	47	401
Improved recovery	**30**	**26**	**1**	**–**	**57**	–	64	82	2	148	48	89	16	1	154
Extensions and discoveries	**58**	**59**	**237**	**56**	**410**	198	50	81	68	397	1	68	173	18	260
Purchases of minerals in place	**–**	**–**	**–**	**13**	**13**	–	4	43	–	47	–	7	2	–	9
Sales of minerals in place	**–**	**–**	**(28)**	**(15)**	**(43)**	(1)	–	(16)	(1)	(18)	–	(20)	(18)	(87)	(125)
Transfers to associated companies in the USA	**–**	**–**	**(1,043)**	**–**	**(1,043)**	–	–	–	–	–	–	–	–	–	–
Production	**(201)**	**(384)**	**(133)**	**(53)**	**(771)**	(204)	(396)	(165)	(45)	(810)	(195)	(386)	(161)	(48)	(790)
End of year	**1,423**	**5,156**	**1,034**	**741**	**8,354**	1,436	4,887	2,035	691	9,049	1,236	4,812	2,018	412	8,478
Associated companies – Group share:															
Beginning of year					**386**					368					376
Net additions, revisions and reclassifications					**1,020**					51					25
Production					**(79)**					(33)					(33)
End of year					**1,327**					386					368
Total					**9,681**					9,435					8,846
Proved developed reserves of Group companies															
Beginning of year	**740**	**1,899**	**1,318**	**327**	**4,284**	581	2,200	1,287	316	4,384	612	2,202	1,322	374	4,510
End of year	**794**	**1,991**	**513**	**342**	**3,640**	740	1,899	1,318	327	4,284	581	2,200	1,287	316	4,384
Minority interests' share of proved reserves of Group companies															
End of year	**–**	**67**	**–**	**85**	**152**	–	78	–	69	147	–	57	–	69	126

Natural gas

Group companies' estimated net proved reserves of natural gas at the end of the year, their share of the net proved reserves of associated companies at the end of the year, and the changes in such reserves during the year are set out below.

These quantities have not been adjusted to standard heat content.

	Eastern Hemisphere		Western Hemisphere			Eastern Hemisphere		Western Hemisphere			Eastern Hemisphere		Western Hemisphere		
	Europe	Other	USA	Other	Total 1997	Europe	Other	USA	Other	Total 1996	Europe	Other	USA	Other	Total 1995
	thousand million standard cubic feet					thousand million standard cubic feet					thousand million standard cubic feet				
Proved developed and undeveloped reserves															
Group companies:															
Beginning of year	**25,130**	**14,830**	**5,260**	**2,257**	**47,477**	24,905	9,985	5,382	2,601	42,873	25,005	10,536	5,546	2,673	43,760
Revisions and reclassifications	**357**	**1,436**	**8**	**221**	**2,022**	667	4,405	212	(224)	5,060	827	(115)	(76)	112	748
Improved recovery	**48**	**361**	**–**	**–**	**409**	–	941	6	–	947	69	28	–	39	136
Extensions and discoveries	**536**	**900**	**592**	**636**	**2,664**	876	34	594	159	1,663	114	9	731	7	861
Purchases of minerals in place	**27**	**93**	**8**	**339**	**467**	8	1	144	–	153	–	–	7	–	7
Sales of minerals in place	**–**	**(1)**	**(81)**	**(46)**	**(128)**	(3)	(1)	(420)	(39)	(463)	(9)	(4)	(182)	–	(195)
Transfers to associated companies in the USA	**–**	**–**	**(582)**	**–**	**(582)**	–	–	–	–	–	–	–	–	–	–
Production	**(1,250)**	**(483)**	**(601)**	**(230)**	**(2,564)**	(1,323)	(535)	(658)	(240)	(2,756)	(1,101)	(469)	(644)	(230)	(2,444)
End of year	**24,848**	**17,136**	**4,604**	**3,177**	**49,765**	25,130	14,830	5,260	2,257	47,477	24,905	9,985	5,382	2,601	42,873
Associated companies – Group share:															
Beginning of year					**5,550**					4,734					4,947
Net additions, revisions and reclassifications					**1,078**					1,048					17
Production					**(262)**					(232)					(230)
End of year					**6,366**					5,550					4,734
Total					**56,131**					53,027					47,607
Proved developed reserves of Group companies															
Beginning of year	**11,869**	**3,727**	**3,272**	**1,684**	**20,552**	11,024	4,367	3,464	2,027	20,882	11,038	3,479	3,646	1,936	20,099
End of year	**12,372**	**3,712**	**3,017**	**1,830**	**20,931**	11,869	3,727	3,272	1,684	20,552	11,024	4,367	3,464	2,027	20,882
Minority interests' share of proved reserves of Group companies															
End of year	**–**	**61**	**–**	**669**	**730**	–	181	–	460	641	–	–	–	528	528

Supplementary Information – Oil and Gas

Standardised measure of discounted future cash flows

United States accounting principles require the disclosure of a standardised measure of discounted future cash flows, relating to proved oil and gas reserve quantities. In order to prepare the information a number of arbitrary assumptions are prescribed about the future, despite political, technical and economic uncertainty. As a result the information so calculated does not provide a reliable measure of future cash flows from proved reserves, nor does it permit a realistic comparison to be made of one entity with another because the assumptions used cannot reflect the varying circumstances within each entity. In addition a substantial but unknown proportion of future real cash flows from oil and gas producing activities is expected to derive from reserves which have already been discovered, but which cannot yet be regarded as proved.

	Eastern Hemisphere		**Western Hemisphere**			**Eastern Hemisphere**		**Western Hemisphere**			**Eastern Hemisphere**		**Western Hemisphere**		
	Europe	Other	USA	Other	**Total 1997 £ million**	Europe	Other	USA	Other	**Total** 1996 £ million	Europe	Other	USA	Other	**Total** 1995 £ million
Future cash inflows	**52,073**	**74,723**	**16,350**	**7,354**	**150,500**	55,197	71,892	37,247	8,128	172,464	50,723	53,520	26,501	5,329	136,073
Future production and development costs	**14,607**	**21,161**	**5,756**	**3,047**	**44,571**	15,858	20,132	10,306	2,351	48,647	17,333	17,791	10,611	1,871	47,606
Future tax expenses	**16,351**	**32,386**	**3,248**	**1,768**	**53,753**	18,408	36,317	8,822	2,024	65,571	14,942	24,481	4,549	1,202	45,174
Future net cash flows	**21,115**	**21,176**	**7,346**	**2,539**	**52,176**	20,931	15,443	18,119	3,753	58,246	18,448	11,248	11,341	2,256	43,293
Effect of discounting cash flows at 10%	**9,589**	**11,639**	**2,329**	**1,289**	**24,846**	9,200	6,415	7,199	1,544	24,358	9,029	4,803	4,597	933	19,362
Standardised measure of discounted future cash flows	**11,526**	**9,537**	**5,017**	**1,250**	**27,330**	11,731	9,028	10,920	2,209	33,888	9,419	6,445	6,744	1,323	23,931
Associated companies – Group share					**3,144**					1,629					887
Minority interests	**–**	**132**	**–**	**151**	**283**	–	116	–	219	335	–	108	–	184	292

Change in standardised measure of discounted future cash flows

	1997	1996	1995 £ million
Net changes in prices and production costs	**(12,421)**	17,363	7,055
Extensions, discoveries and improved recovery	**3,173**	4,669	2,383
Purchases and sales of minerals in place	**(682)**	(145)	(602)
Movement to associated companies in the USA	**(3,143)**	–	–
Revisions of previous reserve estimates	**3,311**	5,791	1,939
Development cost related to future production	**(2,237)**	(721)	(1,388)
Sales and transfers of oil and gas, net of production costs	**(9,308)**	(10,284)	(7,640)
Development cost incurred during the year	**2,581**	2,430	2,458
Accretion of discount	**5,969**	4,185	3,553
Net change in income tax	**6,199**	(13,331)	(3,940)
Total change in standardised measure during the year	**(6,558)**	9,957	3,818

Summarised Financial Data

Income data

	1997	1996	1995	1994	1993 £ million	1997	1996	1995	1994	1993 US $ million[(6)]
Sales proceeds										
Oil and gas	**95,213**	100,149	84,957	75,769	75,203	**155,998**	156,542	134,118	116,027	112,977
Chemicals	**9,047**	9,364	9,740	7,221	6,724	**14,822**	14,609	15,385	11,069	10,102
Coal	**396**	408	393	347	380	**648**	638	620	531	570
Other	**116**	113	359	980	1,441	**189**	175	567	1,482	2,165
Gross proceeds	**104,772**	110,034	95,449	84,317	83,748	**171,657**	171,964	150,690	129,109	125,814
Sales taxes, excise duties and similar levies	**26,548**	27,955	25,854	22,388	20,398	**43,502**	43,651	40,818	34,279	30,641
Net proceeds	**78,224**	82,079	69,595	61,929	63,350	**128,155**	128,313	109,872	94,830	95,173
Earnings by industry segment										
Oil and gas: Exploration and Production	**2,914**	3,245	1,866	1,538	2,000	**4,774**	5,083	2,947	2,363	3,000
Refining and Marketing	**1,600**	2,036	1,517	2,085	1,762	**2,617**	3,166	2,398	3,193	2,648
Chemicals	**733**	762	1,092	340	(409)	**1,200**	1,186	1,731	534	(618)
Other industry segments	**94**	12	111	(98)	(48)	**155**	18	178	(139)	(71)
Earnings from operations	**5,341**	6,055	4,586	3,865	3,305	**8,746**	9,453	7,254	5,951	4,959
Corporate items	**(578)**	(193)	(95)	280	(295)	**(949)**	(300)	(150)	433	(447)
Minority interests	**(27)**	(171)	(116)	(75)	(10)	**(44)**	(267)	(185)	(117)	(15)
Net income for the year[(1)]	**4,736**	5,691	4,375	4,070	3,000	**7,753**	8,886	6,919	6,267	4,497

[(1)]If the cost of sales of the volumes sold in the period is based solely on the average cost of supplies incurred in the same period (instead of using the first-in first-out (FIFO) method of inventory accounting used by most Group companies) and allowance is made for the estimated tax effect, earnings on this estimated current cost of supplies basis would be as follows:

	1997	1996	1995	1994	1993	1997	1996	1995	1994	1993
Oil and gas: Refining and Marketing	**1,836**	1,648	1,448	2,010	1,989	**3,003**	2,554	2,292	3,082	2,989
Minority interests	**(36)**	(171)	(116)	(75)	(10)	**(58)**	(267)	(185)	(117)	(15)
Earnings on an estimated current cost of supplies basis	**4,963**	5,303	4,306	3,995	3,227	**8,125**	8,274	6,813	6,156	4,838

Assets and liabilities data (at year end)

	1997	1996	1995	1994	1993	1997	1996	1995	1994	1993
Total fixed and current assets	**69,147**	73,247	75,965	69,135	67,453	**114,550**	124,140	117,602	107,852	99,830
Net current assets	**2,237**	5,927	4,773	4,991	4,563	**3,706**	10,045	7,389	7,786	6,753
Total debt	**6,402**	6,971	8,256	7,443	7,798	**10,607**	11,816	12,782	11,610	11,541
Parent Companies' interest in Group net assets	**36,452**	37,177	37,970	35,988	34,859	**60,386**	63,006	58,781	56,142	51,591
Minority interests	**1,338**	2,015	2,006	1,205	1,056	**2,216**	3,415	3,106	1,880	1,563
Capital employed	**44,192**	46,163	48,232	44,636	43,713	**73,209**	78,237	74,669	69,632	64,695

Cash flow data
(1993 restated in 1994)

	1997	1996	1995	1994	1993	1997	1996	1995	1994	1993
Cash flow provided by operating activities	**10,229**	10,653	9,424	7,638	6,832	**16,730**	16,619	14,873	11,718	10,272
Capital expenditure (including capitalised leases)	**7,474**	7,039	6,951	6,171	5,558	**12,274**	11,023	10,965	9,482	8,355
Cash flow used in investing activities	**8,283**	6,412	6,557	4,692	4,901	**13,605**	10,049	10,338	7,199	7,363
Cash flow provided by/(used in) financing activities	**(423)**	(368)	(313)	242	(74)	**(706)**	(604)	(467)	321	(81)
Dividends paid	**3,279**	3,300	2,976	2,539	2,375	**5,382**	5,149	4,711	3,890	3,608
Increase/(Decrease) in cash and cash equivalents	**(1,933)**	180	(261)	713	(574)	**(3,375)**	943	(459)	1,425	(1,022)

Other statistics

	1997	1996	1995	1994	1993
Return on average capital employed[(2)]	**11.4%**	13.2%	10.6%	10.4%	7.9%
Total debt ratio[(3)]	**14.5%**	15.1%	17.1%	16.7%	17.8%

[(2)]Return on average capital employed is calculated as follows: net income plus minority interests plus total interest expense, less tax on the interest expense as a percentage of average capital employed.

[(3)]Total debt as a percentage of capital employed.

Summarised Financial Data

Capital expenditure and exploration expense

By industry segment

		1997	1996	1995	1994	1993 £ million	1997	1996	1995	1994	1993 US $million[6]
Capital expenditure[4]											
Oil and gas:	Exploration and Production	**3,493**	3,195	2,836	2,485	2,476	**5,724**	4,995	4,477	3,811	3,723
	Refining and Marketing	**2,353**	2,766	3,120	3,032	2,497	**3,865**	4,344	4,920	4,666	3,751
Chemicals		**1,467**	904	788	474	407	**2,422**	1,409	1,243	728	612
Coal		**79**	97	54	54	41	**128**	152	85	84	62
Other		**82**	77	153	126	137	**135**	123	240	193	207
		7,474	7,039	6,951	6,171	5,558	**12,274**	11,023	10,965	9,482	8,355
Exploration expense (excluding depreciation and release of currency translation differences)		**708**	716	552	680	776	**1,160**	1,122	870	1,042	1,164
Total capital expenditure and exploration expense*		**8,182**	7,755	7,503	6,851	6,334	**13,434**	12,145	11,835	10,524	9,519
*comprising:											
Europe		**2,980**	2,974	3,035	2,297	2,194	**4,897**	4,665	4,786	3,532	3,295
Other Eastern Hemisphere		**1,820**	1,701	1,919	2,352	2,260	**2,984**	2,664	3,027	3,605	3,396
USA		**2,350**	2,302	1,983	1,740	1,370	**3,860**	3,595	3,131	2,675	2,061
Other Western Hemisphere		**1,032**	778	566	462	510	**1,693**	1,221	891	712	767
		8,182	7,755	7,503	6,851	6,334	**13,434**	12,145	11,835	10,524	9,519

[4]Capital expenditure includes tangible fixed assets acquired on purchase of new Group companies and additional joint-venture interests.

Quarterly income data

	1997 Quarters 4th	3rd	2nd	1st £ million	1996 Quarters 4th	3rd	2nd	1st £ million	1995 Quarters 4th	3rd	2nd	1st £ million
Net proceeds[5]	**19,235**	**19,118**	**18,968**	**20,903**	22,127	20,390	20,375	19,187	18,329	17,115	17,745	16,406
Cost of sales	**15,228**	**14,900**	**14,837**	**16,311**	17,252	15,857	15,985	14,516	14,878	13,421	13,512	12,371
Gross profit	**4,007**	**4,218**	**4,131**	**4,592**	4,875	4,533	4,390	4,671	3,451	3,694	4,233	4,035
Operating profit	**1,916**	**2,386**	**2,416**	**3,021**	2,825	2,652	2,491	2,998	1,120	1,949	2,424	2,417
Net income	**982**	**1,268**	**1,070**	**1,416**	1,436	1,329	1,183	1,743	768	1,053	1,281	1,273
[5]After deducting sales taxes, excise duties and similar levies of:	**6,858**	**6,623**	**6,604**	**6,463**	7,030	7,049	7,023	6,853	6,618	6,525	6,475	6,236

[6]The US dollar figures have been derived as follows:

		1997	1996	1995	1994	1993
Assets and liabilities data are translated from sterling at each year's respective end exchange rate: £1=US$		**1.6566**	1.6948	1.5481	1.5600	1.4800
Income data, cash flow data and capital expenditure and exploration expense are the sum of quarterly dollar figures translated from sterling at quarterly average exchange rates: £1=US$	Quarter 4	**1.6592**	1.6367	1.5607	1.5800	1.4900
	Quarter 3	**1.6263**	1.5539	1.5741	1.5500	1.5000
	Quarter 2	**1.6352**	1.5238	1.5976	1.5000	1.5400
	Quarter 1	**1.6329**	1.5308	1.5833	1.4900	1.4800

Operational Comparisons 1993–1997

	1997	1996	1995	1994	1993
Crude oil production					
(including Group share of associated companies)				thousand barrels daily	
Europe	**551**	560	533	525	480
Africa	**423**	423	411	398	436
Middle East	**455**	456	472	467	440
Asia-Pacific	**264**	290	264	239	235
USA	**491**	451	441	416	402
Other Western Hemisphere	**144**	125	133	149	140
	2,328	2,305	2,254	2,194	2,133
				million tonnes a year	
Metric equivalent	**116**	115	113	110	107
Oil sales				thousand barrels daily	
Gasolines	**2,271**	2,218	2,155	2,001	1,911
Kerosines	**704**	664	628	611	556
Gas/Diesel oils	**1,976**	1,860	1,722	1,635	1,510
Fuel oil	**773**	748	725	720	740
Other products	**836**	826	741	696	657
Total oil products	**6,560**	6,316	5,971	5,663	5,374
Crude oil	**4,121**	4,305	4,004	3,678	3,615
Total oil sales	**10,681**	10,621	9,975	9,341	8,989
				million tonnes a year	
Metric equivalent	**534**	531	499	467	449
Refinery processing intake				thousand barrels daily	
Crude oil	**4,057**	3,771	3,494	3,493	3,493
Feedstocks	**200**	193	190	176	190
	4,257	3,964	3,684	3,669	3,683
Europe	**1,723**	1,675	1,595	1,608	1,617
Other Eastern Hemisphere	**1,133**	995	873	833	815
USA	**1,045**	970	887	905	917
Other Western Hemisphere	**356**	324	329	323	334
	4,257	3,964	3,684	3,669	3,683
				million tonnes a year	
Metric equivalent	**213**	198	184	183	184
Tanker fleets					
(owned/demise-hired and time-chartered, at year end)				number of ships	
Oil tankers	**73**	75	76	84	99
Gas carriers	**7**	7	8	3	3
				million deadweight tonnes	
Oil tankers	**7.7**	8.2	8.4	8.5	10.6
				thousand cubic metres	
Gas carriers	**461**	358	447	197	197

The figures shown in these tables represent the totals reported by Group companies, reflecting their dealings with third parties and with associated companies. However, crude oil production and natural gas and coal sales include the Group share of these associated companies. Crude oil production, oil sales and refinery processing intake figures include natural gas liquids.

	1997	1996	1995	1994	1993
Natural gas sales					
(including Group share of associated companies)				million cubic feet daily	
Europe	**3,302**	3,409	2,869	2,911	3,083
Other Eastern Hemisphere	**2,177**	2,296	2,087	1,965	1,861
USA	**1,779**	1,859	1,907	1,676	1,565
Other Western Hemisphere	**743**	790	761	765	719
	8,001	8,354	7,624	7,317	7,228
				billion cubic metres a year	
Metric equivalent	**78**	82	74	71	71
Chemicals sales: net proceeds					£ million
Europe	**3,948**	4,133	4,243	3,035	2,741
Other Eastern Hemisphere	**960**	942	1,058	832	823
USA	**3,408**	3,401	3,409	2,476	2,302
Other Western Hemisphere	**386**	502	529	421	434
	8,702	8,978	9,239	6,764	6,300
Coal sales					
(including Group share of associated companies)					million tonnes
Internationally traded	**14.4**	13.8	13.0	11.4	12.9
Domestic sales	**5.4**	4.7	4.7	11.7	11.9
	19.8	18.5	17.7	23.1	24.8
Employees (average numbers)					thousands
Europe	**40**	40	42	43	51
Other Eastern Hemisphere	**27**	25	26	26	25
USA	**22**	23	23	22	24
Other Western Hemisphere	**16**	16	15	16	17
	105	104	106	107	117
					£ million
Remuneration	**3,366**	3,562	3,457	3,346	3,588
Social law taxes	**312**	336	334	298	311
Pensions and similar obligations	**50**	131	164	259	240
	3,728	4,029	3,955	3,903	4,139

Published Group Information

Publications

Financial and Operational Information
Five years' detailed financial and statistical information about the Group, including maps of exploration and production activities.

The Shell Report
Review of how Group companies are meeting their responsibilities and the expectations of society in relation to various economic, environmental and social issues.

Investment in Society Report
Information about the Group's social investment programmes, which aim to support the development of local communities and play a role in helping to address major national and international social issues.

Health, Safety and Environment Report
Facts about Group companies' performance in the areas of health, safety and the environment. It also discusses Group views on pertinent issues related to those areas.

Statement of General Business Principles
Fundamental principles that govern how each Shell company conducts its affairs. (Last revised 1997.)

The above publications, as well as copies of the Parent Companies' Annual Reports, can be obtained from any of the following addresses:

Shell International Limited
SLBPA Division
Shell Centre
London SE1 7NA
UK

Telephone: +44-(0)171-934 5293
Fax: +44-(0)171-934 5555

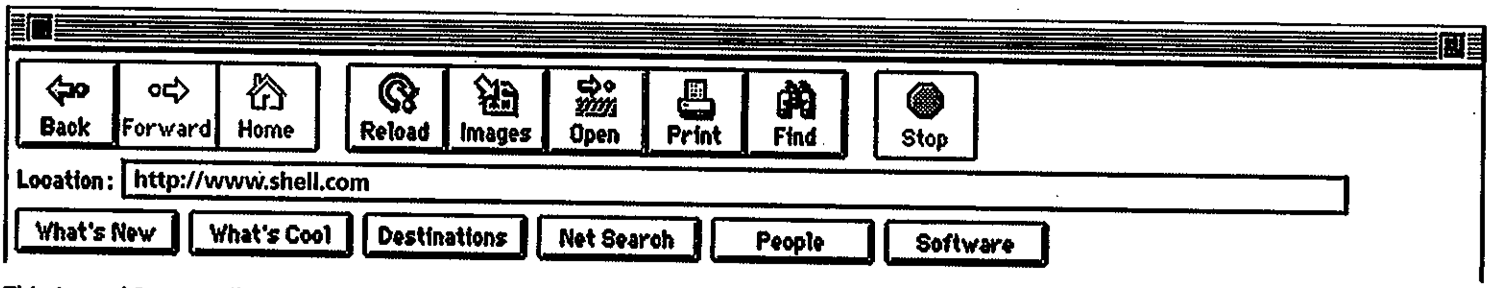
Shell International B.V.
FHK Division
PO Box 162
2501 AN The Hague
The Netherlands

Telephone: +31-(0)70-377 4540
Fax: +31-(0)70-377 3115

Shell Oil Company
GSDF Division
712 Fifth Avenue – 26th floor
New York, NY 10019-4102
USA

Telephone: +1-212-261 5660
Fax: +1-212-261 5663

World Wide Web



This Annual Report, all published Group information as listed above, and other information about the Royal Dutch/Shell Group of Companies can be accessed at the above World Wide Web address.

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"Shell" Transport and Trading Company, p.l.c.
istered in England No: 54485
istered office: Shell Centre, London SE1 7NA
retary: Miss J E Munsiff

litors: Price Waterhouse
kers: Lloyds Bank Plc

ancial Calendar

ncial year ends	December 31, 1997

ouncements

year results for 1997	February 12, 1998
quarter results: 1998	May 7, 1998*
ond quarter results: 1998	August 6, 1998*
d quarter results: 1998	November 5, 1998*

dends – Ordinary shares

7 Final:	– Proposed dividend announced	February 12, 1998
	– Ex-dividend date (London)	April 20, 1998
	– Record date	April 24, 1998
	– Payment date	May 15, 1998
3 Interim:	– Announced	September 10, 1998*
	– Payment date	November, 1998*

dends – Preference shares: Payment dates

% First Preference shares	April 1 and October 1
Second Preference shares	February 1 and August 1

ort and accounts

lication	April 3, 1998

ual General Meeting	May 8, 1998

dates shown are provisional and subject to final confirmation.

ital gains tax

the purposes of United Kingdom capital gains tax, the market
ues of the Company's shares were:

	April 6, 1965	March 31, 1982
inary shares of 25p each:		
Registered	9.17p	41.67p
Bearer	9.24p	42.11p
: Preference shares of £1 each	78.75p	37.50p
ond Preference shares of £1 each	97.81p	49.50p

All values are adjusted to reflect capitalisation issues since the relevant dates.

Enquiries

Share Registration
Enquiries about shareholdings in Shell Transport such as change of address, dividend payments and share certificates may be addressed to the Registrar:

Lloyds Bank Registrars
The Causeway, Worthing
West Sussex BN99 6DA
Telephone: 01903-833397 Fax: 01903-833012

New York Shares
Enquiries about the New York Shares may be addressed to the Depositary:

The Bank of New York
101 Barclay Street
New York NY 10286
Attn: Investor Relations – 11 East
Telephone: (888)-BNY-ADRS (USA only) 212-815 5204 (international)
Fax: 212-571 3050

Investor Relations
Enquiries from institutional shareholders and requests for copies of public documents, such as the Quarterly Results Announcement or the Annual Report on Form 20-F filed with the US Securities and Exchange Commission, may be addressed to:

Group Investor Relations
Shell International Limited
FTC Division
Shell Centre, London SE1 7NA
Telephone: 0171-934 3856 Fax: 0171-934 3702

Group Enquiries
Enquiries about the activities of companies in the Royal Dutch/Shell Group may be addressed to:

The Shareholder Relations Office
Shell Centre, London SE1 7NA
Telephone: 0171-934 2323 Fax: 0171-934 6625

Shell Customer Services
Enquiries about Shell products and services in the UK may be addressed to:

Shell Customer Service Centre
Shell-Mex House, Strand
London WC2 0DX
Telephone: 0800-010100

For matters not mentioned above, please write to:

The Company Secretary
The "Shell" Transport and Trading Company, p.l.c.
Shell Centre, London SE1 7NA
Telephone: 0171-934 3363 Fax: 0171-934 5153