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

54485

ANNUAL REPORT 1998

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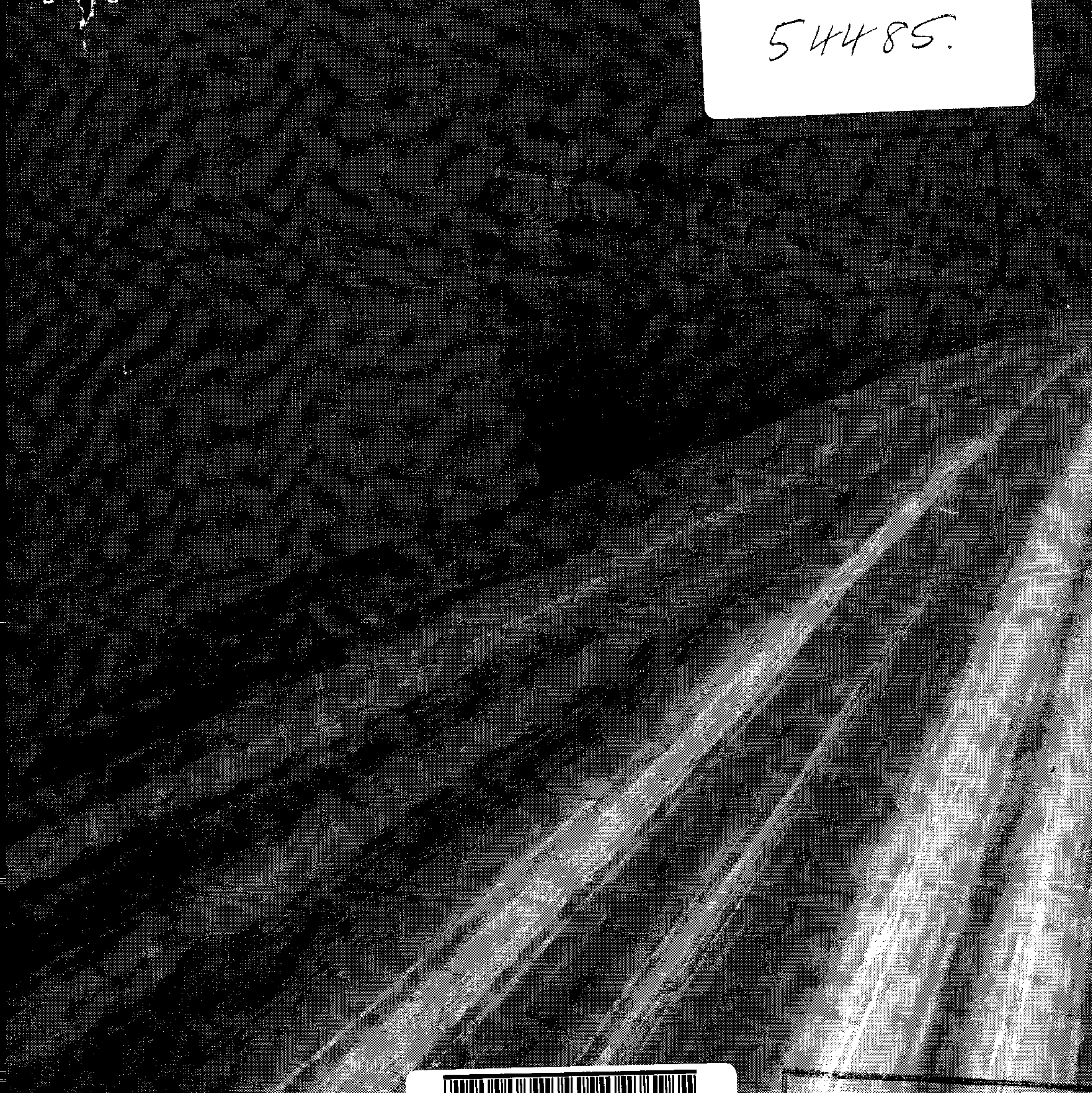


Service Companies

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, power generation, 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.

FINANCIAL HIGHLIGHTS

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

Earnings — pence per 25p Ordinary share

98	0.5
97	17.8
96	21.3
95	16.0
94	15.0

Dividends — pence per 25p Ordinary share

98	13.5
97	13.1
96	12.3
95	11.1
94	9.0

Year-end Share Price — pence per 25p Ordinary share

98	369
97	440
96	337
95	284
94	232

Earnings — US dollars per New York Share

98	0.05
97	1.75
96	1.99
95	1.52
94	1.38

Dividends — US dollars per New York Share

98	n/a
97	1.42
96	1.52
95	1.28
94	1.08

Year-end Share Price — US dollars per New York Share

98	37.19
97	43.75
96	34.13
95	27.13
94	21.79

For information about the data contained in the charts above, consult the Shareholder Information section on page 72.

Royal Dutch/Shell Group of Companies

Net Income — $ billion

98	0.4
97	7.8
96	8.9
95	6.9
94	6.3

Earnings on an estimated current cost of supplies basis — $ billion

98	0.9
97	8.1
96	8.3
95	6.8
94	6.2

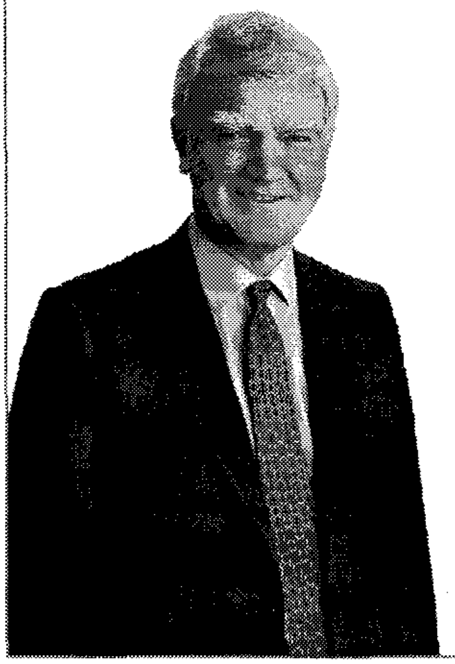
Gross Sales Proceeds — $ billion

98	138
97	172
96	172
95	151
94	129

With effect from 1998 the Financial Statements of the Royal Dutch/Shell Group of Companies are published in US dollars. Comparative data previously reported in sterling have been translated into dollars using the exchange rate prevailing in the relevant period.

COMPANIES HOUSE 09/04/99

MESSAGE FROM THE CHAIRMAN



We are taking decisive action to fulfil our aspirations for shareholder value in difficult times – restructuring portfolios, attacking costs and focusing investment. We have the capabilities and determination to succeed. Our commitment to our business principles is unchanged. Our vision of the commercial opportunities of providing choices of clean, convenient and economic energy is undiminished.

Mark Moody-Stuart
Chairman
March 11, 1999

Nineteen ninety-eight was a bad year. Business conditions were difficult. They may continue so for some time. We are taking decisive action – so we can continue fulfilling our long-standing commitment to shareholder value.

I am confident we can do so. My confidence is based on Shell companies' assets and capabilities, the improvements in performance being achieved, and the calibre and commitment of Shell people.

Difficult conditions

The world economy grew only half as fast in 1998 as the year before. Output fell in Asia, where the Group has substantial interests. Reduced demand triggered a sharp fall in oil prices. They were a third lower than in 1997. In December they fell below $10 a barrel for the first time since 1986. Warm weather reduced gas sales. Asian refining margins fell sharply. Chemicals margins were also lower.

On a current cost of supplies basis, earnings for the year were $5,146 million excluding special charges – 36% lower than in 1997. Special charges of $4.2 billion for writing down asset values, restructuring and redundancy cut reported net income to just $350 million.

Operating activities generated a cash flow of $14.7 billion – only 12% down on 1997. Capital expenditure rose slightly. The Group's financial position remains strong.

Exploration and Production earnings were badly hit by low oil prices, particularly in North America. Oil production rose slightly. Reserves of oil and gas grew. Increased sales helped raise Oil Products earnings. Chemicals earnings were badly affected by deteriorating trading conditions, despite higher sales and reduced costs.

Some assets have been written down because of the downward revision of expected long-term business conditions. Some of the assets intended for sale have also been written down.

Divestment plans involve parts of two recent acquisitions – Tejas and Montell. Tejas helps to extend Shell gas business in the USA. But parts of the business are not performing as expected. Remedial action includes selling some of its assets. Montell is a good business. It will be improved if a company with complementary skills takes an interest.

Changing assumptions

Difficult conditions may persist. Economic growth is likely to be slow. Global markets will become more competitive. Last year our five-year plans were developed on the basis of an oil price of $18 a barrel. Our new plans are based on $14 a barrel – with reduced refining and chemicals margins. Prices in the early part of this year are even lower, and we recognise this could continue for some time. Short-term plans and programmes will be adjusted accordingly.

But there are business opportunities even in tough times. Strong companies are well placed to acquire strategic assets from those in weaker positions. New relationships with major producing countries may develop. We will continue our drive to offer outstanding value propositions to our customers.

Energy of the future

We see great opportunities in delivering the energy of the future. Gas is clean and efficient. Consumption may double in 20 years. Shell companies are leaders in the gas business – and are working to develop markets all over the world. Cleaner cars are needed to curb traffic pollution. Shell hydrogen technology is helping to develop fuel-cell powered cars which can be filled up at existing service stations. Shell renewables businesses are commercialising new forms of energy.

Decisive action

Some competitors are merging to reduce costs. Shell companies work with others to realise synergies and extend opportunities. Equilon and Motiva – the recent downstream joint ventures in the USA – are on track to deliver the expected savings.

But we have much to do in our own organisation. We are focusing on three things: restructuring portfolios, attacking costs, and focusing investment.

The most fundamental shift will be in the Chemicals portfolio. About 40% will be sold, leaving only those businesses in which Shell companies are, or can become, leaders. Exploration and Production is focusing on acquiring low-cost reserves and developing gas supplies. Refinery rationalisation continues.

Costs are being cut in all businesses. Portfolio action and rising oil and gas production will reduce them further. We are determined to do more. Those who run Shell businesses are given increasing freedom to act – and are accountable for delivering results.

Shell companies have always taken a long view. They still do. Capital investment plans for the next five years have been cut by a third – but still represent a major investment in the future. Shell businesses will allocate capital with great discipline – ensuring funds only go where performance justifies investment.

The Group has considerable strengths for difficult times – sound finances, resilient assets, long-standing relationships with countries, technological depth, the reputation of the Shell brand.

All companies must extend their capabilities in today's rapidly changing and increasingly competitive business environment. Our structures, processes, skills and attitudes are being transformed. Global businesses have been created. Executive responsibility has been focused. New skills are being learned – such as operating convenience stores in service stations world-wide. New commercial and societal relationships are being developed.

Committing to change

It is a commonplace that people are the key to business success. It is more than that with us. Shell people are by nature achievers – fiercely proud of their company's reputation. The strongest pressure to do what is necessary for competitive performance comes from them. I know they face difficult conditions and thank them for their contributions.

Reducing costs and restructuring portfolios to protect the long-term viability of the Group inevitably means that people lose their jobs or must move to other organisations. Being inevitable does not make it less painful. But the process will be fair, efficient and sensitive. We recognise their contribution to Shell companies, often for many years.

Delivering shareholder value

The objective stated last year remains unchanged. It is to deliver the profitable growth that will provide the basis for continuing improvement in the return to our shareholders.

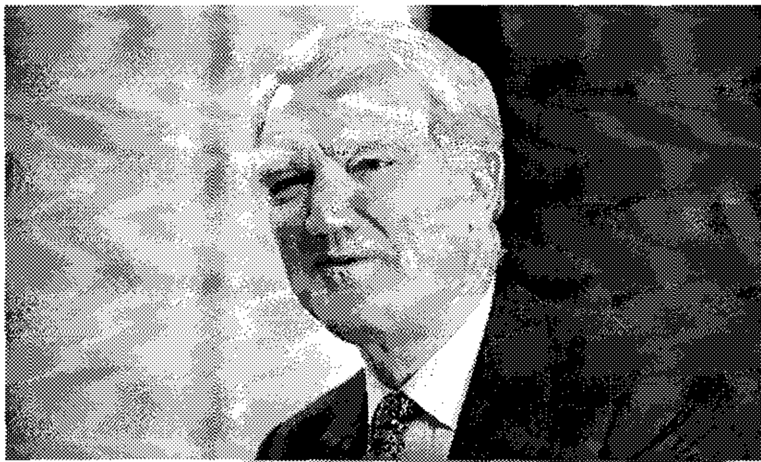
In this regard, the fall in the share prices last year was disappointing. Our actions seek to redress this. We have no plans to change our dividend policy. And we continue to strive for a situation in which both Parent Companies have the option of buying back shares.

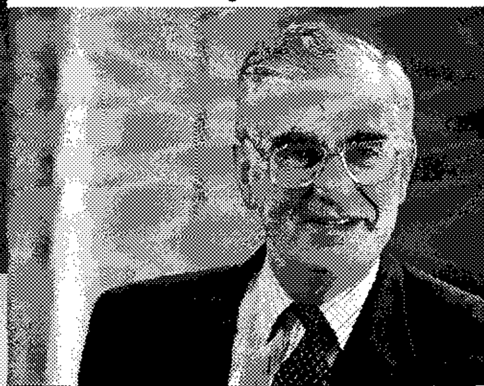
Our goal reflects the changed business outlook. Planning for an oil price of $18 a barrel, we looked to achieve a 15% return on capital employed early next century. At our current longer-term economic assumptions – including a $14 oil price – the target is a 14% return by 2001, which is tougher. Prices have not been at this level earlier in this year and may be below $14 for some time.

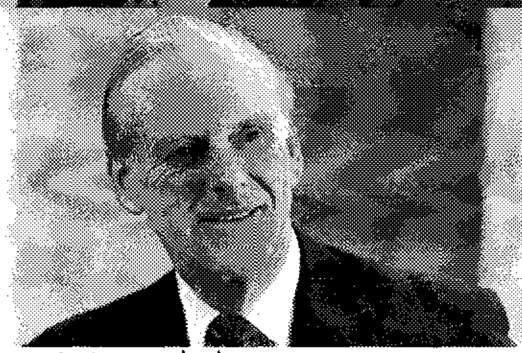
We are committed to achieving our objectives in a manner consistent with our business principles. Changing business conditions do not alter this. Our first independently verified *Health, Safety and Environment* report was published last year. So was our first social report. This year's *Shell Report* focuses on how sustainable development is being integrated into business decisions.

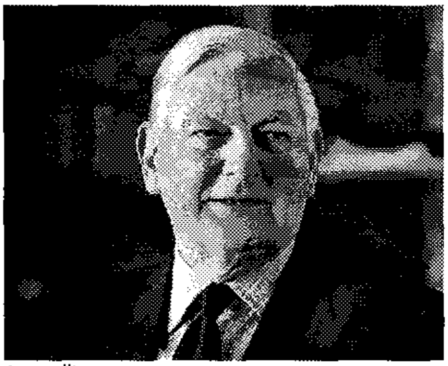
Realising our aspirations for shareholder value requires the wholehearted commitment of all Shell people. I have no doubt it will get that. Their talent, skills and drive give me confidence that we can meet the challenges we face.

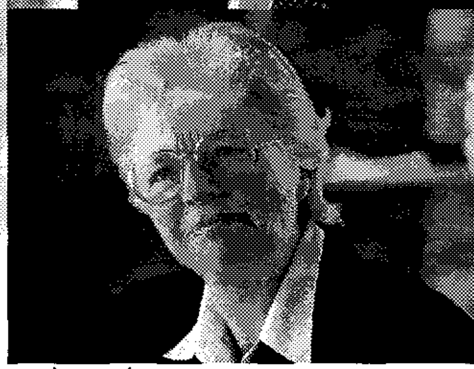
BOARD OF DIRECTORS


Mark Moody-Stuart


Sir Ronald Oxburgh


Sir Antony Acland


Sir William Purves


Dr Eileen Buttle

Managing Directors

Mark Moody-Stuart Chairman
Born September 15, 1940. Joined the Group in 1966. A Director and a Managing Director of the Company since 1991 and Chairman since 1997. A Group Managing Director since 1991.

Philip B Watts
Born June 25, 1945. Joined the Group in 1969. A Director and a Managing Director of the Company and a Group Managing Director since 1997.

Directors

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. HM Ambassador to the USA 1986–91. A Director of Booker plc. Provost of Eton College.

Teymour A Alireza
Born September 7, 1939. A non-executive Director since 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.

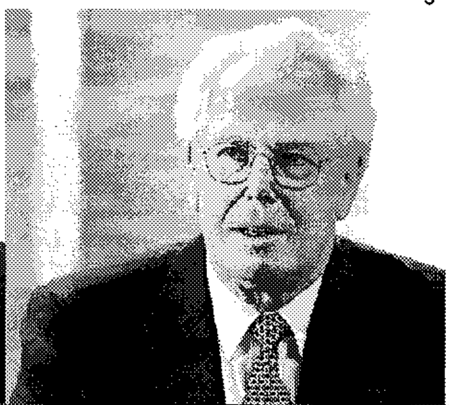
Dr Eileen Buttle CBE*
Born October 19, 1937. Appointed a non-executive Director July 1998. Retired in 1994 from a career of public scientific appointments. The UK member of the European Environment Agency's Scientific Committee. Chairman of the UK Arctic Consultative Forum. Member of a number of Government and Research Council scrutiny committees of environmental aspects of national and European research. Chairman of a review of long-term environmental monitoring for the Natural Environment Research Council.

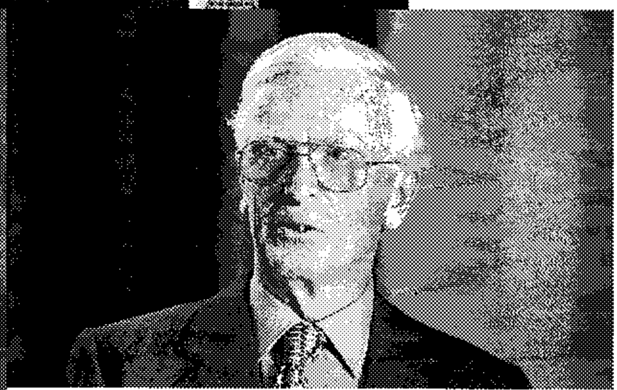
Sir Peter Holmes MC
Born September 27, 1932. A Director since 1982. Chairman 1985–93 and a Group Managing Director 1982–93.

Teymour Alireza

Professor Robert O'Neill

Sir John Jennings





Sir Peter Holmes

Phil Watts

Sir John Jennings CBE FRSE
Born March 30, 1937. A Director since 1987. Chairman 1993–97. 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.

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.

Sir Ronald Oxburgh KBE FRS*
Born November 2, 1934. A non-executive Director since January 1996. Scientific appointments 1960–87. Chief Scientific Adviser, Ministry of Defence 1987–93. Rector, Imperial College of Science, Technology and Medicine, since 1993.

Sir William Purves CBE DSO*
Born December 27, 1931. A non-executive Director since October 1993. Retired from the Chairmanship of HSBC Holdings plc in May 1998 after 44 years' service in that Group. Deputy Chairman of Alstom s.a., Trustee of Reuters Founders Share Company Ltd, Director of East Asiatic Co Ltd A/S and World Shipping and Investment Co Ltd. Member of Hong Kong Chief Executive's International Advisory Council and a Member of Textron Inc International Advisory Council.

*Standing in 1999 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

Directors

The current Directors of the Company are shown on pages 4 and 5; all served as Directors throughout 1998 except for Dr Eileen Buttle CBE, who was appointed as a non-executive Director by the Board with effect from July 8, 1998. The other Directors welcome the additional perspective that Dr Buttle brings to the Board from her career as a research scientist and her long experience of environmental research and monitoring. In accordance with the Articles of Association, Dr Buttle will vacate office at the Annual General Meeting to be held on May 7, 1999 and, being eligible, will offer herself for election by the shareholders.

Professor Robert O'Neill, Sir Ronald Oxburgh and Sir William Purves will retire by rotation at the Annual General Meeting and will offer themselves for re-election.

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.

The Board's Statement on Corporate Governance is set out on pages 8 to 10 and the Report to shareholders on Directors' Remuneration is set out on pages 11 and 12.

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, power generation, renewable resources and other businesses throughout the world. The structure of the Group is shown on the inside front cover 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 Message from the Chairman (pages 2 and 3) and the Operational and Financial Review (pages 20 to 41) 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, 1999, 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 311,003,925 shares (3.12%).

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. These interests are all beneficial.

	25p Ordinary shares	
	January 1, 1998	December 31, 1998
M Moody-Stuart	260,000	365,000
P B Watts	–	24,681
Sir Antony Acland	6,000	6,000
T A Alireza	–	–
Dr E Buttle	900*	900
Sir Peter Holmes	60,888	60,991
Sir John Jennings	70,200	70,200
Professor R J O'Neill	7,211	7,435
Sir Ronald Oxburgh	2,865	5,026
Sir William Purves	3,000	3,000

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

*At date of appointment.

There were no changes in the above interests during the period from December 31, 1998 to March 9, 1999.

Share options

Certain Group companies have option plans, the operation of which during 1998 is summarised in Note 24 to the Group Financial Statements on page 63. 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, Shell Petroleum N.V. and Montell U.K. Limited also operate savings-related share option schemes which have been approved by the Inland Revenue under the Income and Corporation Taxes Act 1988. Under these schemes, options over shares in Shell Transport are granted to employees of UK Group companies at prices not less than the market value of the shares on a date no earlier than 30 days before the date of grant of the option. Options are normally exercisable after completion of either a five-year or a three-year 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 on page 12.

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. For the information of shareholders, the statement that will appear in the Directors' Report for 1998 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 Better Payment Practice Code. Shell U.K. had approximately 33 days' purchases outstanding at December 31, 1998 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 13 to 16. The amount available for distribution (inclusive of distributions from retained earnings by companies of the Royal Dutch/Shell Group) was £1,345.1 million. Dividends declared and recommended in respect of 1998 amount to £1,343 million.

On November 2, 1998, an interim dividend of 5.3p per Ordinary share was paid. This dividend was paid as a foreign income dividend.

The Directors have decided to recommend a final dividend for 1998 of 8.2p per Ordinary share which would make 13.5p per share for the year. Subject to approval at the Annual General Meeting, the final dividend will be paid on May 14, 1999 to Members on the Register on April 23, 1999 and to holders of Bearer Warrants who surrender Coupon No. 203.

Dollar reporting
The US dollar is the currency in which a large part of the Group's business is transacted and the Group Financial Statements are now published in dollars instead of sterling. Comparative data previously reported by the Group in sterling have been translated into dollars using the exchange rate prevailing in the relevant period.

There is no change to the currency in which the Company reports its financial statements and declares its dividends: these continue to be expressed in sterling.

Group income, ordinary dividends and UK taxation
The British Government's programme of changes to the way dividends are taxed will be complete on April 6, 1999. From that date, advance corporation tax (ACT) will no longer exist, and shareholders will no longer be able to claim back tax credits on dividends. The main exception will be for personal equity plans and individual savings accounts, where a 10% credit will be claimable for a transitional five-year period. Charities will be able to claim a tax repayment over the same period progressively reducing from 21% to 4% of the cash dividend.

As described in the 1997 Annual Report, the Boards of Shell Transport and Royal Dutch Petroleum Company have reached agreement on the effect of these tax changes on the 40:60 distribution of Group income between the Parent Companies. Under the ACT-based system, Shell Transport was receiving 32% of the total distribution in cash and 8% in the form of a tax credit. After the abolition of ACT, Shell Transport will receive its 40% share entirely in cash.

In order to prevent the Group having to write off unrecovered ACT after its abolition, the dividends paid in 1998 took the form of foreign income dividends (FIDs). 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 taxpayers have some additional tax to pay, but other individuals have no further tax liability. Shareholders who have no liability to pay income tax are unable to recover tax on a FID, as no tax credit is attached.

As part of the arrangements for moving from the ACT to the post-ACT regime, the Shell Transport share of Group distributions paid as cash dividends in 1998 increased from 32% to 36%. This increase was reflected in the amount of the final dividend in respect of 1997, paid by Shell Transport on May 15, 1998, and in the interim dividend for 1998 paid on November 2, 1998. The effect of the taxation changes on the dividends on the Company's Preference shares is set out in Note 5 on page 15.

Year 2000
Shell Transport has no computer systems of its own. Group companies' approach to Year 2000 problems is described on pages 40 and 41. In addition the Company's Share Registrar, Lloyds TSB Registrars, have advised that they do not anticipate any disruption to the share register as a result of any millennium problem over which they have control.

Auditors
Following the merger of Price Waterhouse and Coopers & Lybrand, Price Waterhouse resigned as auditors and the new firm, PricewaterhouseCoopers were appointed by the Board to fill the vacancy. PricewaterhouseCoopers 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 7, 1999. Company law requires that special notice be given of the resolution to reappoint auditors who were appointed by the Board since the previous annual general meeting, and the appropriate statutory special notice pursuant to Section 379 of the Companies Act 1985 has been received by the Company.

By Order of the Board
J E Munsiff, Secretary
March 11, 1999

Jyoti Munsiff.

CORPORATE GOVERNANCE

The Board of The "Shell" Transport and Trading Company, p.l.c. (Shell Transport) remains committed to upholding the highest standards of integrity and transparency in its governance of the Company. The Board welcomes the publication of an updated Combined Code setting out both principles of good governance and a Code of Best Practice. There are 17 principles to guide Listed Companies and the majority of these have featured in the Company's approach to governance for many years. This statement describes how the principles set out in the Combined Code are applied by Shell Transport.

Shell Transport's sole activity is the ownership of a 40% interest in the Royal Dutch/Shell Group of Companies of which it is not a part and in whose activities it does not engage. The other 60% is owned in like manner by Royal Dutch Petroleum Company (Royal Dutch). This arrangement has stood unaltered since 1907 subject only to changes of detail, and during this long period the Group has grown to be one of the largest global commercial enterprises. The Board considers that these enduring arrangements between Shell Transport and Royal Dutch have served shareholders well. It must be recognised, however, that the framework within which the Board operates is conditioned to some extent by Shell Transport's unique relationship with Royal Dutch and this results in some special arrangements which may not be appropriate in other companies. For instance the Board Committees dealing with audit and remuneration matters are joint committees of the Supervisory Board of Royal Dutch and the Board of Shell Transport. However, these governance arrangements are always designed with a view to upholding the best standards of corporate governance and are subject to ongoing review for improvement and adjustment for the changing demands of business.

The joint arrangements for supervising the governance of the operations of the Royal Dutch/Shell Group of Companies in over 130 countries are summarised in this statement under the heading "Arrangements with Royal Dutch Petroleum Company". The remainder of this statement refers to the governance of Shell Transport itself.

Board structure and procedures

The Board currently comprises 10 Directors (biographical details of whom are set out on pages 4 and 5). All Directors are equally accountable at law to the shareholders for the proper conduct of the business. Of these Directors:

- two are Managing Directors of the Company and are also two of the five Group Managing Directors;
- one of these Managing Directors of the Company is appointed as Chairman of the Board of Shell Transport;
- eight Directors are non-executive (six of whom have never held executive positions with the Company) and provide a wide spectrum of international experience in commerce, public administration and science.

All members of the Board vacate office at age 70 at the latest.

The Board believes that there is great value to the Company in being able to access the specific experience in an integrated energy business of former Managing Directors who retire from executive office at the age of 60. Currently, there are two former Managing Directors on the Board, Sir Peter Holmes and Sir John Jennings.

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. However, as previously announced, the Managing Directors will, in future, offer themselves for re-election on a regular basis. The Articles also require one-third of the Directors subject to retirement by rotation, to retire at each Annual General Meeting. The Combined Code suggests that Directors should be subject to re-election at intervals of no more than three years. Suitable amendments to the Company's Articles of Association will be proposed to shareholders on both counts when next the Articles are revised. In the meantime, Directors will retire by rotation in advance of the Article requirements to ensure compliance with the Combined Code. In 1999 three Directors who have been in office since 1996 will offer themselves for re-election although only two are required to retire this year in strict compliance with the Articles.

The Combined Code suggests that non-executive Directors should comprise not less than one-third of the board and a majority of the non-executive Directors should be "independent". The Company currently has 10 Directors of whom eight are non-executive and of those, five (namely, Sir Antony Acland, Dr Eileen Buttle, Professor Robert O'Neill, Sir Ronald Oxburgh and Sir William Purves) are wholly independent of any personal business connection with the Company or members of the Royal Dutch/Shell Group. Since the year-end, the Board has nominated Sir Antony Acland as the senior non-executive Shell Transport Director.

While the Chairman of the Board is currently also the most senior executive Director, this arrangement is not in conflict with the principle that one person should not have unfettered powers of decision (please see details of the Committee of Managing Directors on page 19).

New appointments to the Board are made by the whole Board, and possible non-executive Directors are suggested by any Director and reviewed by the Nomination Committee before any approach is made to the candidate. Any new appointment is made by the Board only after a recommendation from the Nomination Committee. The Chairman of the Board acts as Chairman of the Nomination Committee. In view of the essential requirement for potential Directors to understand the nature of the responsibilities of the Board and the extensive operations of the Group, it is considered vital for the Managing Directors to take part in the briefing of any nominees to the Board. Accordingly, the Nomination Committee is structured as a committee of the whole Board so that all Directors can participate in the nomination process.

The structure of the Committee known as the "Committee of Managing Directors" which considers and develops objectives and long-term plans of the Royal Dutch/Shell Group is set out on page 19. The members of this Committee are also known as "Group Managing Directors" and the Remuneration and Succession Review Committee (please see pages 9 and 10) reviews and endorses candidates for appointment to these positions. The Board of Shell Transport considers the appointment of new Directors of the Company in connection with proposals for appointment to the position of Group Managing Director and, where considered appropriate, recommends the person concerned for appointment as a Director of the Company to the next annual general meeting. If appointed as a Director of Shell Transport by the shareholders, it is normally the case that the Board also appoints the new Director as a Managing Director of the Company.

The Directors meet regularly as a Board nine times a year to deal with business requiring Board approval. Reviews and reports on the business and plans of the Group are dealt with at the 11 meetings of the "Conference" between the Directors of Shell Transport and the members of the Supervisory and Management Boards of Royal Dutch. Senior executives of the Group attend meetings of the "Conference" to present strategic plans and proposals for major projects giving Directors frequent opportunities to hear from and question those with first-hand experience of the business in addition to receiving fully documented reports and proposals.

Going concern and internal controls

The Directors consider that taking into account the assets and income of the Royal Dutch/Shell Group and the long and successful relationship between Shell Transport and Royal Dutch, Shell Transport has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis for the financial statements of the Company.

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. The Group's approach to internal controls is outlined on page 39.

In accordance with Combined Code implementation advice from the London Stock Exchange, the review of Shell Transport's internal controls was restricted to internal financial controls pending publication of professional guidance for Directors on a wider review of all controls.

Communications

The Board of Shell Transport recognises the importance of two-way communication with its shareholders and, in addition to giving a balanced report of results and progress at each annual general meeting, the Company has for some time arranged informal shareholder briefing meetings at sites around the United Kingdom each year. In response to shareholder requests the Company is introducing Summary Financial Statements which have been accepted by 97% of shareholders. The Company also issues a Chairman's Bulletin to all shareholders covering the first half of each financial year and in addition detailed trading results of the Royal Dutch/Shell Group are released to the Stock Exchanges each Quarter.

Good communication with institutional shareholders is also regarded as of vital importance and is based upon presentations to funds and investment analysts, supplemented by one-to-one discussions with major investors in the Company by the Managing Directors who are always ready to discuss major current issues with representatives of institutional shareholders.

Arrangements with Royal Dutch Petroleum Company

Shell Transport and Royal Dutch are independent companies each obliged to observe the law and corporate practices of their country of incorporation, the United Kingdom and the Netherlands respectively. Shell Transport and Royal Dutch have over their long association developed a number of special consultative arrangements to assist with the proper discharge of their responsibilities to their own respective shareholders for stewardship of the Parent Companies' interests in the Royal Dutch/Shell Group.

The structure of the Royal Dutch/Shell Group is shown on the inside front cover of this Annual Report and the membership of the Boards of the Parent Companies is set out on page 18 which also describes how the members of the Boards of the Parent Companies meet together regularly to receive and discuss the major developments within the Group in meetings known as the "Conference" as outlined above.

The joint Committees established by the Parent Companies to assist with their respective governance responsibilities are described below.

Group Audit Committee

In 1976 the Board of Shell Transport, jointly with the Supervisory Board of Royal Dutch, constituted a Group Audit Committee composed of six members, three of whom are appointed by the Board of Shell Transport from among its members and three by the Supervisory Board of Royal Dutch from among its members. The functions of the Committee, acting in an advisory capacity to the Board of Shell Transport and to the Supervisory Board of Royal Dutch, are to review the financial reports of the Royal Dutch/Shell Group of Companies and to consider the Group internal control procedures as well as the results of the Auditors' examination of the Group Financial Statements. The three Directors of Shell Transport appointed to the Committee are Sir Peter Holmes, Professor R J O'Neill and Sir William Purves, (Chairman of the Committee); 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.

Remuneration and Succession Review Committee

In 1967 the Board of Shell Transport, jointly with the Supervisory Board of Royal Dutch, constituted a Remuneration Committee composed of six members, three of whom are appointed by the Board of Shell Transport from among its members and three by the Supervisory Board of Royal Dutch from among its members. Following restatement of its terms of reference in 1980, this Committee was renamed as Remuneration and Succession Review Committee. The functions of the Committee

CORPORATE GOVERNANCE

Remuneration and Succession Review Committee continued

are to make recommendations on all forms of remuneration with respect to Group Managing Directors and to review matters relating to the succession to the positions of Group Managing Directors. The members appointed by the Board of Directors of Shell Transport are Sir Antony Acland, Sir John Jennings and Sir Ronald Oxburgh; the 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 of the Committee). While not in the majority, the Boards of Royal Dutch and Shell Transport have considered it helpful given the complexity of the salary structures for Managing Directors in relation to other senior Group executives to include former Managing Directors in the Committee membership. The Chairman of the Committee is currently an appointee of Royal Dutch, namely Mr L C van Wachem, Chairman of their Supervisory Board. Sir John Jennings has been nominated by the Board of Shell Transport to respond on its behalf to any questions relating to remuneration issues.

Social Responsibility Committee

This Committee was formed in 1997 by the Board of Shell Transport jointly with the Supervisory Board of Royal Dutch. The Committee is composed of six members, three of whom are appointed by the Board of Shell Transport from among its members and three by the Supervisory Board of Royal Dutch from among its members. The Committee reviews the policies and conduct of the Royal Dutch/Shell Group of companies with respect to the Group's *Statement of General Business Principles* as well as the Group's Health, Safety and Environment Commitment and Policy.

The three members appointed by the Board of Shell Transport are Mr T A Alireza, Sir Peter Holmes and Sir Ronald Oxburgh (Chairman of the Committee). 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.

Shell companies have long been open about the values and principles which guide them, and the Group's *Statement of General Business Principles* has been publicly available for over 20 years. The 1997 revision followed extensive internal and external consultation. It includes commitments to support fundamental human rights and to contribute to sustainable development.

The first Group *Health, Safety and Environment Report* (HSE) was issued in 1997 in addition to separate HSE reports for the main businesses. The HSE reports are externally verified. Shell companies are committed to continuously improving their performance in these areas, and the Group reports include improvement targets against which future progress can be measured.

In addition, the contribution Shell companies make to economic, social and environmental progress was described in the new *Shell Report* issued for the first time in 1998. There are plans to expand, as soon as practicable, the scope of the *Shell Report* to present a measured and verified annual report on Group companies' progress in embodying sustainable development in the way they do business and in meeting the economic, environmental and social expectations of stakeholders.

Compliance with the Code of Best Practice

In addition to the principles of good governance, the Combined Code incorporates a Code of Best Practice and the London Stock Exchange requires Listed Companies to indicate whether or not they have complied with the provisions of the Code of Best Practice throughout the year and to explain any non-compliance.

The Board of Shell Transport endorses the Code of Best Practice with which it has complied throughout 1998 except in so far as its relationship with Royal Dutch rendered strict compliance undesirable or inappropriate. Such non-compliance has been detailed and explained in the review above.

The review of internal controls is restricted to internal financial controls in accordance with Combined Code implementation advice issued by the London Stock Exchange.

REMUNERATION REPORT

Philosophy

The philosophy for the 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 remuneration package is made up of base salary, short-term annual bonus, and long-term incentives.

Base salary

The base salary scales for Managing Directors are set by reference to internal and external market surveys of companies of similar size and international scope. Base salaries are reviewed annually and the scales were increased by 5% with effect from January 1, 1998. Progression of an individual Managing Director's salary to the target position is usually over a three-year period from appointment.

Annual bonus

An annual bonus is paid and is determined by the Remuneration and Succession Review Committee (REMCO) by reference to the extent of achievement of challenging Group performance targets set as part of the annual Group business plan. The targets take into account financial, operational, social and environmental objectives. The maximum bonus payable is 50% of base salary. The bonus paid to Managing Directors in respect of the year 1997 was 25%, and in respect of 1998 no bonus will be paid. The annual bonus payment is non-pensionable.

Long-term incentives

Long-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. The latest options granted to the Managing Directors of Shell Transport have been adjusted to reflect the position introduced last year for the majority of the optionees under the Plans, i.e. that the options are granted for 10 years with a three-year vesting period. Furthermore, the options granted to Managing Directors in 1998 for the first time have performance conditions attaching to 50% of the grant. The performance conditions are based on the Total Shareholder Return over a three-year period from October 1, 1998 to September 30, 2001, measured by the average weighted share price of Royal Dutch and Shell Transport over the 10-day period at the beginning and end of the said three-year period as compared with equivalent data for other major integrated oil companies and after taking into account such other factors as REMCO may deem appropriate. The proportion of the share options subject to the performance conditions which will either become unconditional or lapse will be determined at the absolute discretion of REMCO.

The shares subject to the Plans are existing issued shares of the Company and no dilution of shareholders' equity is involved.

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

Total remuneration

Details of the total remuneration and benefits of each Director are set out on page 12.

Service contracts

The Managing Directors of Shell Transport do not have service contracts with their employing company and their entitlement to notice is the standard for all senior staff – three months. There are no predetermined termination compensation arrangements in place for the Managing Directors.

Pensions/Retirement benefits

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 to which Managing Directors contribute 4% of relevant earnings. Managing Directors retire on June 30 following their 60th birthday, and the maximum pension is two-thirds of their remuneration, excluding bonuses. There are also provisions, as for all members of the above Funds, for a dependant's benefit of 60% of actual or prospective pension, and a lump-sum death-in-service payment of three times the annual salary.

During 1998 two Directors accrued retirement benefits under defined benefit plans (1997: three; 1996: two). No Director has accrued benefits under a money purchase benefit scheme.

Salaries/fees payable to Managing Directors, totalling £906,392 in 1998, £834,250 in 1997 and £771,500 in 1996, 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.

Mr M Moody-Stuart and Mr P B Watts accrued pension benefits during the year as detailed below. The transfer values are calculated using the cash equivalent transfer value method in accordance with Actuarial Guidance Note GN11.

					£000
	Age as at 31.12.98	Years of Group service as at 31.12.98	Net increase in accrued pension during 1998	Transfer value of pension increase	Accumulated annual pension as at 31.12.98
M Moody-Stuart	58	35	66	959	393
P B Watts	53	30	33	415	221

REMUNERATION REPORT

Emoluments of Directors in office during 1998

£	1998	1997	1996
M Moody-Stuart			
Salaries and fees	**637,852**	491,718	413,627
Benefits	–	–	–
Performance-related element	–	132,750	141,750
	637,852	624,468	555,377
Realised share option gains	**370,462**	767,880	561,600
	1,008,314	1,392,348	1,116,977
P B Watts			
Salaries and fees	**431,111**	197,254	–
Benefits	**14,535**	4,829	–
Performance-related element	–	100,250	–
	445,646	302,333	–
Realised share option gains	**32,321**	–	–
	477,967	302,333	–
Sir Antony Acland			
Directors' fees	**25,000**	22,500	20,000
Committee fees	**3,750**	3,750	3,750
	28,750	26,250	23,750
T A Alireza			
Directors' fees	**25,000**	3,403	–
Committee fees	**3,024**	–	–
	28,024	3,403	–
Dr E Buttle			
Directors' fees	**12,030**	–	–
	12,030	–	–
Sir Peter Holmes			
Directors' fees	**25,000**	22,500	20,000
Committee fees	**6,774**	3,750	3,750
Holding company fees	**18,883**	19,152	21,160
	50,657	45,402	44,910
Pensions	**26,460**	25,346	24,687
	77,117	70,748	69,597
Sir John Jennings			
Salaries and fees	–	450,214	536,322
Benefits	–	7,381	17,381
Performance-related element	–	–	182,350
Directors' fees	**25,000**	–	–
Committee fees	**5,000**	–	–
Holding company fees	**18,883**	–	–
	48,883	457,595	736,053
Pensions	**34,433**	16,875	–
Realised share option gains	**945,000**	588,000	449,280
	1,028,316	1,062,470	1,185,333
Professor R J O'Neill			
Directors' fees	**25,000**	22,500	20,000
Committee fees	**5,000**	3,750	5,625
	30,000	26,250	25,625
Sir Ronald Oxburgh			
Directors' fees	**25,000**	22,500	19,516
Committee fees	**9,516**	3,750	1,875
	34,516	26,250	21,391
Sir William Purves			
Directors' fees	**25,000**	22,500	20,000
Committee fees	**9,333**	5,600	4,675
	34,333	28,100	24,675

Note: the performance-related element is included in the year to which it relates. Please see Note 10 on page 16.

Share options

The interests of Shell Transport Directors under all the stock option plans of Group companies during 1998 were:

Number of options						
At 1.1.98	Granted during the year	Exercised during the year	31.12.98	Exercise price	Market price at date of exercise	Expiry date
Sir John Jennings						
450,000	–	450,000	–	227p	437p	14.12.99
474,000	–	–	474,000	286p	–	13.12.00
M Moody-Stuart						
324,000	–	324,000		231p	346p	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
–	464,000	–	464,000	363p	–	21.12.08
P B Watts°						
139,200	–	19,200	120,000	286p	455p	13.12.00
194,700	–	–	194,700	326p	–	11.12.01
272,000	–	–	272,000	439p	–	10.12.02
–	325,000	–	325,000	363p	–	21.12.08

° 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

(i) All the above figures have been adjusted to reflect the 2-for-1 capitalisation issue effective on June 30, 1997 and certain adjusted exercise prices are rounded down to the nearest whole penny.

(ii) All the options listed above relate to Shell Transport Ordinary shares. No options lapsed during the year. All options are exercisable at market price (no discount) at grant. The options with an expiry up to and including 2002 were exercisable from grant. The options expiring in 2008 are not exercisable within three years of grant, and 50% of those options are subject to a performance condition.

(iii) The middle market price of the Ordinary shares on December 31, 1998 was 369p and the price range during the year was 316p to 464p.

(iv) There were no changes in the above interests in options during the period from December 31, 1998 to March 9, 1999.

FINANCIAL STATEMENTS

Profit and Loss Account

£ million

	1998	1997	1996
Income from shares in companies of the Royal Dutch/Shell Group (Note 3)	**1,342.4**	1,301.0	1,121.9
Interest and other income	**8.3**	12.3	14.4
	1,350.7	1,313.3	1,136.3
Administrative expenses	**4.4**	6.8	3.9
Profit on ordinary activities before taxation	**1,346.3**	1,306.5	1,132.4
Tax on profit on ordinary activities (Note 4)	**1.2**	2.6	3.4
Distributable profit for the year	**1,345.1**	1,303.9	1,129.0
(Distributions from retained earnings)/ Share of earnings retained by companies of the Royal Dutch/Shell Group (Note 6)	**(1,292.8)**	464.2	986.2
Earnings for the year attributable to shareholders	**52.3**	1,768.1	2,115.2

Statement of Retained Profit

£ million

	1998	1997	1996
Distributable profit for the year	**1,345.1**	1,303.9	1,129.0
Distributable retained profit at beginning of year	**18.3**	17.6	112.3
	1,363.4	1,321.5	1,241.3
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
	1,362.8	1,320.9	1,240.7
deduct			
Dividends on equity shares; 25p Ordinary shares			
Interim of 5.3p in 1998, 5.1p in 1997 and 4.8p in 1996	**527.0**	507.1	477.3
Proposed final of 8.2p in 1998, final of 8.0p in 1997 and 7.5p in 1996	**815.4**	795.5	745.8
	1,342.4	1,302.6	1,223.1
Distributable retained profit at end of year	**20.4**	18.3	17.6

Earnings per 25p Ordinary share*

pence

	1998	1997	1996
Distributable profit for the year	**13.5**	13.1	11.3
(Distributions from retained earnings)/ Share of earnings retained by companies of the Royal Dutch/Shell Group	**(13.0)**	4.7	10.0
Earnings for the year attributable to shareholders	**0.5**	17.8	21.3

Of the earnings per share amounts shown above, which are disclosed in accordance with Financial Reporting Standard No. 14, 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.

*On 9,943,509,726 shares in issue after the capitalisation issue in June 1997. The amounts shown for 1996 have been adjusted for this issue.

Balance Sheet

£ million

	December 31 1998	December 31 1997
Fixed assets		
Investments		
Shares (unlisted) in companies of the Royal Dutch/Shell Group (Note 6)	**13,412.4**	14,580.9
Current assets		
Debtors		
Dividends receivable from companies of the Royal Dutch/Shell Group	**815.4**	791.5
Other debtors	**1.4**	4.1
	816.8	795.6
Cash at bank		
Short-term deposits	**61.9**	142.0
Cash	**26.0**	13.8
	904.7	951.4
Creditors: amounts due within one year		
Amounts due to companies of the Royal Dutch/Shell Group	**60.3**	129.5
Corporation tax	**0.4**	0.2
Unclaimed dividends	**6.9**	6.4
Other creditors and accruals	**2.8**	3.0
Preference dividends accrued	**0.2**	0.2
Ordinary dividend proposed	**815.4**	795.5
	886.0	934.8
Net current assets	**18.7**	16.6
Total assets less current liabilities	**13,431.1**	14,597.5
Capital and reserves		
Equity interests		
Called-up share capital (Note 7)		
Ordinary shares	**2,485.9**	2,485.9
Revaluation reserve (Note 6)	**10,912.8**	12,081.3
Profit and Loss Account	**20.4**	18.3
	13,419.1	14,585.5
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)	**13,431.1**	14,597.5

M Moody-Stuart

M Moody-Stuart, Chairman and Managing Director
March 11, 1999

FINANCIAL STATEMENTS

Statement of Recognised Gains and Losses

	1998	1997	1996
			£ million
Distributable profit for the year	**1,345.1**	1,303.9	1,129.0
Unrealised surplus/(deficit) on revaluation of investments in companies of the Royal Dutch/Shell Group (Note 6)	**(1,168.5)**	(289.7)	(317.5)
Total recognised gains and losses relating to the year	**176.6**	1,014.2	811.5

Statement of Cash Flows

	1998	1997	1996
			£ million
Returns on investments and servicing of finance			
Dividends received from companies of the Royal Dutch/Shell Group	**1,318.5**	1,143.2	1,144.8
Interest received	**9.9**	11.6	14.4
Preference dividends paid	**(0.6)**	(0.6)	(0.6)
Other	**(3.8)**	(5.2)	(3.1)
Net cash inflow/(outflow) from returns on investments and servicing of finance	**1,324.0**	1,149.0	1,155.5
Taxation			
Tax (paid)/recovered	**(0.2)**	(6.5)	(3.6)
Equity dividends paid			
Ordinary shares	**(1,322.5)**	(1,252.9)	(1,153.4)
Management of liquid resources (short-term deposits)			
Net cash inflow/(outflow) from management of liquid resources	**80.1**	112.0	(4.7)
Financing			
Net increase/(decrease) in amounts due to companies of the Royal Dutch/Shell Group	**(69.2)**	5.9	11.8
Increase/(Decrease) in cash	**12.2**	7.5	5.6
Cash at January 1	**13.8**	6.3	0.7
Cash at December 31	**26.0**	13.8	6.3

Net debt, being amounts due to companies of the Royal Dutch/Shell Group less cash, decreased during 1998 from £115.7 million to £34.3 million (1997: decreased from £117.3 million to £115.7 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 13 to 16 herein have been prepared in accordance with the Companies Act 1985 and with applicable accounting standards. 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). The disclosures described in Note 3 have been derived from the Royal Dutch/Shell Group Financial Statements.

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 amounted 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. In view thereof the Parent Companies agreed that the tax benefit to Shell Transport for the 1997 final dividend and the 1998 interim dividend would be 4% of total Group income divisible for 60:40 purposes. It was also agreed that as a result of the abolition of advance corporation tax as from April 6, 1999 there would be no tax benefit to Shell Transport for the 1998 final and subsequent dividends. This has the effect of Shell Transport receiving the whole of its entitlement in cash.

3 Share in the income and assets 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 44 to 65 together with 40% of the cost of Parent Companies' shares held by Group companies. 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 certain items relating to the three Group Holding Companies, described in Note 6, is set out below. The Group Holding Companies own directly or indirectly the investments, which, with them, comprise the Group. The following supplementary information has therefore been provided in respect of the Group Holding Companies in the aggregate and is derived from the Group Financial Statements on pages 44 to 65.

£ million

	1998	1997	1996
Sales proceeds	**33,440.2**	41,908.8	44,013.6
Sales taxes, excise duties and similar levies	**10,781.7**	10,619.2	11,182.0
Net proceeds	**22,658.5**	31,289.6	32,831.6
Operating profit after net currency gains/losses	**751.9**	3,782.0	4,376.0
Interest and other income	**152.1**	222.8	238.0
Interest expense	**322.4**	285.6	267.2
Income before taxation	**581.6**	3,719.2	4,346.8
Taxation	**462.6**	1,814.0	2,002.0
Minority interests	**34.4**	10.8	68.4
Net income for the year	**84.6**	1,894.4	2,276.4
Fixed assets	**19,941.4**	19,584.0	19,118.0
Current assets	**6,580.6**	8,074.8	10,180.8
Current liabilities	**7,503.5**	7,180.0	7,810.0
Long-term liabilities	**2,091.3**	1,973.6	2,140.4

This supplementary information has been calculated in conformity with the accounting policies on pages 47 to 49 of the Group Financial Statements. These policies differ in certain respects from accounting principles generally accepted in the United Kingdom, the principal difference being in respect of the provision for deferred taxation. If deferred taxation had been provided in the Group Financial Statements under UK accounting principles, it has been estimated that Shell Transport's share of Group net assets would increase by approximately £1.3 billion (1997: £1.7 billion).

Shell Transport's distributions from Group companies were as follows:

£ million

	1998	1997	1996
Distributions from Group companies and tax benefit referable thereto	**1,401.0**	1,516.3	1,402.3
deduct referable tax benefit	**58.6**	215.3	280.4
Distributions from Group companies	**1,342.4**	1,301.0	1,121.9

4 Tax on profit on ordinary activities

£ million

	1998	1997	1996
Corporation tax at 31% (1997: 31.5% and 1996: 33%) in respect of interest income less administrative expenses	**1.2**	2.6	3.4

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

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

5 Preference dividends

In accordance with the Finance Act 1972 dividends in respect of the First and Second Preference shares were payable between April 6, 1973 and April 5, 1999 at the rate of 3.85% per annum and 4.9% per annum respectively. Under the Finance Act 1998 the dividend rights on the Preference shares for payments after April 5, 1999 will be restored to the respective nominal coupon rates of 5.5% per annum and 7% per annum.

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.

NOTES TO FINANCIAL STATEMENTS

6 Investments in Group companies continued

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

	£ million	
	1998	1997
Cost of Shell Transport's investments in Group companies	**178.4**	178.4
Shell Transport's share of		
Profits capitalised by Group companies	**781.0**	786.0
Earnings retained by Group companies	**12,569.2**	13,857.0
Parent Companies' shares held by Group companies	**(168.7)**	–
Other comprehensive income	**(87.0)**	(240.5)
Currency translation differences	**(29.2)**	–
	13,243.7	14,580.9
40% of cost of Parent Companies' shares held by Group companies	**168.7**	–
	13,412.4	14,580.9

From 1998 the Group Financial Statements are published in US dollars instead of sterling. The effect is shown above in the line "Currency translation differences".

The treatment of Parent Companies' shares held by Group companies has been changed in the Group Financial Statements with effect from January 1, 1998. Such shares are no longer included in the Group's net assets and have been added back to arrive at Shell Transport's investment in Group companies. This effect is shown in the line "Parent Companies' shares held by Group companies".

The movements in the Revaluation reserve are represented by:

	£ million	
	1998	1997
As at January 1	**12,081.3**	14,028.3
(Distributions from retained earnings)/Share of earnings retained by Group companies out of net income	**(1,292.8)**	464.2
Share of other comprehensive income for the year	**153.5**	(753.9)
Currency translation differences	**(29.2)**	–
	(1,168.5)	(289.7)
Applied towards the capitalisation issue of 6,629,006,484 Ordinary shares of 25p each	**–**	(1,657.3)
	(1,168.5)	(1,947.0)
As at December 31	**10,912.8**	12,081.3

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, as the investments are stated in the Balance Sheet on a valuation basis, it is necessary to report that, if the investments were to be disposed of for the amount stated, a taxation liability of approximately £756 million would arise (1997: £1,238 million).

7 Share capital

At December 31, 1998 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

	£ million	
	1998	1997
Distributable profit for the year	**1,345.1**	1,303.9
Dividends	**(1,343.0)**	(1,303.2)
Unrealised surplus/(deficit) on revaluation of investments in companies of the Royal Dutch/Shell Group (Note 6)	**(1,168.5)**	(289.7)
Net addition to/(reduction in) Shareholders' funds	**(1,166.4)**	(289.0)
Shareholders' funds at January 1	**14,597.5**	14,886.5
Shareholders' funds at December 31	**13,431.1**	14,597.5

9 Auditors' remuneration

Audit fees of Shell Transport amounted to £7,515 in 1998, £7,515 in 1997 and £8,350 in 1996. Other fees amounted to £7,130 in 1998, £4,080 in 1997 and £3,130 in 1996. All amounts are stated exclusive of value added tax.

10 Aggregate Directors' emoluments

			£
	1998	1997	1996
Salaries, fees and benefits	**1,350,691**	1,315,862	1,131,431
Performance-related element	**–**	233,000	324,100
	1,350,691	1,548,862	1,455,531
'Excess' retirement benefits (Note v)	**15,839**	4,128	–
Realised share option gains	**1,347,783**	1,355,880	1,010,880

Notes

(i) With effect from 1998 the performance-related elements of Directors' emoluments are included in the year to which they relate. The relevant figures for 1997 and 1996 have been restated on a consistent basis. Prior to 1998, performance-related payments were not considered nor approved before finalisation of the accounts for the year under review. Accordingly, amounts disclosed were those determined and paid in that financial year but relating to the prior financial year. Performance-related awards for Mr M Moody-Stuart and Mr P Watts in respect of 1997, which were not available for inclusion in the accounts of that year, were £132,750 and £100,250, amounting to £233,000 in total.

(ii) The highest paid Director (including realised share option gains and excluding pensions) in 1996 was Sir John Jennings, and in 1997 and 1998 was Mr M Moody-Stuart.

(iii) The salaries and fees 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.

(iv) Of the emoluments disclosed £294,427 in 1998, £229,688 in 1997, and £202,941 in 1996 were borne by Shell Transport and charged in the Profit and Loss Account.

(v) 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.

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.

REPORT OF THE AUDITORS

To the Members of The "Shell" Transport and Trading Company, p.l.c.

We have audited the Financial Statements on pages 13 to 16. We have also examined the amounts disclosed relating to the emoluments, share options and pension benefits of the Directors which form part of the Remuneration Report on pages 11 and 12.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report, including as described above, the Financial Statements. Our responsibilities, as independent Auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the Financial Statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' Report is not consistent with the Financial Statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements.

We review whether the Statement on page 10 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's corporate governance procedures or its internal controls.

Basis of audit 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 from 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.

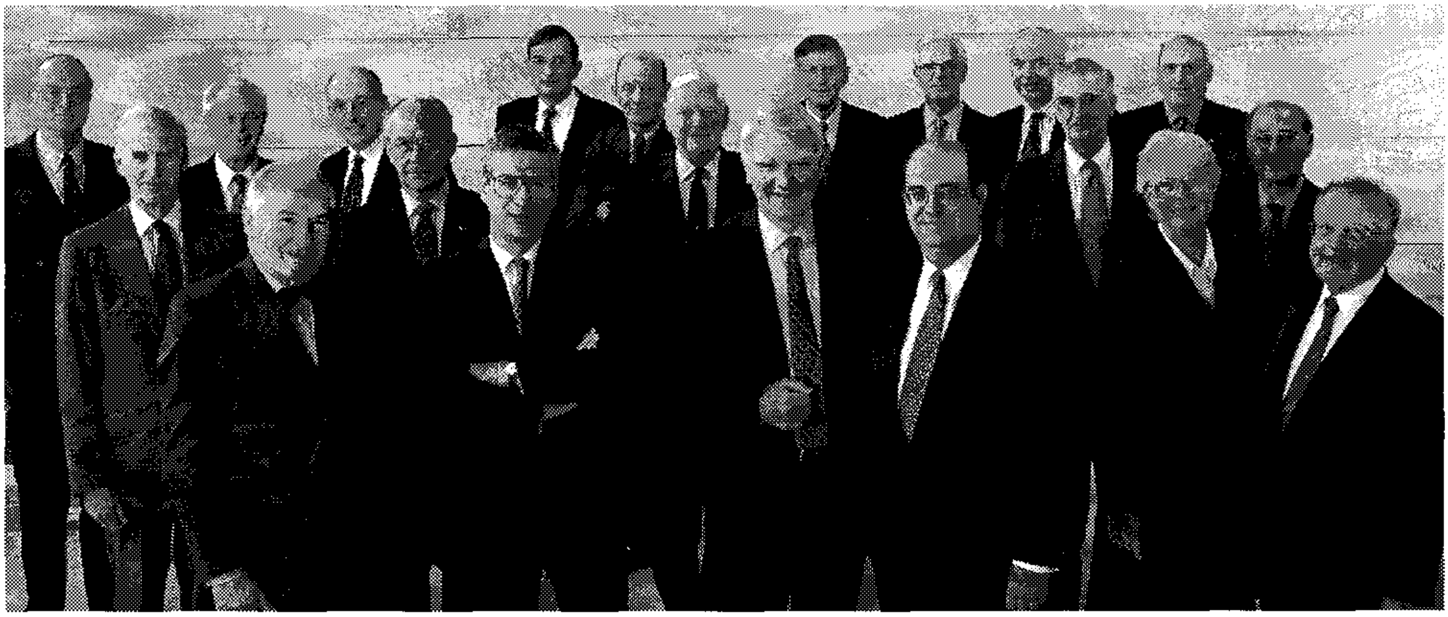
Opinion

In our opinion the Financial Statements give a true and fair view of the state of the Company's affairs at December 31, 1998 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London, March 11, 1999

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.

**Royal Dutch
Supervisory Board**

1 **L C van Wachem**
Chairman

2 **K V Cassani**

3 **J M H van Engelshoven**

4 **A G Jacobs**

5 **Jonkheer A A Loudon**

6 **H de Ruiter**

7 **J D Timmer**

**Royal Dutch
Board of Management**

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

9 **S L Miller**
Managing Director

10 **J van der Veer**
Managing Director

**Shell Transport
Board of Directors**

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

12 **P B Watts**
Managing Director

13 **Sir Antony Acland**

14 **T A Alireza**

15 **Dr E Buttle**

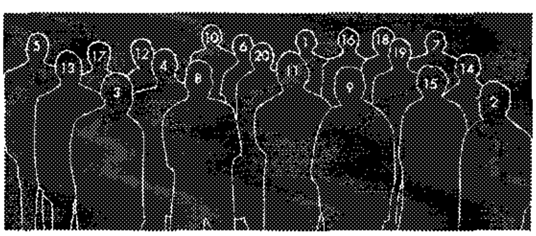
16 **Sir Peter Holmes**

17 **Sir John Jennings**

18 **Professor R J O'Neill**

19 **Sir Ronald Oxburgh**

20 **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. and Managing Directors of The Shell Petroleum Company Limited, which are 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.

Steve Miller Maarten van den Bergh Mark Moody-Stuart Jeroen van der Veer Phil Watts

Group Managing Directors, their functional and geographic interests within the Committee of Managing Directors, and the respective principal executives of the Service Companies.

S L Miller	**M A van den Bergh** Vice-Chairman	**M Moody-Stuart** Chairman	**J van der Veer**	**P B Watts**
Oil Products	Downstream Gas and Power Generation Finance (including Pensions) Social Investment	Corporate Advice Human Resources Legal Planning, Environment and External Affairs	Chemicals Renewables Shell Services International Hague and London Offices Group Research	Exploration and Production
Europe	East Asia and Australasia	USA and Canada	CIS, Central and Eastern Europe, Middle East and South Asia	Western Hemisphere and Africa
P D Skinner Chief Executive – Oil Products	**R M Cox** Group Controller **S M G Hodge** Group Treasurer **K de Segundo** Chief Executive – Downstream Gas and Power Generation	**P L Folmer** Director – Legal **J D Hofmeister** Director – Human Resources **C Mather** Director – Corporate Advice **R J W Walvis** Director – Planning, Environment and External Affairs	**L Brass** Chief Executive – Shell Services International **J W Dawson** Chief Executive – Renewables **E Henkes** Chief Executive – Chemicals	**P B Watts** Chief Executive – Exploration and Production

OPERATIONAL AND FINANCIAL REVIEW
BUSINESS OVERVIEW

Operating in more than 130 countries around the world, the companies of the Royal Dutch/Shell Group are engaged in the core businesses of **Exploration and Production, Oil Products, Chemicals, Downstream Gas and Power Generation,** and **Renewables.**

The information on this page and those following profiles the Group's core Businesses, and presents their financial performance during 1998 as well as other Group matters.

EXPLORATION AND PRODUCTION

Searching for oil and gas fields by means of seismic surveys and exploration wells; developing economically viable fields by drilling additional wells and building the infrastructure of pipelines and treatment facilities necessary for delivering the hydrocarbons to market.

OIL PRODUCTS

Refining and processing crude oil and feedstocks into transportation fuels, lubricants, heating and fuel oils, liquefied petroleum gas and bitumen; distributing and marketing them – together with complementary services – to meet customer needs.

CHEMICALS

Processing hydrocarbon feedstocks into the chemical precursors of all manner of modern products – plastics, detergents, solvents and coatings, to name but a few; supplying catalysts to the oil refining and petrochemical industries.

DOWNSTREAM GAS AND POWER GENERATION

Processing, selling and delivering natural gas by long-distance pipeline and – in liquefied form – by tanker; selling and delivering the liquid by-products of natural gas processing; providing local gas supplies; developing and operating power stations.

RENEWABLES

Cultivating sustainable, commercial hardwood forests; converting wood fuel into marketable

N IN 1998	OUTLOOK	STRATEGY
portfolio was strengthened through a of transactions. Shell Oil in the USA has vestigating options to dispose of certain oint-venture interests and to restructure the int venture. Cutbacks in the worldwide expenditure programme and reductions power have been announced.	Crude oil prices are expected to remain low and volatile. Over the next five years, oil production and gas sales are planned to grow – at an average annual rate of 4% for oil and 6% for gas. Increases in oil production are expected from the UK, the USA and Australia. Increases in gas sales are expected from Egypt, Oman, Nigeria, the Philippines and the UK as well as from the new Argentinian acquisition and Pakistan venture.	Maximise long-term value with increased emphasis on short-term profitability, cost leadership and production growth. Implement strategy through selective investments and active portfolio management. Take advantage of the global leverage of technology, research, skills and practices to support Group companies as the preferred partner of both resource holders and other companies in the industry.
marketing initiatives were aggressively : the introduction of new fuels; changes ay retail networks are managed; and an on in the number of convenience stores – g several stand-alone stores. Improvements perational performance of refineries were sued, learning from best practice both e Group and within the industry as a whole. l restructured its oil products business into joint ventures: Equilon and Motiva.	High oil-product inventories will continue to put refining margins under pressure. In Europe and the USA an economic slowdown could affect growth in oil demand and therefore limit any improvement in margins. In the Asia-Pacific region overcapacity will limit the scope for sustainable margin improvement in the near term. The intensity of competition in retail markets is expected to continue, exerting pressure on gross marketing margins for fuels.	Continue to focus on the customer, thereby identifying opportunities for extensions to the product range and for innovative combinations of products and services. Improve profitability of existing assets by offering more premium fuels, convenience stores and site services. Maintain emphasis on structural cost control, operational excellence and active portfolio management, including refinery rationalisation.
ent with a major review of the portfolio, steps were announced: the formation of gic alliance with ICI in the global rigid thane foam market and the acquisition of oxylation unit and associated business in the sale of Group interests in plastic pipe cturing and general purpose rubber; the hment of joint ventures with BASF, and owa Denko and Nippon Petrochemicals.	Trading margins, and hence profitability, are expected to be under severe pressure for much of 1999. The possibility of further economic shocks in the Asia-Pacific region cannot be excluded, and uncertainty remains about the effect of the region's recession on economies elsewhere.	Focus the portfolio on major cracker products, petrochemical building blocks and large-volume polymers. Consequently, reduce the number of product businesses from 21 to 13 and cut the capital employed by about 40%. The businesses that remain will not only be consistent with established skills but also share common ingredients for success – leading technologies and the capability to build and operate world-scale plants.
il acquired Tejas, a gas distribution rketing company. But parts of Tejas are forming as expected, and the decision en to partially sell and restructure of its assets. The UK gas-marketing r bases of Total and Texaco were sed. The joint-venture company n commissioned two new power stations.	Being linked to the price of oil, the price of gas is also likely to remain at low levels. Current investment plans have been scaled back, but they nevertheless represent a substantial continuing commitment to growing the business. Indeed, the long-term growth prospects for gas and power demand are still judged to be good.	Grow the Business on the basis of equity gas, through construction of LNG plants and gas transmission pipelines. Position the Business through development of pipelines, power stations, distribution systems and energy trading, and via acquisitions. Become a leading player in the deregulating gas and power markets. Capitalise on the Business's technology leadership.
investments continued in solar photovoltaics cturing capacity at Helmond in the lands and at Gelsenkirchen in Germany. ents also were made in forestry assets in America and in biomass in Norway.	Renewable resources are expected to account for between 5% and 10% of the world's energy supply within 25 years, perhaps rising to as much as 50% by 2050. In the short term, renewables will compete in niche markets. Outside of those markets, they will continue to be supported by government policies reflecting environmental and developmental concerns.	Build on the Group's existing experience in forestry, solar photovoltaics and fuel-combustion technologies. Gain a competitive advantage in wind energy from Group skills in the design, implementation and operation of complex engineering projects.

OPERATIONAL AND FINANCIAL REVIEW
SUMMARY OF GROUP RESULTS

Financial Results — $ million

	1998	1997	1996
Net income	**350**	7,753	8,886
Change	***–95%***	*–13%*	*+28%*
Earnings on an estimated current cost of supplies (CCS) basis	**901**	8,125	8,274
Change	***–89%***	*–2%*	*+21%*
Special credits/(charges)	**(4,245)**	94	148
Adjusted CCS earnings[a]	**5,146**	8,031	8,126
Change	***–36%***	*–1%*	*+14%*
Return on average capital employed[b]	**2.8%**[c]	12.0%	12.0%

[a] Earnings on an estimated CCS basis excluding special items.

[b] CCS earnings plus minority interests plus interest expense less tax on the interest expense as a percentage of average capital employed.

[c] Estimated to be 8.4% on adjusted CCS earnings basis.

Excluding special items, earnings on an estimated current cost of supplies (CCS) basis were $5,146 million, 36% below the 1997 level. The decrease in adjusted CCS earnings was mainly the result of the 33% fall in crude oil prices and the impact of the recession in the Asia-Pacific region. Reported net income, which includes the impact of special charges totalling $4,245 million after tax, was $350 million in 1998. The special charges were due mainly to the impairment of assets and to restructuring and redundancy charges.

Cash flow provided by operating activities amounted to $14,729 million, some 12% below the 1997 figure. Capital investment for the year totalled $15,736 million, up 4% from 1997.

COUNTRIES OF OPERATIONS

The nature of the operations carried out during the year in each country listed at right is indicated by the letters shown in the following key:

Key

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

Western Europe

Austria E P M N
Belgium M N C O
Denmark E P R M N C Rn O
Finland M
France R M C
Germany E P R M N C Rn
Gibraltar M
Greece M
Iceland M
Ireland, Republic of E M
Italy R M C O
Luxembourg M
Netherlands E P R M N C Rn
Norway E P R M N Rn
Portugal M C
Spain M C
Sweden R M
Switzerland R M
United Kingdom E P R M N C Rn

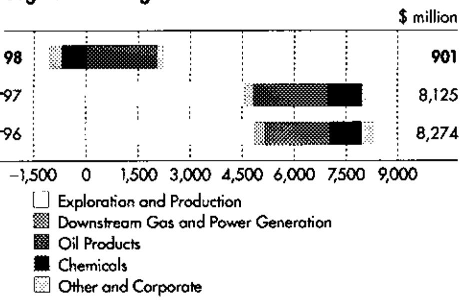
CIS, Central and Eastern Europe

Albania E
Azerbaijan M
Bulgaria M
Croatia M
Czech Republic R M
Estonia M
Hungary M
Kazakhstan E
Latvia M
Lithuania M
Poland M
Romania M
Russia E P M N
Serbia M
Slovakia M
Slovenia M
Turkmenistan M
Uzbekistan M

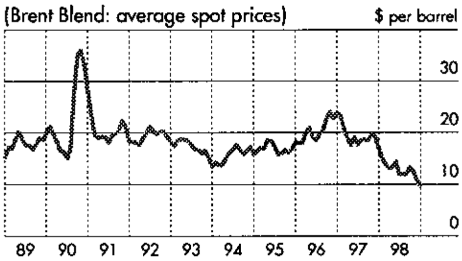
Africa

Angola E M
Benin M
Botswana M
Burkina Faso M
Cameroon E P R M
Cape Verde M
Chad E M
Congo E Rn
Côte d'Ivoire E R M
Democratic Republic of Congo E P M
Djibouti M
Egypt E P M N
Eritrea M
Ethiopia M
Gabon E P R M
The Gambia M
Ghana M
Guinea M

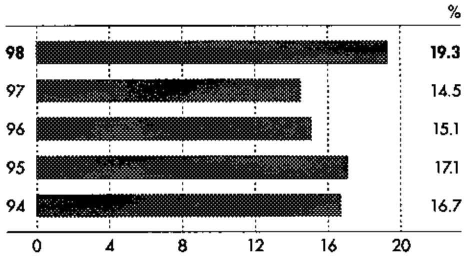
Segment Earnings on a CCS basis



Crude Oil Prices
(Brent Blend: average spot prices)



Total Debt Ratio[a]



[a]Total debt as a percentage of capital employed.

Crude oil production – at 2.4 million barrels a day – was 1% higher than in 1997; natural gas sales – at 7.9 billion cubic feet a day – were 2% lower. Compared with last year, oil product sales volumes, including the Group share of the volumes sold by Equilon and Motiva in the USA, increased by 3%. Chemical sales volumes increased by 2%.

In 1998 the price of Brent crude averaged $12.75 a barrel, whereas a year earlier it averaged $19.10 a barrel. Although production restraint by OPEC and certain non-OPEC countries supported prices somewhat, it was not enough to prevent Brent crude from sinking in December below $10 a barrel for the first time since 1986. Significant upward movement in oil prices is unlikely until the current inventory excess has been cleared. Being linked to the price of oil, the price of gas is also likely to remain at low levels.

Average 1998 refining margins in the Asia-Pacific region decreased to $1.35 a barrel from $2.05 a barrel in 1997. This reflects the decline in regional oil demand combined with an emerging refining capacity surplus. Average 1998 per-barrel margins improved by $0.10, to $2.20, in Europe and by $0.30, to $2.00, on the US Gulf Coast. Margins in 1999 will remain under pressure from high oil product inventories, particularly those of distillates. In Europe and the USA a possible economic slowdown could affect oil demand growth and may restrict any further upswing in the margins. In the Asia-Pacific region the overcapacity will limit the scope for sustainable margin improvement in the near term.

The range and intensity of competition in retail markets will continue to exert pressure on gross marketing margins for fuels.

Chemicals trading conditions have deteriorated compared with last year, mainly because of the increasing global impact of the recession in the Asia-Pacific region.

Africa

Guinea-Bissau M
Kenya R M
Lesotho M
Mali M
Mauritius M
Morocco E M
Namibia E M
Niger M
Nigeria E P M N
Réunion M
Senegal R M
South Africa R M C Rn O
Sudan M
Swaziland M
Togo M
Tunisia M
Uganda M
Zimbabwe M

Middle East and South Asia

Bangladesh E P
India E M
Iran E M
Jordan M
Oman E P M N
Pakistan E P R M
Saudi Arabia R M C
Sri Lanka M
Syria E P N
Turkey R M
United Arab Emirates E P M N
Yemen M

Asia-Pacific

Australia E P R M N C O
Brunei E P R M N
Cambodia M
China E P M N
Fiji M Rn
Guam M
Indonesia E M
Japan R M C Rn
Laos M
Malaysia E P R M N
New Zealand E P R M N C Rn
Papua New Guinea M
Philippines E P R M N
Singapore R M C
South Korea M C
Taiwan M
Thailand E P R M N C
Vanuatu M
Vietnam M

Americas

Argentina E P R M N C Rn
Bahamas M
Barbados M
Belize M
Bermuda M
Bolivia M N
Brazil P M N C Rn
British Antilles & Guyana M
Canada E P R M N C O
Chile M C Rn
Colombia E M N
Costa Rica M
Dominican Republic R M
Ecuador M
El Salvador R M
Falklands E
French Antilles & Guiana R M
Guatemala M
Haiti M
Honduras M
Jamaica M
Mexico M N C
Nicaragua M
Panama M
Paraguay M Rn
Peru E M
Puerto Rico M
Surinam M
Trinidad & Tobago E M
Uruguay M Rn
USA E P R M N C Rn O
Venezuela P M O

OPERATIONAL AND FINANCIAL REVIEW
EXPLORATION AND PRODUCTION

A train of heavy-duty vehicles proceeds in methodical stop-go fashion over the Great Sandy Desert of the Australian Outback. At each stop, the vehicles press plates to the ground and vibrate them in synchrony, emitting the seismic waves that are then used to map the subsurface. Such choreography, however, first requires careful mapping above ground. It also requires close liaison with the local Aboriginal community who undertake surveys of their own to map sites of cultural significance, which are then avoided by the vehicles.

OPERATIONAL AND FINANCIAL REVIEW EXPLORATION AND PRODUCTION

Earnings			$ million
	1998	1997	1996
Group excluding Shell Oil and Shell Canada	**971**	3,293	3,538
Shell Oil and Shell Canada	**(1,218)**	1,276	1,333
Total segment earnings	**(247)**	4,569	4,871
Special credits/(charges)	**(2,221)**	–	129
Adjusted segment earnings	**1,974**	4,569	4,742
Change	***–57%***	*–4%*	*n/a*
Production costs[a]	**4,767**	5,302	6,019
Exploration expense[a,b]	**1,591**	1,154	1,117
Taxation	**1,735**	5,775	5,983

[a] Excluding associated companies.
[b] Excludes depreciation and release of currency translation differences.

Earnings for 1998

Excluding special items, 1998 earnings amounted to $1,974 million – 57% less than 1997 earnings. The main reasons for the decrease were lower crude oil prices and reduced natural gas realisations. Net income for 1998, which includes the impact of special charges totalling $2,221 million, came to a loss of $247 million. The single most important factor in determining the special charges was the downward revision in expectation of long-term sustained prices used for investment evaluation and impairment, to $14 a barrel for Brent crude oil.

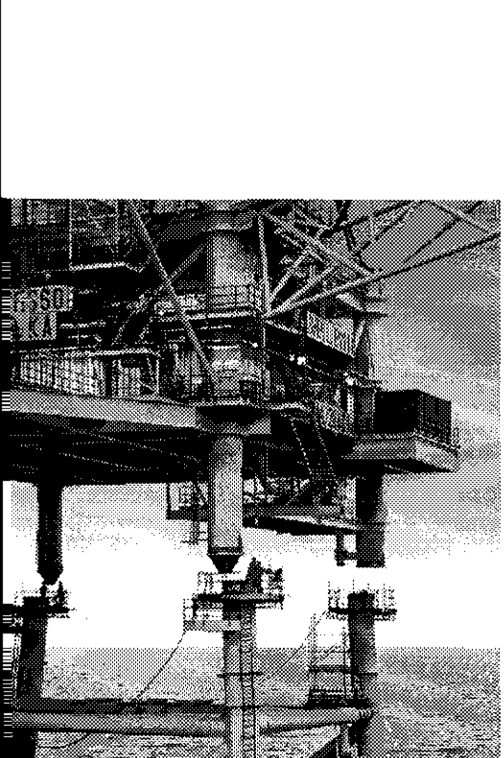
Excluding Shell Oil and Shell Canada, earnings dropped by 71% from their 1997 level, to $971 million. Whereas 1997 earnings did not include any special items, the 1998 earnings include $729 million of special charges mainly related to asset write-downs in Venezuela and the UK (both due in part to poor reservoir performance), exploration expense write-offs in Peru and various redundancy charges. Excluding these 1998 special items, earnings were down 48%.

Shell Oil and Shell Canada earnings in 1998 were severely affected by write-downs in the USA, which totalled $1.5 billion. These write-downs are mostly related to impairment of assets in Altura, the onshore Texas/New Mexico joint venture, and in Aera, the Californian joint venture. Excluding special items, earnings declined by 79%, to $274 million, mainly as a consequence of the lower oil and gas prices. In the case of Shell Canada, earnings were also adversely affected by the lower production volumes due to asset divestments during the year.

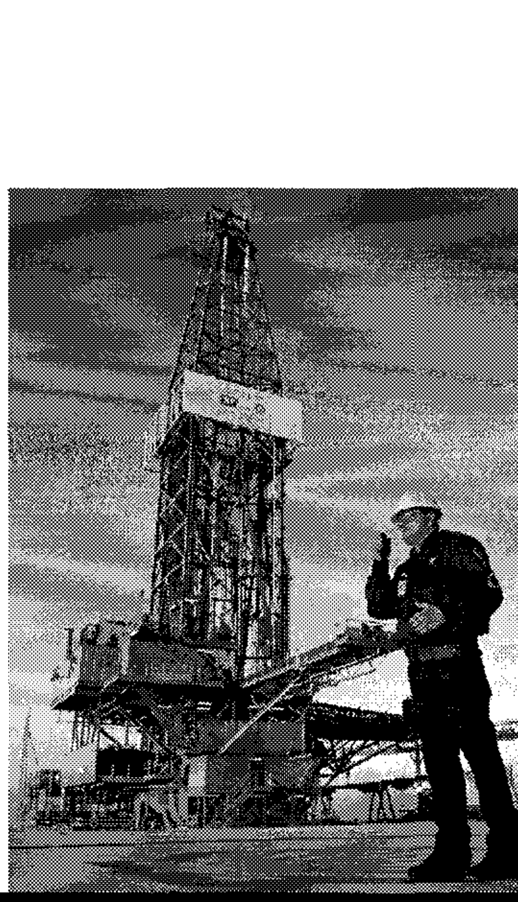
Oil production and gas sales

Oil production was up 1%: increases in some countries were almost entirely offset by decreases in others. Those countries reporting increases were the USA, the UK, Syria and Malaysia; those reporting decreases were Gabon, Nigeria and Colombia. The production decrease in Nigeria was mainly due to community disturbances, whereas in Colombia it was due to the divestment of producing interests.

World-wide, gas sales decreased by 2%. Malaysia, in particular, lost sales not only because of the suspension of deliveries to the country's Shell Middle Distillate Synthesis plant, which was shut down by an explosion at the end of 1997, but also because of the Asia-Pacific crisis. In the USA gas sales were up 6%, the increase coming largely from the deep-water fields in the Gulf of Mexico.

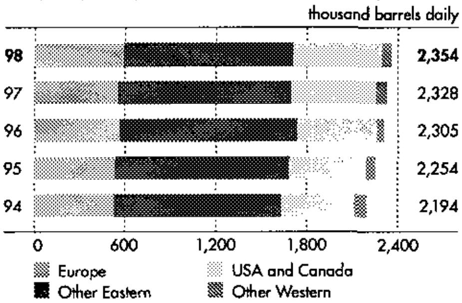


Dwarfing the workers at its feet, a 1,250-tonne "topsides" was eased down by a mammoth floating crane onto a new gas-production platform in the Ketch field, in the southern North Sea. The platform is designed to handle as much as 180 million cubic feet of gas a day flowing up through as many as 12 wells from a reservoir some 12,500 feet under the sea.

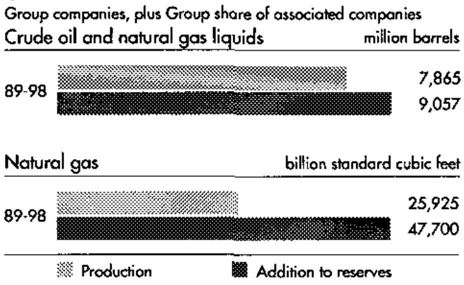


Paul Griffin stands on the helipad of the Ram/Powell tension-leg platform in the Gulf of Mexico. With five producing wells, the platform processed an average of 45,370 barrels of oil and 268 million cubic feet of gas each day. With the completion of a sixth well, production is expected to increase to around 55,000 barrels of oil a day and 290 million cubic feet of gas a day.

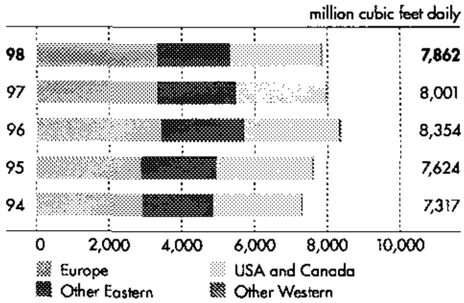
Oil Production (including natural gas liquids)
Group companies, plus Group share of associated companies
thousand barrels daily



Oil and Gas Reserves
Group companies, plus Group share of associated companies



Natural Gas Sales
Group companies, plus Group share of associated companies
million cubic feet daily



Crude oil prices

The decline in oil prices, which started in 1997 in reaction to the resumption of Iraqi exports (under UN auspices) and increases in OPEC quotas, continued throughout 1998. The deepening of the Asia-Pacific crisis, continued oversupply and mild winter weather in the Northern Hemisphere forced stock levels higher. Despite OPEC announcements to curtail output by some 3 million barrels a day, the world oversupply exerted downward pressure on oil prices. Consequently, the price of Brent crude decreased by $6.35 from its average 1997 price.

Capital investment

Major investments in the UK, Oman, Egypt, Nigeria and Argentina were largely responsible for the increase in capital expenditure relative to 1997. Exploration expenditure was also up significantly, reflecting higher activity levels. In reaction to the lower oil-price outlook and harsh business environment, however, capital investment plans for future years have been reduced substantially.

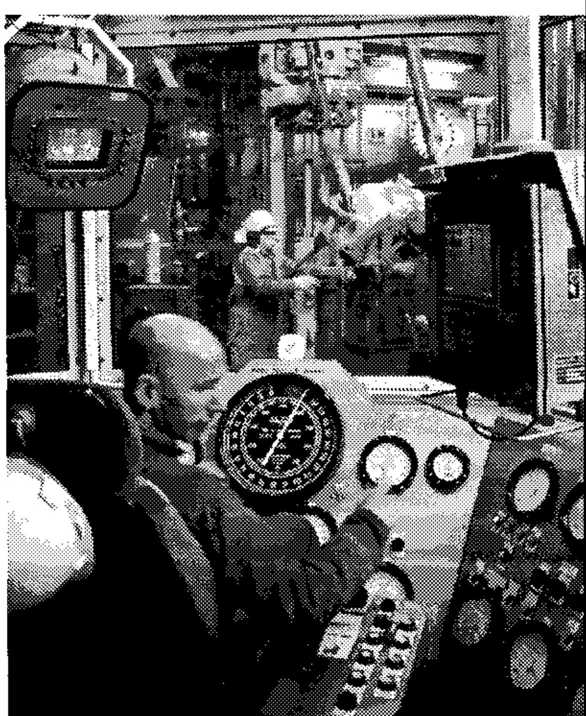
Reserves

During 1998 the Group's total proved reserves for oil (including natural gas liquids) and natural gas increased from 19.4 to 20.5 billion barrels of oil equivalent. (Definitions of reserves and figures for 1996–1998 are given on pages 66 to 68.) The net additions to proved reserves more than replaced the 1998 production, with replacement ratios of some 140% for oil (compared with 130% in 1997) and some 250% for gas (compared with 210% in 1997).

The additions to oil reserves arose mainly from revisions in existing fields in Nigeria, the UK and Oman, which were partially offset by reductions in Venezuela and the USA and by the disposition of Colombian interests. The additions to proved gas reserves result from increases and revisions in existing fields and from the acquisition of additional interests in gas fields in Malaysia, the Philippines, Bangladesh, Pakistan and Argentina.

A head-on view of a rotating drill bit shows the swirling pattern of drilling "mud" – a thermally activated mud emulsion (TAME), to be specific – that serves to lubricate the bit and sweep rock cuttings away. TAME was developed at a Group research centre as an effort to combine the environmental performance of water-based muds with the hole-stabilising properties of traditional oil-based muds.

Looking over the driller's shoulder on the Brent Charlie platform, one can see the array of read-outs and dials that enable him to operate machinery safely by remote control. The modern drilling equipment was installed in a major refurbishment that was part of the re-development of the massive Brent field in the North Sea.



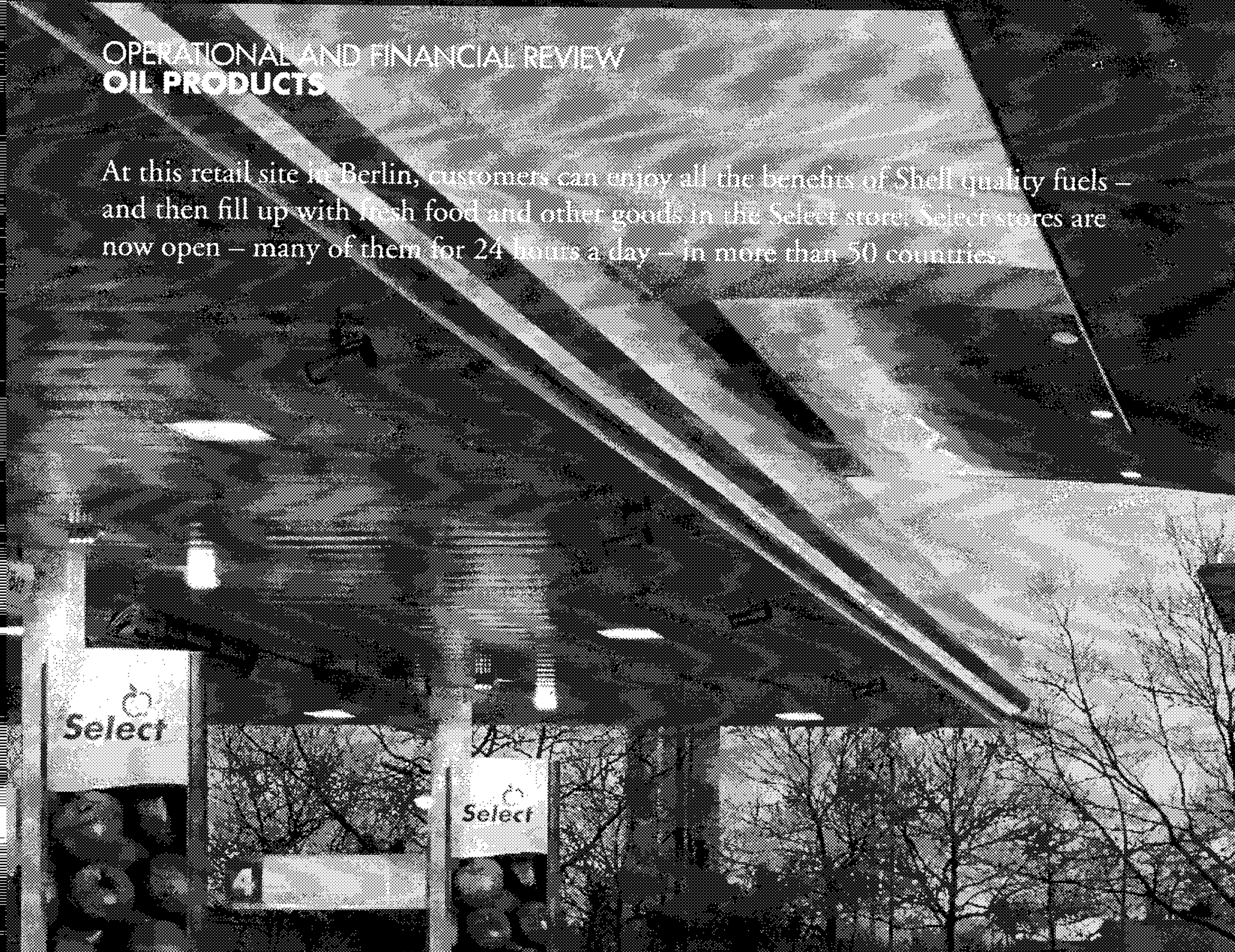
The latest of Shell Oil Company's tension-leg platforms has been installed in a water depth of 1,200 metres – almost three times the height of the world's tallest building, the Twin Towers in Kuala Lumpur. The platform will process crude oil and natural gas from the Ursa field in the Gulf of Mexico.

1,200m

OPERATIONAL AND FINANCIAL REVIEW

OIL PRODUCTS

At this retail site in Berlin, customers can enjoy all the benefits of Shell quality fuels – and then fill up with fresh food and other goods in the Select store. Select stores are now open – many of them for 24 hours a day – in more than 50 countries.



OPERATIONAL AND FINANCIAL REVIEW
OIL PRODUCTS

CCS Earnings			$ million
	1998	1997	1996
Group excluding Shell Oil and Shell Canada	**1,725**	1,666	1,527
Shell Oil and Shell Canada	**303**	503	376
Total segment earnings	**2,028**	2,169	1,903
Special credits/(charges)	**(207)**	(44)	(173)
Adjusted segment earnings	**2,235**	2,213	2,076
Change	***+1%***	*+7%*	*n/a*

Earnings for 1998

On an estimated current cost of supplies (CCS) basis, earnings excluding special items rose from $2,213 million in 1997 to $2,235 million in 1998, an increase of 1%. Before financing costs, 1998 earnings were 6% ahead of the year before. However, there were special charges of $207 million in 1998 compared with $44 million in 1997. Accordingly, CCS earnings fell from $2,169 million to $2,028 million.

The special items in 1998 included restructuring and redundancy charges of $212 million, charges of $106 million relating to asset disposals and impairment and $64 million from a change in accounting for start-up costs. Those charges, however, were partially offset by tax and other credits amounting to $175 million.

In 1998 there were inventory holding losses of $551 million, as prices continued to decline over the year. (In 1997 inventory holding losses amounted to $372 million.)

Average 1998 refining margins in the Asia-Pacific region decreased to $1.35 a barrel from $2.05 a barrel in 1997. The drop reflected the decline in regional oil demand combined with an emerging refining capacity surplus. In Europe average 1998 margins improved by $0.10 a barrel to $2.20 a barrel. On the US Gulf Coast margins also strengthened, rising by $0.30 a barrel to $2.00 a barrel.

Excluding Shell Oil and Shell Canada, full-year 1998 CCS earnings excluding special items were $1,839 million, 3% higher than in 1997. Earnings in marketing, which provided the greatest contribution to overall earnings, benefited from higher unit net marketing margins in all regions. Inland sales volumes grew by 2%, as higher volumes in Europe and Africa offset the impact of lower demand in the Asia-Pacific region. The expansion of the number of convenience stores, the restructuring of dealer contracts and the introduction of new fuel differentiation initiatives are examples of marketing programmes which were aggressively pursued in 1998. Refining performance also improved, notwithstanding lower industry margins in the Asia-Pacific region and lower overall utilisation as a result of reduced throughput in Singapore and planned maintenance shutdowns. These impacts were more than offset by higher utilisation of conversion capacity and lower depreciation expenses. Unit refining costs were unchanged despite

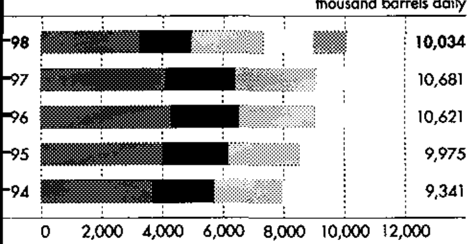
Bottled liquefied petroleum gas (LPG) offers a clean, reliable energy source in remote areas. The new LPG global organisation will bring added focus to this growth business.

Every four seconds on average, somewhere in the world, another aeroplane is refuelled by Shell Aviation.

4sec.

A road tanker serves as a roving billboard for the product it is carrying. Pura gasoline is super-refined for customers who want the cleanest petrol available to help reduce harmful emissions. Only three months after its launch in the Republic of Ireland, Pura was already accounting for as much as 20% of unleaded-gasoline sales.

Oil Sales



Oil Product Sales (excluding crude oil) thousand barrels daily

	1998	1997	1996
Europe	**1,842**	1,754	1,717
Other Eastern Hemisphere	**1,271**	1,284	1,234
USA and Canada	**2,143**[a]	1,862	1,763
Other Western Hemisphere	**578**	588	560
Export sales	**952**	1,072	1,042
	6,786	6,560	6,316
Change	**+3%**	+4%	+6%

[a] Includes Group share of Equilon and Motiva volumes (1,070 thousand barrels daily).

the higher planned maintenance programme. Refinery intake was 5% lower than a year earlier.

Net special charges for 1998 were $114 million compared with charges of $120 million in 1997. Included in the special items are provisions related to the major restructuring programme in Europe announced in November 1998 and to the impairment of the Shell Haven refinery in the UK, which is scheduled for closure by the end of 1999.

Shell Oil and Shell Canada earnings excluding special items totalled $396 million for 1998, $31 million below those for 1997.

The effects of lower refining margins in Shell Oil and higher financing costs in both Shell Oil and Shell Canada outweighed the benefits of increased sales volumes in Shell Canada. Shell Oil recorded special charges of $93 million for environmental, litigation and redundancy provisions; in 1997 it had recorded special credits of $76 million.

In 1998 Shell Oil restructured its oil products business into two new ventures, Equilon and Motiva. Together, they hold a significant position in the US refined products industry.

Capital investment

Capital investment during 1998, amounting to $2.9 billion, was lower than in 1997, when it amounted to $4.1 billion. The reduction can in part be explained by the fact that the capital expenditure within Equilon and Motiva is not included in the 1998 figure. Even so, capital expenditure in both refining and marketing was down.

The only major refinery unit under construction is a new long-residue catalytic cracker at the Port Dickson refinery in Malaysia. In marketing outside North America, investment in the retail segment represented the major proportion of expenditure, including an increase in the number of "Select" convenience stores. Group companies' leading position in specialities – liquefied petroleum gas, lubricants and bitumen – was supported through continued expenditure.

Cleanliness and service are key features of this oil-change centre in Argentina – as they are in all such Shell Helix Express centres. Not only are the oil and oil filter changed, but also 10 other free checks are carried out for every customer – and all in just 15 minutes.

These children are learning an important lesson as they play the Shell Traffic Game in Singapore. Fatalities from road accidents are increasing world-wide, and Group companies are working in several countries to help children understand the importance of road safety.

OPERATIONAL AND FINANCIAL REVIEW
CHEMICALS

Outstanding stain resistance and low water absorption, high resilience and low static generation are the combination of properties that made Corterra* polymers the fibre of choice for the new Solenium† floor covering manufactured by Interface Flooring Systems. For Shell Chemicals, the large size of the global market coupled with the opportunity to establish a world-leading position are precisely the combination of attributes that its products should have.

* Corterra is a Shell trade mark.
† Solenium is a trade mark of Interface Flooring Systems.

Tying valuable rela

nships

Achievements

▶ Corterra polymers, which can be spun into fibres for use in carpets and textiles, were recognised as one of the "100 most technologically significant new products of the year" by *R&D Magazine*. For his contribution to the development of a low-cost source of 1,3-propanediol (the polymers' key chemical building block), Joe Powell of Shell Chemicals received the triennial innovation award from the American Institute of Chemical Engineers.

▶ To rapidly expand its Corterra polymers business, Shell Chemicals has agreed to collaborate with the engineering firm Lurgi Zimmer AG to build low-cost, reliable plants incorporating Shell technology. The first is planned to be located in Altamira, Mexico.

▶ Following through on a decision to focus on businesses in which a global leadership position can be achieved and maintained, Group companies have been actively reshaping their chemicals portfolio. On the one hand, the intention is to divest several assets. And on the other, ethylene crackers at Norco, Louisiana and Moerdijk, Netherlands are to be expanded, and new plants are planned in the USA, Singapore, China, India and Australia.

OPERATIONAL AND FINANCIAL REVIEW CHEMICALS

Earnings			$ million
	1998	1997	1996
Segment earnings	**(718)**	969	897
Special credits/(charges)	**(1,170)**	66	132
Adjusted segment earnings	**452**	903	765
Change	***–50%***	*+18%*	*n/a*

Earnings for 1998

After adjusting for special items, 1998 earnings were $452 million. In 1997 adjusted earnings amounted to $903 million. Whereas special items in 1997 were a credit from the sale of assets amounting to $66 million, special items in 1998 were a charge of $1,170 million.

The 1998 special charges relate mainly to provisions for asset impairments, restructuring and redundancies resulting from the decisions to dispose of a significant portion of the portfolio and to embark upon a further programme of cost reductions. Other special items included recognition of deferred tax benefits, a change in accounting for start-up costs and provision for a litigation settlement.

Unadjusted, earnings for 1998 amounted to a loss of $718 million, compared with a profit of $969 million in 1997.

Chemicals sales volumes increased by 2% over 1997 levels, reflecting increased production capacity – even though sales of polyethylene were not included in the figure following the transfer of that business into Elenac, a joint venture with BASF, in March 1998.

Underlying fixed costs continued to decline, reflecting the results of continued cost-reduction activities. Moreover, the cost of feedstocks fell significantly. Nevertheless, a rapid decline in sales prices far outstripped the beneficial effects of reductions in fixed costs and feedstock prices, significantly depressing both absolute and unit margins. This fall in product prices affected all major areas of the Chemicals business, but particularly badly affected were sales of polypropylene in the USA.

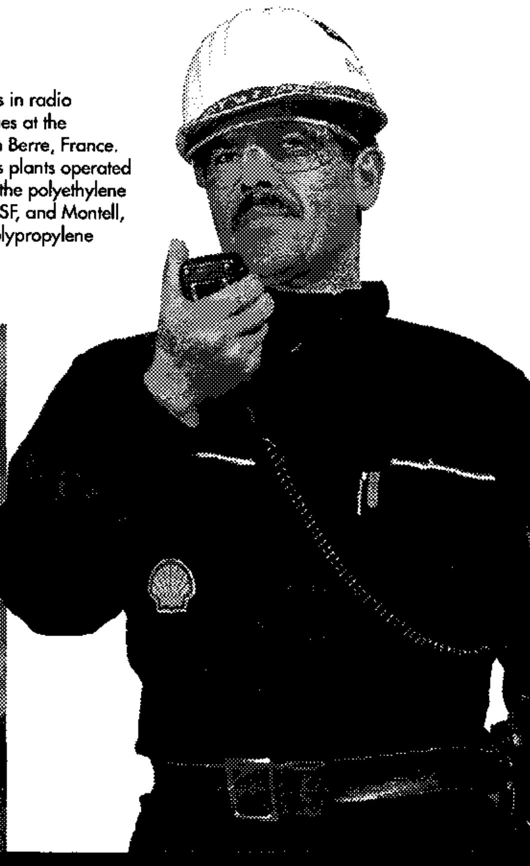
The deterioration of trading conditions was caused partly by additional industry capacity and partly by the impact of the recession in the Asia-Pacific region. The Asia-Pacific recession had an increasingly global impact during the year. Not only did it reduce local demand for petrochemicals, so reducing imports into the region, but also low-priced Asia-Pacific products became available elsewhere in the world.

Capital investment

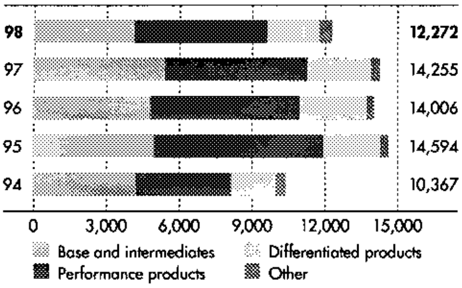
Capital investment in 1998 was $2.0 billion; in 1997 it was $2.5 billion, including the acquisition of the remaining

Training exercises at the "Fire School" in the USA – in which not only Shell personnel but also members of local fire departments take part – ensure that the emergency response of Group chemicals manufacturing sites is quick and effective.

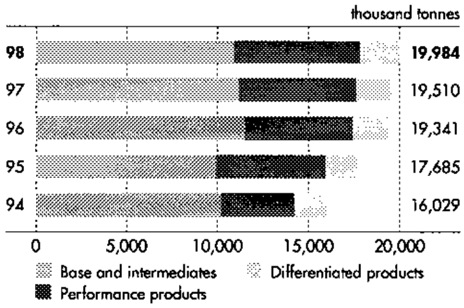
Claude Burnod keeps in radio contact with colleagues at the chemicals complex in Berre, France. The complex includes plants operated on behalf of Elenac, the polyethylene joint venture with BASF, and Montell, the Group-owned polypropylene business.



Chemicals Sales Proceeds



Chemical Sales Volumes



50% of Montell. Significant capital investment items in 1998 included: the creation of Elenac, a polyethylene joint venture with BASF; the establishment of Infineum, a petroleum additives joint venture with Exxon; and the joint venture with BASF to construct a world-scale styrene monomer/propylene oxide plant at Moerdijk, the Netherlands.

Future portfolio

The portfolio of the future will focus on major cracker products, petrochemical building blocks and large-volume polymers. As a consequence, the number of product businesses will be reduced from 21 to 13 and capital employed will be reduced by about 40%. The future portfolio will thus comprise a set of major linked petrochemical businesses in which Group companies possess leading technologies and the proven capability to build and operate world-scale plants.

Consistent with this strategy, a partner is being sought for Montell and several other businesses have been put up for sale.

Other steps following this strategy have already been taken, although some of them require relevant regulatory approval. Shell Chemicals announced its intention to form a strategic alliance with ICI in the global rigid polyurethane foam market and to sell its 50% share in WAVIN, Europe's largest manufacturer of plastic pipe systems, to CVC Capital Partners. A letter of intent to form a joint venture with BASF for the production of styrene monomer and propylene oxide in Singapore was signed. In the UK the acquisition of ICI's ethoxylation unit and associated businesses was announced. Contracts for the sale of the general-purpose rubber business to Dow Chemical Company have been signed. Montell also announced its intention to form a polypropylene joint venture in Japan with Showa Denko and Nippon Petrochemicals.

66,000,000 wash loads

Every day, 66 million wash loads of laundry in the USA are washed with the help of Shell Chemicals products. Specifically, Neodol* alcohols are used to make the surfactants that give detergents their cleaning power.

*Neodol is a Shell trade mark.

Standing at the door of her home near Daya Bay in south-east China, a toddler may soon witness the benefits of economic investment. For the Chinese government has given its official approval to proceed with the development there of a petrochemical complex in which a Group company will act as the lead partner.

OPERATIONAL AND FINANCIAL REVIEW
DOWNSTREAM GAS AND POWER GENERATION

Earnings $ million

	1998	1997	1996
Group excluding Shell Oil and Shell Canada	**350**	245	264
Shell Oil and Shell Canada	**(699)**	–	–
Total segment earnings	**(349)**	245	264
Special credits/(charges)	**(583)**	–	–
Adjusted segment earnings	**234**	245	264
Change	***–4%***	*–7%*	*n/a*

Earnings for 1998

Results are separately reported for this segment for the first time. Adjusted 1998 earnings were $234 million. But special items – particularly the write-down of certain assets in the USA – bring unadjusted earnings to a loss of $349 million.

Excluding Shell Oil and Shell Canada, reported earnings of $350 million included a net special credit of $66 million related to an insurance recovery for the incident at the Shell Middle Distillate Synthesis (SMDS) plant in Malaysia in the fourth quarter of 1997.

Adjusted 1998 earnings were $284 million, $39 million above the previous year. Several items contributed to the increase, including an enhanced dividend from Ruhrgas, a German gas transmission and distribution company in which the Group holds an interest. However, other factors partly offset the increase: lower prices for liquefied natural gas (LNG) in the Asia-Pacific region and business development costs.

Shell Oil and Shell Canada earnings amounted to a loss of $699 million. The loss resulted primarily from special charges amounting to $649 million, mainly from the write-down of certain Tejas assets that are held for sale as a result of a significant downturn in business conditions and a strategic review.

Capital investment

Shell Oil acquired Tejas in January for $1.4 billion, but trading circumstances have since depressed its profitability. Construction continued on schedule at two LNG plants, one in Nigeria and the other in Oman. In Brazil a share in the Cuiaba power plant and pipeline was acquired.

Shell Gas Direct in the UK expanded its industrial and commercial customer base through the purchase of Texaco's and Total's UK gas marketing interests to become one of the top five gas suppliers in the country.

Other significant events

Rebuilding of the SMDS plant commenced; the plant is expected to resume operations in 2000 with an increased capacity. In Brazil a Memorandum of Understanding was signed with Petrobras on a proposed LNG terminal and power plant at Suape. InterGen, in which the Group holds a 50% interest, commenced operations at its first power plant, at Rocksavage in the UK. Another InterGen-developed plant – at Samalayuca, Mexico – also started up in 1998.

100%

World-wide, every long-term liquefied natural gas (LNG) supply and purchase contract concluded in 1998 was signed by Group-advised LNG suppliers. The total contracted supply of 3.2 million tonnes per annum added some 4% to the total global LNG trade – and this in a difficult business environment.

The gas-fired power plant at Samalayuca, Mexico, is another of InterGen's projects. By virtue of its 50% stake in InterGen, the Group has made good on its commitment to enter the power industry.

The Bunsen burners used by chemistry students at Edinburgh University are supplied with natural gas by Shell Gas Direct. The company markets Shell UK's North Sea gas production not only to power stations but also to commercial and educational institutions.

OPERATIONAL AND FINANCIAL REVIEW
OTHER INDUSTRY SEGMENTS AND CORPORATE

Renewables

Nineteen ninety-eight is the first full year of operation as a core Business. For the established operations in solar energy and forestry, the business environment was very difficult. The weakened demand for wood for the paper and pulp industry caused wood prices to fall by 10% between 1997 and 1998. After a 34% increase of global photovoltaic module demand between 1996 and 1997, growth in 1998 slowed unexpectedly to below 10%. This resulted in a decline of some 20% in prices.

Capital investment for the year amounted to $67 million, which included solar and biomass energy investments in Europe and forestry investments in South America.

Coal

Equity production from all mines rose 11% to 14.2 million tonnes. This increase in production, combined with improved cost performance from the Australian mines, offset the lower prices due to the Asian economic downturn and oversupply in the Asia-Pacific market.

Two major projects, the Moranbah North coking coal mine and the Callide C power station, were progressed on schedule. Capital investment for the year totalled $118 million.

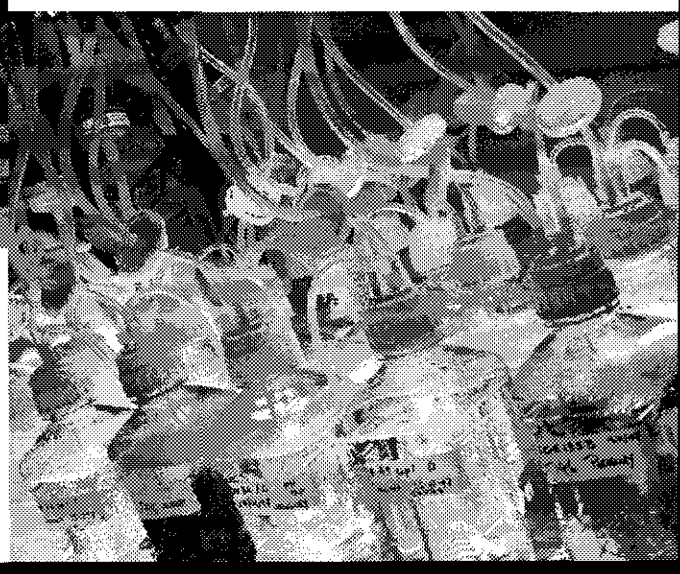
Corporate

Earnings increased by $176 million, from $51 million in 1997 to $227 million in 1998. In 1997 there was a net special charge of $110 million in respect of a provision by Group insurance companies.

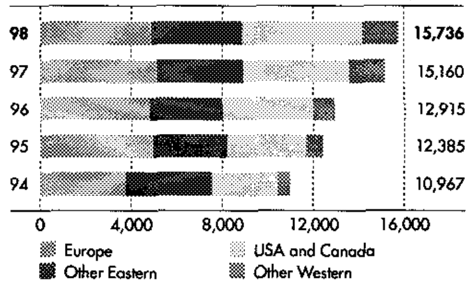
Excluding Shell Oil and Shell Canada, net interest income decreased by $34 million, to $752 million, mainly as a result of an increase in interest expense, and there was a reduction of $130 million in currency exchange losses; these effects were partly offset by increased spending on corporate identity in Shell Oil.

Ernesto Siles points out features on one of the Shell photovoltaic panels incorporated into the 10,000 home solar systems being installed in the rural Santa Cruz area of Bolivia. The systems have been designed for use in remote areas lacking a connection to the national electricity grid.

Trevor Wignall tends to tree cuttings floating in a nutrient solution at the East Malling Research Centre. Up to 200 eucalyptus saplings are produced in this way from each bottle at a rate 30 times faster than conventional tissue culture techniques.



OPERATIONAL AND FINANCIAL REVIEW
LIQUIDITY AND CAPITAL RESOURCES



Statement of Cash Flows

Cash flow generated by operations decreased from $16.7 billion in 1997 to $14.7 billion in 1998, of which $12.5 billion was reinvested in the businesses. After payment of dividends of $5.8 billion to the Parent Companies, Royal Dutch and Shell Transport, there was a deficit before financing of $3.6 billion. (For comparison, in 1997 there was a deficit of $2.0 billion, and in 1996 a surplus of $1.6 billion.) The dividends paid to the Parent Companies increased by 13%.

Within cash flow generated by operations, working capital decreased by $3.4 billion compared with a decrease of $2.8 billion in 1997.

Capital expenditure and new investments in associates increased by $0.1 billion, to $14.1 billion. Proceeds from sales of assets and disposals of investments in associates contributed $1.8 billion to cash flow. (In 1997 such proceeds amounted to $1.6 billion.) There was net new borrowing of $1.9 billion.

The net effect of this flow of funds for the year as a whole was a decrease of $1.6 billion in cash and cash equivalents.

Financial condition

Cash, cash equivalents and short-term securities were $2.7 billion at the end of 1998, down $2.4 billion on 1997, whilst the total of short- and long-term debt increased by $3.2 billion to $13.8 billion. The total debt ratio increased from 14.5% in 1997 to 19.3% in 1998.

Net assets decreased by $5.4 billion to $55.0 billion during the year. Fixed and other long-term assets increased by $1.5 billion to $87.5 billion. Net current assets excluding cash, cash equivalents, short-term securities and short-term debt decreased nearly $2 billion. Provisions decreased by $1.5 billion to $12.6 billion during the year, mainly because of the tax effects resulting from asset impairment write-downs.

Capital investment

Group companies' capital expenditure, exploration expense and new investments in associated companies rose by $0.6 billion to $15.7 billion, an increase of 4% compared with 1997 but 10% below last year's forecast. Exploration and Production expenditure – at $8.4 billion, representing an increase of $1.1 billion on last year – accounted for more than half of this total. Oil Products investment decreased by $1.2 billion compared with 1997. Chemicals investment was $2.0 billion, which is $0.5 billion lower than in 1997. In Downstream Gas and Power Generation there was a capital investment of $2.1 billion, mainly related to the acquisition of Tejas.

Capital investment in 1999 is expected to show a significant reduction (of the order of 30%) on 1998 levels. Exploration and Production remains the major element of capital investment.

The Group companies' investment programme is expected to be financed largely from internally generated funds.

OPERATIONAL AND FINANCIAL REVIEW
OTHER MATTERS

Internal controls

The Royal Dutch/Shell Group of Companies has a number of control instruments 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. These mechanisms are 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 1,900 companies. The Letter of Representation, which was introduced in 1978, is a declaration by the management of each 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. As such, these amounts are not accounted for separately. An estimate of the order of magnitude of amounts incurred in 1998 for Group companies in Europe, North America and Africa, based on allocations and managerial judgement, is $700 million. (In 1997 such an estimate amounted to $1,200 million.)

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 1998 were $600 million (1997: $600 million). Those Group companies are expected to incur environmental capital costs of at least $800–900 million per year during both 1999 and 2000.

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 1998, the total liabilities being carried for environmental clean-up were $513 million (1997: $683 million), whilst additions to provisions in 1998 amounted to $53 million.

OPERATIONAL AND FINANCIAL REVIEW
OTHER MATTERS

Environmental and decommissioning costs
continued

Provisions being carried for expenditures on decommissioning and site restoration, including oil and gas platforms, amounted to $2,601 million (1997: $2,324 million).

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 certain businesses are sold or transferred to associated joint ventures. The decline, however, will not be uniform for all companies: in certain activities and areas personnel numbers might well increase. Group companies will still need to recruit many people every year around the world.

Risk management

As further discussed in Note 26 on pages 64 and 65, 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 policy.

Some Group companies operate as traders in crude oil, natural gas and oil 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.

Other than 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 readiness disclosure

The Group Year 2000 programme covers four areas: information technology (IT) applications; associated IT infrastructure, including communications; industrial automation (embedded chips); and the business supply chain. Progress by Group companies on Year 2000 issues continues to be monitored quarterly by the Committee of Managing Directors. Costs from the start of 1997 through to resolution of the issue are estimated at $600 million. These costs are being expensed as incurred.

The large majority of Group companies have planned to complete their work on critical systems by the end of the second quarter of 1999, and most of the remainder by the end of the third quarter.

The focus of 1999 is to complete the outstanding remedial work. Additionally, the programme will concentrate on business continuity and contingency planning and testing, for which Group guidelines have been developed. Workshops are being held world-wide to support this phase. Work to assure supply-chain continuity will continue throughout 1999.

There are factors outside the Group's sphere of influence, such as extended supply chains and uneven global readiness. Contingency plans are being developed to cater for any disruptions that may result from them. In many countries Group companies are working closely with governments, utilities and energy companies to minimise the impact on infrastructure services.

Impact of the euro

Group companies have operations in all 11 countries participating in the Economic and Monetary Union (EMU) and in those which are expected to participate in the second wave. All of the main business segments are represented in the euro zone. Operations in the zone account for a significant amount of the Group's total business.

During the transitional period there is no compulsion for companies to use the euro for transactions nor is there any prohibition of its use: market forces will be the driver. It is the Group's strategy to be ready to transact in euro during the transitional period upon request of the customer in those markets where such demand is expected. The transitional period lasts until the end of December 2001.

There are perceived continuing benefits to the Group arising from the introduction of the euro, against which may be offset certain costs and risks associated with implementation.

The introduction of the euro will simplify all financial operations, will exclude exchange risks between currencies of participating member states and will reduce various transaction costs. In general, business will benefit from a stable EMU area.

Long-term competitiveness could be affected by the results of price transparency created within the euro zone by the single currency; it is not currently possible to make an accurate assessment of the overall impact of this development for the Group.

The Group has been making preparations for the introduction of the euro since 1996. Costs include the cost of system modifications, preparing and converting retail sites and project staffing costs. Implementation costs have already been incurred and will continue during the next few years. Costs are expensed as incurred.

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, power generation, 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 44 to 65 of the Royal Dutch/Shell Group of Companies for the years 1998, 1997 and 1996. 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, 1998 and 1997 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998 in accordance with generally accepted accounting principles in the Netherlands and the United States.

KPMG Accountants N.V., The Hague

PricewaterhouseCoopers, London

March 11, 1999

GROUP FINANCIAL STATEMENTS AND OPERATIONAL DATA

FINANCIAL STATEMENTS

Statement of Income

			$ million
	1998	1997	1996
Sales proceeds	**138,274**	171,657	171,964
Sales taxes, excise duties and similar levies	**44,582**	43,502	43,651
Net proceeds	**93,692**	128,155	128,313
Cost of sales	**76,674**	100,394	99,451
Gross profit	**17,018**	27,761	28,862
Selling and distribution expenses	**9,342**	10,981	11,043
Administrative expenses	**1,414**	1,133	749
Exploration	**1,603**	1,173	1,168
Research and development	**799**	662	701
Operating profit of Group companies	**3,860**	13,812	15,201
Share of operating profit/(loss) of associated companies (Note 6)	**(756)**	2,130	1,928
Operating profit	**3,104**	15,942	17,129
Interest and other income (Note 7)	**629**	912	928
Interest expense (Note 8)	**1,333**	1,170	1,043
Currency exchange gains/(losses)	**5**	(465)	(42)
Income before taxation	**2,405**	15,219	16,972
Taxation (Note 9)	**1,913**	7,422	7,819
Income after taxation	**492**	7,797	9,153
Income applicable to minority interests	**142**	44	267
Net income	**350**	7,753	8,886

Statement of Comprehensive Income and Parent Companies' Interest in Group Net Assets

			$ million
	1998	1997	1996
Net income (Note 3)	**350**	7,753	8,886
Other comprehensive income, net of tax (Note 5)			
currency translation differences (Note 19)	**482**	(4,508)	377
unrealised gains/(losses) on securities	**169**	(7)	–
minimum pension liability adjustments	**(13)**	(5)	(2)
Comprehensive income	**988**	3,233	9,261
Net distributions to Parent Companies (Note 3)	**(5,712)**	(5,853)	(5,036)
Parent Companies' shares held by Group companies at January 1, 1998 (Note 24)	**(490)**		
Net (purchase)/sale of Parent Companies' shares by Group companies (Note 24)	**(210)**		
Parent Companies' interest in Group net assets at January 1	**60,386**	63,006	58,781
Parent Companies' interest in Group net assets at December 31 (Note 4)	**54,962**	60,386	63,006
Applicable to:			
Royal Dutch (60%)	**32,977**	36,232	37,804
Shell Transport (40%)	**21,985**	24,154	25,202
	54,962	60,386	63,006

Statement of Assets and Liabilities

	December 31 1998	December 31 1997
		$ million
Fixed assets		
Tangible assets (Note 10)	**60,777**	63,493
Intangible assets (Note 10)	**2,609**	2,075
Investments		
associated companies (Note 6)	**16,686**	13,034
securities (Note 14)	**1,664**	1,476
other	**1,022**	1,029
Total fixed assets	**82,758**	81,107
Other long-term assets (Note 11)	**4,711**	4,867
Current assets		
Inventories (Note 12)	**5,976**	7,509
Accounts receivable (Note 13)	**13,887**	15,892
Short-term securities (Note 24)	**19**	869
Cash and cash equivalents (Note 14)	**2,717**	4,306
Total current assets	**22,599**	28,576
Current liabilities: amounts due within one year		
Short-term debt (Note 15)	**7,778**	4,795
Accounts payable and accrued liabilities (Note 17)	**15,875**	16,742
Taxes payable (Note 9)	**4,053**	4,744
Dividends payable to Parent Companies	**3,434**	3,456
Total current liabilities	**31,140**	29,737
Net current assets/(liabilities)	**(8,541)**	(1,161)
Total assets less current liabilities	**78,928**	84,813
Long-term liabilities: amounts due after more than one year		
Long-term debt (Note 15)	**6,032**	5,812
Other (Note 18)	**2,647**	2,362
	8,679	8,174
Provisions		
Deferred taxation (Note 9)	**7,155**	8,880
Pensions and similar obligations (Note 21)	**2,830**	2,833
Decommissioning and restoration costs	**2,601**	2,324
	12,586	14,037
Group net assets before minority interests	**57,663**	62,602
Minority interests	**2,701**	2,216
Net assets	**54,962**	60,386

FINANCIAL STATEMENTS

Statement of Cash Flows (see Note 19)

			$ million
	1998	1997	1996
Cash flow provided by operating activities			
Net income	**350**	7,753	8,886
Adjustments to reconcile net income to cash flow provided by operating activities			
Depreciation, depletion and amortisation (Note 10)	**9,182**	7,189	7,304
Movements in:			
inventories	**1,107**	(143)	(848)
accounts receivable	**1,972**	126	(2,134)
accounts payable and accrued liabilities	**486**	(145)	1,801
taxes payable	**(559)**	(629)	(173)
short-term securities	**359**	3,568	257
Associated companies: dividends more/(less) than net income (Note 6)	**2,581**	(129)	(100)
Deferred taxation and other provisions	**(1,453)**	(444)	1,187
Long-term liabilities and other	**562**	(460)	172
Income applicable to minority interests	**142**	44	267
Cash flow provided by operating activities	**14,729**	16,730	16,619
Cash flow used in investing activities			
Capital expenditure (including capitalised leases) (Note 10)	**(12,859)**	(12,274)	(11,023)
Proceeds from sale of assets	**1,421**	1,035	1,372
New investments in associated companies (Note 6)	**(1,282)**	(1,726)	(770)
Disposals of investments in associated companies	**362**	527	187
Other investments	**(142)**	(1,167)	185
Cash flow used in investing activities	**(12,500)**	(13,605)	(10,049)
Cash flow provided by/(used in) financing activities			
Long-term debt (including short-term part)			
new borrowings	**1,572**	3,844	917
repayments	**(1,532)**	(4,100)	(1,715)
	40	(256)	(798)
Net increase/(decrease) in short-term debt	**1,850**	150	(53)
Minority interests	**521**	(600)	247
Cash flow provided by/(used in) financing activities	**2,411**	(706)	(604)
Dividends paid to:			
Parent Companies	**(5,819)**	(5,129)	(4,999)
Minority interests	**(174)**	(253)	(150)
Net movement in Parent Companies' shares held by Group companies	**(210)**		
Currency translation differences relating to cash and cash equivalents	**(26)**	(412)	126
Increase/(Decrease) in cash and cash equivalents	**(1,589)**	(3,375)	943
Cash and cash equivalents at January 1	**4,306**	7,681	6,738
Cash and cash equivalents at December 31	**2,717**	4,306	7,681

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 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 amounted 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 (ACT). In view thereof the Parent Companies agreed that the tax benefit to Shell Transport for the 1997 final dividend and the 1998 interim dividend would be 4% of total Group income divisible for 60:40 purposes. It was also agreed that as a result of the abolition of ACT as from April 6, 1999 there would be no tax benefit to Shell Transport for the 1998 final and subsequent dividends. This has 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 United States dollars ("dollars") 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.

Equilon and Motiva

From January 1, 1998 the western and midwestern United States refining and marketing businesses and domestic United States trading, transportation and lubricants businesses were combined with similar operations of Texaco Inc. through the formation of Equilon Enterprises LLC ("Equilon"). The Group has a 56% interest but does not exercise control and therefore accounts for its investment in Equilon on the equity basis. Similarly, from July 1, 1998 the eastern and Gulf Coast United States refining and marketing businesses were combined with similar operations of Texaco Inc. and Saudi Arabian Oil Company, including their respective interests in Star Enterprise, through the formation of Motiva Enterprises LLC ("Motiva"). The Group has a 35% interest and accounts for its investment in Motiva on the equity basis. These changes had a material effect in 1998 on the net proceeds and operating profit of Group companies and on the share of operating profit of associated companies, compared to previous years.

Changes in accounting policy

With effect from 1998 the Group Financial Statements are published in dollars instead of sterling. Comparative data previously reported in sterling have been translated into dollars using the exchange rate prevailing in the relevant period.

The Group has implemented new United States accounting standards which require disclosures relating to other comprehensive income, the aligning of published results with internal segment reporting, the expensing of start-up costs and the capitalisation of certain software costs.

The treatment of Parent Companies' shares held by Group companies has been changed with effect from January 1, 1998. Such shares are no longer included in the Group's net assets. Prior years have not been restated, due to the immateriality of the amounts involved.

Reflecting their non-current nature, deferred charges and prepayments due after one year and other non-current assets, previously included in accounts receivable, are now presented separately as "Other long-term assets".

Currency translation

Assets and liabilities of non-dollar Group companies are translated to dollars at year-end rates of exchange, whilst their statements of income and cash flows are translated at quarterly

NOTES TO FINANCIAL STATEMENTS

Currency translation continued

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-dollar Group company, cumulative currency translation differences related to that company are taken to income.

The dollar 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 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 and gas trading

Oil and gas 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, natural gas 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 production 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. Goodwill, which is included within intangible fixed assets, is amortised over its estimated useful economic life, with a maximum of 40 years.

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 production 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.

NOTES TO FINANCIAL STATEMENTS

3 Division of Group net income between the Parent Companies

The division of Group net income, in accordance with Note 1, is as follows:

1998 — $ million

	Total	Royal Dutch	Shell Transport
Group net income	**350**		
Distributions from retained earnings	**5,362**		
Net distributions to Parent Companies	**5,712**	**3,485**	**2,227**
Tax benefit referable to net distributions accruing to Shell Transport (see Note 1)	**97**	**–**	**97**
Divisible for 60:40 purposes	**5,809**	(60%) **3,485**	(40%) **2,324**
Distributions from retained earnings	**5,362**	(60%) **3,217**	(40%) **2,145**

1997 — $ million

	Total	Royal Dutch	Shell Transport
Group net income	7,753		
less undistributed net income	1,900		
Net distributions to Parent Companies	5,853	3,723	2,130
Tax benefit referable to net distributions accruing to Shell Transport (see Note 1)	352	–	352
Divisible for 60:40 purposes	6,205	(60%) 3,723	(40%) 2,482
Undistributed net income	1,900	(60%) 1,140	(40%) 760

1996 — $ million

	Total	Royal Dutch	Shell Transport
Group net income	8,886		
less undistributed net income	3,850		
Net distributions to Parent Companies	5,036	3,284	1,752
Tax benefit referable to net distributions accruing to Shell Transport (see Note 1)	437	–	437
Divisible for 60:40 purposes	5,473	(60%) 3,284	(40%) 2,189
Undistributed net income	3,850	(60%) 2,310	(40%) 1,540

4 Parent Companies' interest in Group net assets

$ million

	1998	1997	1996
Invested by Parent Companies	**741**	741	741
Profits capitalised by Group companies	**3,241**	3,255	3,253
Retained earnings of Group companies	**52,038**	57,386	55,488
Parent Companies' shares held by Group companies (Note 24)	**(700)**		
Cumulative currency translation differences	**(487)**	(969)	3,539
Unrealised gains/(losses) on securities	**162**	(7)	–
Minimum pension liability adjustments	**(33)**	(20)	(15)
Balance at December 31	**54,962**	60,386	63,006

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 $22,632 million at December 31, 1998 (1997: $29,408 million; 1996: $30,928 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 Other comprehensive income

1998 — $ million

	Pre-tax	Credit/(Charge) Tax	After tax
Currency translation differences	**477**	**(16)**	**461**
Reclassifications	**21**	**–**	**21**
Currency translation differences net of reclassifications	**498**	**(16)**	**482**
Unrealised gains/(losses) on securities	**215**	**(29)**	**186**
Reclassifications	**(22)**	**5**	**(17)**
Unrealised gains/(losses) on securities net of reclassifications	**193**	**(24)**	**169**
Minimum pension liability adjustments	**(23)**	**10**	**(13)**
Other comprehensive income	**668**	**(30)**	**638**

6 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 with respect to the Group share of net income from associated companies, together with a segment analysis, is set out below:

$ million	1998	1997	1996
Net proceeds	**33,464**	23,094	22,572
Cost of sales	**30,944**	19,238	18,458
Gross profit	**2,520**	3,856	4,114
Other operating expenses	**3,276**	1,726	2,186
Operating profit/(loss)	**(756)**	2,130	1,928
Interest and other income	**75**	49	57
Interest expense	**313**	228	225
Currency exchange gains/(losses)	**39**	(7)	23
Income before taxation	**(955)**	1,944	1,783
Taxation	**489**	713	767
Net income	**(1,444)**	1,231	1,016

Cost of sales in 1998 includes $2,243 million relating to the impairment of certain fixed assets, primarily in the Exploration and Production segment, mainly resulting from the downward revision in expectation of long-term sustained oil prices. The related tax effects are not included in taxation above, but are reflected in the results of Group companies holding such investments.

Income by segment

$ million	1998	1997	1996
Exploration and Production	**(2,054)**	480	283
Downstream Gas and Power Generation	**289**	255	263
Oil Products	**340**	328	300
Chemicals	**10**	162	173
Other	**(29)**	6	(3)
	(1,444)	1,231	1,016

(b) Investments

$ million	Shares	Loans	1998 Total	1997 Total
At January 1	**11,969**	**1,065**	**13,034**	8,844
New investments	**871**	**411**	**1,282**	1,726
Net asset transfers to associates and other movements	**4,556**	**188**	**4,744**	3,426
Net income	**(1,444)**	**–**	**(1,444)**	1,231
Dividends	**(1,137)**	**–**	**(1,137)**	(1,102)
Currency translation differences	**169**	**38**	**207**	(1,091)
At December 31	**14,984**	**1,702**	**16,686**	13,034

In the Group's Financial Statements, assets and liabilities transferred to Equilon of approximately $6.2 billion and $2.3 billion, respectively, were removed from the Statement of Assets and Liabilities and the net amount of $3.9 billion was recorded as an equity investment in Equilon. Similarly, assets and liabilities transferred to Motiva of approximately $2.2 billion and $0.5 billion, respectively, were removed from the Statement of Assets and Liabilities and the net amount of $1.7 billion was recorded as an equity investment in Motiva.

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

Assets/Liabilities

$ million	1998	1997
Fixed assets	**23,331**	17,073
Current assets	**7,403**	5,468
Total assets	**30,734**	22,541
Current liabilities	**8,343**	5,410
Long-term liabilities	**5,705**	4,097
Net assets	**16,686**	13,034

An analysis by segment is shown in Note 22.

(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:

$ million	1998	1997	1996
Charges to associated companies	**11,620**	12,052	11,989
Charges from associated companies	**4,046**	4,501	3,931

Balances outstanding at December 31 in respect of the above transactions are shown in Notes 13 and 17.

NOTES TO FINANCIAL STATEMENTS

7 Interest and other income

$ million	1998	1997	1996
Group companies			
Interest income	**487**	805	758
Other income	**67**	58	113
	554	863	871
Associated companies	**75**	49	57
	629	912	928

Other income of Group companies in 1998 includes net unrealised holding gains on trading securities of $1 million (1997: $6 million losses; 1996: $31 million losses).

8 Interest expense

$ million	1998	1997	1996
Interest incurred	**1,113**	1,029	1,038
Less interest capitalised	**93**	87	220
Interest expense of Group companies	**1,020**	942	818
Interest expense of associated companies	**313**	228	225
	1,333	1,170	1,043

9 Taxation

(a) Taxation charge for the year

$ million	1998	1997	1996
Current tax charge	**3,746**	6,273	6,050
Deferred tax charge/(credit)	**(2,322)**	436	1,002
Taxation charge of Group companies	**1,424**	6,709	7,052
Taxation charge of associated companies	**489**	713	767
	1,913	7,422	7,819

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

$ million	1998	1997	1996
Expected tax charge at statutory rates	**1,653**	6,922	7,153
Adjustments of valuation allowance	**(173)**	(8)	(11)
Adjustments in respect of prior years	**(135)**	(87)	(356)
Other	**79**	(118)	266
Taxation charge of Group companies	**1,424**	6,709	7,052

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 exploration and production activities and various additional income and other taxes to which these activities are subject.

(b) Taxes payable

$ million	1998	1997
Taxes on activities of Group companies	**1,535**	1,963
Sales taxes, excise duties and similar levies and social law taxes	**2,518**	2,781
	4,053	4,744

(c) Provision for deferred taxation

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

$ million	1998	1997
Tangible and intangible fixed assets	**10,657**	11,886
Other items	**2,161**	1,801
Total deferred tax liabilities	**12,818**	13,687
Tax losses carried forward	**(3,088)**	(2,279)
Provisions		
Pensions and similar obligations	**(764)**	(812)
Decommissioning and restoration costs	**(1,221)**	(1,130)
Environmental and other provisions	**(453)**	(427)
Other items	**(2,658)**	(2,609)
Total deferred tax assets	**(8,184)**	(7,257)
Asset valuation allowance	**2,521**	2,450
Net deferred tax assets	**(5,663)**	(4,807)
Net deferred tax liability	**7,155**	8,880

The Group has tax losses carried forward amounting to $7,104 million at December 31, 1998. Of these, $2,888 million can be carried forward indefinitely. The remaining $4,216 million expires in the following years:

	$ million
1999	752
2000	9
2001	7
2002	627
2003–2007	1,157
2008–2013	1,664

10 Tangible and intangible fixed assets

$ million

			1998	1997
	Tangible	Intangible	**Total Group**	Total Group
Cost				
At January 1	130,252	2,482	**132,734**	144,228
Capital expenditure	11,618	1,241	**12,859**	12,274
Sales, retirements and other movements°	(14,681)	461	**(14,220)**	(13,002)
Currency translation differences	1,219	7	**1,226**	(10,766)
At December 31	128,408	4,191	**132,599**	132,734
Depreciation				
At January 1	66,759	407	**67,166**	72,905
Depreciation, depletion and amortisation charge	8,308	1,115	**9,423**	7,375
Sales, retirements and other movements°	(8,342)	57	**(8,285)**	(7,440)
Currency translation differences	906	3	**909**	(5,674)
At December 31	67,631	1,582	**69,213**	67,166
Net 1998	60,777	2,609	**63,386**	
1997	63,493	2,075		65,568

° Includes transfers to associated companies.

Capital expenditure, together with new investments in associated companies, and the depreciation, depletion and amortisation charge are shown in Note 22, 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.

The net balances at December 31 include:

$ million

	1998	1997
Capitalised costs in respect of assets not yet used in operations		
Unproved properties	**2,539**	2,186
Proved properties under development and other assets in the course of construction	**7,473**	5,325
	10,012	7,511

Depreciation, depletion and amortisation charges for the year in the table at the top of the previous column are included within the following expense headings in the Statement of Income:

$ million

	1998	1997	1996
Cost of sales	**7,768**	5,583	6,027
Selling and distribution expenses	**1,264**	1,366	1,085
Administrative expenses	**55**	130	75
Exploration	**10**	14	21
Research and development	**85**	96	96
Included within the Statement of Income	**9,182**	7,189	7,304
Profit on disposals	**241**	186	463
	9,423	7,375	7,767

Depreciation, depletion and amortisation charges for 1998 include $2,177 million (1997: $37 million; 1996: $184 million) relating to the impairment of tangible fixed assets, and $836 million (1997: nil; 1996: nil) relating to the impairment of intangible fixed assets. Such charges are recorded within cost of sales. For 1998 the impairments mainly relate to Chemicals, resulting from the decision to dispose of a significant portion of the portfolio, to a disposal decision relating to certain Downstream Gas assets, due to a significant downturn in business conditions and a strategic review, and to Exploration and Production, mainly resulting from the downward revision in expectation of long-term sustained oil prices.

The 1998 impairment charges relate to assets held for use ($827 million) and to assets held for sale ($2,186 million).

Net fixed assets at December 31, 1998 include assets held for sale totalling $3.8 billion, consisting primarily of assets in the Chemicals, Downstream Gas and Exploration and Production segments. Operating profits/(losses) included in the Statement of Income relating to these assets totalled $(410) million for 1998 (1997: $53 million; 1996: $260 million).

11 Other long-term assets

Reflecting their non-current nature, deferred charges and prepayments due after one year and other non-current assets are presented separately as "Other long-term assets". At December 31, 1998 these include $3,623 million (1997: $3,760 million) of deferred charges and prepayments, of which $2,729 million (1997: $2,442 million) relates to prepaid pension costs.

12 Inventories

$ million

	1998	1997
Inventories of oil, chemicals and coal	**5,111**	6,592
Inventories of materials	**865**	917
	5,976	7,509

Of the total inventories, $908 million at December 31, 1998 (1997: $1,367 million) wholly in North America are valued by the LIFO method. There was no significant difference between the FIFO cost and the carrying amount of such LIFO inventories at December 31, 1998 (1997: excess of FIFO cost over the carrying amount of such LIFO inventories was $628 million).

NOTES TO FINANCIAL STATEMENTS

13 Accounts receivable

$ million	1998	1997
Trade receivables	**7,902**	10,267
Amounts owed by associated companies	**2,015**	1,563
Other receivables	**2,939**	3,018
Amounts due from Shell Transport in respect of UK advance corporation tax	**97**	211
Deferred charges and prepayments	**934**	833
	13,887	15,892

Provisions for doubtful items deducted from accounts receivable amounted to $198 million at December 31, 1998 (1997: $125 million).

14 Investments – securities and short-term securities

(a) Investments – securities

Investments – securities mainly comprises 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, $640 million at December 31, 1998 (1997: $636 million) 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 $391 million at December 31, 1998 (1997: $1,461 million). Of these, $154 million are of a trading nature (1997: $533 million). The remainder are debt securities (1997 included $440 million of debt securities) which are classified as available for sale.

Short-term securities at December 31, 1998 include $156 million (1997: $949 million) which are listed on recognised stock exchanges.

15 Debt

(a) Short-term debt

$ million	1998	1997
Debentures and other loans	**5,406**	2,004
Amounts due to banks and other credit institutions (including long-term debt due within one year)	**2,329**	2,753
	7,735	4,757
Capitalised lease obligations	**43**	38
Short-term debt	**7,778**	4,795
less long-term debt due within one year	**1,405**	1,637
Short-term debt excluding long-term debt due within one year	**6,373**	3,158

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

$ million	1998	1997
Maximum amount outstanding at the end of any quarter	**8,654**	4,514
Average amount outstanding	**6,322**	3,970
Amounts due to banks and other credit institutions	**2,144**	2,468
Unused lines of short-term credit	**6,694**	6,577
Approximate average interest rate on:		
average amount outstanding	**7%**	7%
amount outstanding at December 31	**6%**	8%

(b) Long-term debt

		$ million
	1998	1997
Debentures and other loans	**1,499**	1,324
Amounts due to banks and other credit institutions	**4,219**	4,219
	5,718	5,543
Capitalised lease obligations	**314**	269
Long-term debt	**6,032**	5,812
add long-term debt due within one year	**1,405**	1,637
Long-term debt including long-term debt due within one year	**7,437**	7,449

Pledges of assets have been given, mainly in respect of bank loans, to the extent of $1,649 million at December 31, 1998 (1997: $1,575 million).

Unused lines of long-term credit amounted to $715 million at December 31, 1998 (1997: $693 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 $5,855 million at December 31, 1998 (1997: $5,480 million). The approximate weighted average interest rate in 1998 was 6% for US dollar debt and 7% for total debt.

The aggregate maturities of long-term debts are:

	$ million
1999	1,362
2000	604
2001	1,007
2002	1,099
2003	996
2004–2008	1,679
2009–2018	26
2019 and after	307

16 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, 1998 were as follows:

		$ million
	Operating leases	Capital leases
1999	1,644	65
2000	1,255	51
2001	1,024	80
2002	737	41
2003	626	48
2004 and after	2,123	156
Total minimum payments	7,409	441
less executory costs and interest		84
Present value of net minimum capital lease payments		357

In general, the above future minimum operating lease payments are calculated on a time basis. The figures represent minimum commitments existing at December 31, 1998 and are not a forecast of future total rental expense.

Total rental expense for all operating leases was as follows:

			$ million
	1998	1997	1996
Minimum rentals	**1,615**	1,628	1,884
Contingent rentals	**167**	174	177
Sub-lease rentals	**(204)**	(233)	(238)
	1,578	1,569	1,823

(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, 1998 is as follows:

	$ million
1999	193
2000	161
2001	146
2002	122
2003	105
2004 and after	266
	993

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.

Payments under these agreements, which include additional sums depending upon actual quantities of supplies, amounted to $190 million in 1998 (1997: $149 million).

NOTES TO FINANCIAL STATEMENTS

17 Accounts payable and accrued liabilities

		$ million
	1998	1997
Trade payables	**6,452**	8,051
Amounts due to associated companies	**1,215**	1,184
Pensions and similar obligations	**186**	179
Other payables	**3,134**	2,795
Accruals and deferred income	**4,888**	4,533
	15,875	16,742

18 Long-term liabilities – Other

These amounts are mainly in respect of environmental and redundancy liabilities, deposits and deferred credits. They include $526 million at December 31, 1998 (1997: $449 million) which do not fall due until more than five years after the respective balance sheet dates.

19 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 dollars 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-dollar Group companies to dollars 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.

1998				$ million
	Movements arising from currency translation	Movements from Statement of Cash Flows	Major non-cash movements	Movements derived from Statement of Assets and Liabilities
Tangible and intangible fixed assets	**317**	**2,336**	**(4,835)**	**(2,182)**
Investments – associates	**207**	**(2,086)**	**5,531**	**3,652**
Inventories	**57**	**(1,107)**	**(483)**	**(1,533)**
Accounts receivable	**276**	**(1,972)**	**(309)**	**(2,005)**
Cash and cash equivalents	**(26)**	**(1,563)**	**–**	**(1,589)**
Short-term debt	**(130)**	**(1,850)**	**(1,235)**	**(3,215)**
Short-term part of long-term debt	**(10)**	**242**	**–**	**232**
Accounts payable and accrued liabilities	**232**	**(486)**	**1,121**	**867**
Taxes payable	**(204)**	**559**	**336**	**691**
Long-term debt	**46**	**(266)**	**–**	**(220)**
Deferred taxation and other provisions	**(33)**	**1,453**	**31**	**1,451**
Other	**(94)**	**(832)**	**(647)**	**(1,573)**
Adjustment for Parent Companies' shares held by Group companies and other comprehensive income, excluding currency translation differences	**(156)**	**210**	**490**	
	482	**(5,362)**	**–**	**(5,424)**

The main non-cash movements relate to the contribution of assets and liabilities to newly-formed associated companies and to the acquisition of Group companies.

20 Employee emoluments and numbers

(a) Emoluments

			$ million
	1998	1997	1996
Remuneration	**5,260**	5,515	5,556
Social law taxes	**476**	511	524
Pensions and similar obligations (Note 21)	**245**	82	205
	5,981	6,108	6,285

(b) Average numbers

			thousands
	1998	1997	1996
Exploration and Production	**16**	17	18
Downstream Gas and Power Generation	**1**	1	–
Oil Products	**58**	61	58
Chemicals	**20**	21	23
Other	**7**	5	5
	102	105	104

In addition to remuneration for 1998 above, there are charges totalling $616 million relating to provisions for redundancy programmes, mainly in the Oil Products and Chemicals segments; related expenditure during the year was not significant. These restructuring charges relate to over 4,700 employees.

21 Employee retirement plans and other postretirement benefits

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.

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.

Plan assets principally comprise marketable securities and property holdings.

$ million

	Pension benefits		Other benefits					
	1998	1997	1998			1997		
			USA	Other	Total	USA	Other	Total
Change in benefit obligation								
Obligations for benefits based on employee service to date at January 1	**31,179**	29,913	**901**	**295**	**1,196**	814	387	1,201
Increase in present value of the obligation for benefits based on employee service during the year	**808**	663	**19**	**10**	**29**	20	12	32
Interest on the obligation for benefits in respect of employee service in previous years	**1,938**	1,899	**57**	**18**	**75**	59	20	79
Benefit payments made	**(1,563)**	(1,477)	**(46)**	**(26)**	**(72)**	(42)	(30)	(72)
Currency translation effects/other components	**1,903**	181	**(19)**	**97**	**78**	50	(94)	(44)
Obligations for benefits based on employee service to date at December 31[a]	**34,265**	31,179	**912**	**394**	**1,306**	901	295	1,196
Change in plan assets								
Plan assets held in trust at fair value at January 1	**38,363**	34,184						
Actual return on plan assets	**4,913**	6,198						
Employer contributions	**214**	1,422						
Plan participants' contributions	**26**	30						
Benefit payments made	**(1,563)**	(1,477)						
Currency translation effects/other components	**1,046**	(1,994)						
Plan assets held in trust at fair value at December 31[a]	**42,999**	38,363						
Plan assets in excess of/(less than) the present value of obligations for benefits at December 31	**8,734**	7,184	**(912)**	**(394)**	**(1,306)**	(901)	(295)	(1,196)
Unrecognised net (gains)/losses remaining from the adoption of current method of determining pension costs	**(259)**	(330)						
Unrecognised net (gains)/losses since adoption	**(7,854)**	(6,311)	**(86)**	**58**	**(28)**	(99)	(20)	(119)
Unrecognised prior service cost/(credit)	**496**	250	**(13)**	**2**	**(11)**	(15)	3	(12)
Net amount recognised	**1,117**	793	**(1,011)**	**(334)**	**(1,345)**	(1,015)	(312)	(1,327)
Amounts recognised in the Statement of Assets and Liabilities consist of:								
Prepaid benefit costs	**2,729**	2,442						
Accrued benefit liabilities	**(1,671)**	(1,685)	**(1,011)**	**(334)**	**(1,345)**	(1,015)	(312)	(1,327)
Accumulated other comprehensive income	**59**	36						
Net amount recognised	**1,117**	793	**(1,011)**	**(334)**	**(1,345)**	(1,015)	(312)	(1,327)

[a] For employee retirement plans with benefit obligation in excess of plan assets, the respective amounts at December 31, 1998 were benefit obligations of $2,776 million (1997: $2,403 million) and plan assets of $1,813 million (1997: $1,459 million). The obligation for pension benefits at December 31, 1998 in respect of unfunded plans was $725 million (1997: $630 million).

NOTES TO FINANCIAL STATEMENTS

21 Employee retirement plans and other postretirement benefits continued

Benefit costs for the year comprise:

$ million

	Pension benefits			Other benefits								
	1998	1997	1996	1998			1997			1996		
				USA	Other	Total	USA	Other	Total	USA	Other	Total
Service cost	**808**	663	614	**19**	**10**	**29**	20	12	32	20	6	26
Interest cost	**1,938**	1,899	1,961	**57**	**18**	**75**	59	20	79	56	25	81
Expected return on plan assets	**(2,695)**	(2,573)	(2,510)									
Net total of other components	**(6)**	(88)	(54)	**(31)**	**4**	**(27)**	(37)	(11)	(48)	(28)	2	(26)
Cost of defined benefit plans	**45**	(99)	11	**45**	**32**	**77**	42	21	63	48	33	81
Payments to defined contribution plans	**123**	118	113									
	168	19	124	**45**	**32**	**77**	42	21	63	48	33	81

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 plans in the Group are:

	Pension benefits		Other benefits			
	1998	1997	1998		1997	
			USA	Other	USA	Other
Discount rate	**5.5%**	6.4%	**6.5%**	**5.6%**	7.0%	6.5%
Projected rate of remuneration growth	**3.7%**	4.6%				
Expected rate of return on plan assets	**7.7%**	8.1%				
Health care cost trend rate in year after reporting year			**6.5%**	**3.1%**	7.0%	1.9%
Ultimate health care cost trend rate			**5.0%**	**1.6%**	5.0%	1.3%
Year ultimate health care cost trend rate is applicable			**2002**	**2003**	2002	2002

The effect of a one percentage point increase/(decrease) in the annual rate of increase in the assumed health care cost trend rates would be to increase/(decrease) annual postretirement benefit cost by approximately $22 million/($19 million) and the accumulated postretirement benefit obligation by approximately $239 million/($218 million).

22 Information by geographical area and by industry segment
(a) Geographical area

$ million

	1998 Net proceeds	1998 Fixed assets	1997 Net proceeds	1997 Fixed assets	1996 Net proceeds	1996 Fixed assets
Europe	**44,374**	**29,487**	58,989	28,176	60,488	28,554
Other Eastern Hemisphere	**17,785**	**22,255**	24,047	20,483	23,499	22,962
USA and Canada	**20,050**	**25,304**	33,233	26,728	33,550	25,245
Other Western Hemisphere	**11,483**	**5,712**	11,886	5,720	10,776	4,242
Total Group	**93,692**	**82,758**	128,155	81,107	128,313	81,003

(b) Industry segment

1998 $ million

	Total Group	Exploration and Production		Downstream Gas and Power Generation		Oil Products		Chemicals	Corporate and Other
		Group excluding Shell Oil and Shell Canada	Shell Oil and Shell Canada	Group excluding Shell Oil and Shell Canada	Shell Oil and Shell Canada	Group excluding Shell Oil and Shell Canada	Shell Oil and Shell Canada	Total Group	Total Group
Sales									
third parties	93,692	5,458	2,661	1,036	6,760	58,233	6,505	12,272	767
inter-segment		5,563	1,837	79	113	1,297	579	849	–
Net proceeds		11,021	4,498	1,115	6,873	59,530	7,084	13,121	767
Operating profit/(loss)									
Group companies	3,860	2,995	588	119	(807)	1,792	331	(921)	(237)
Group share of associated companies	(756)	331	(2,171)	454	24	103	410	121	(28)
	3,104	3,326	(1,583)	573	(783)	1,895	741	(800)	(265)
Interest and other income	629	66	38	104	4	93	70	44	210
Interest expense	1,333	111	145	121	157	690	229	325	(445)
Currency exchange gains/(losses)	5	5	(17)	(4)	–	45	(18)	3	(9)
Taxation	1,913	2,300	(565)	160	(238)	212	210	(361)	195
Income applicable to minority interests	142	15	76	42	1	(43)	51	1	(1)
Net income	350	971	(1,218)	350	(699)	1,174	303	(718)	187
Total assets at December 31	110,068	25,236	12,383	4,101	4,395	33,522	8,115	17,082	5,234
Investments in associated companies at December 31	16,686	1,938	2,053	1,890	390	2,009	5,217	2,995	194
Capital expenditure and new investments in associated companies	14,141	4,810	2,002	245	1,880	2,737	151	2,002	314
Depreciation, depletion and amortisation charge									
Impairment	3,013	475	272	–	755	196	–	1,315	–
Other	6,410	2,074	1,109	52	122	1,851	168	920	114

NOTES TO FINANCIAL STATEMENTS

22 Information by geographical area and by industry segment continued
(b) Industry segment continued

1997

$ million

	Total Group	Exploration and Production		Downstream Gas and Power Generation	Oil Products		Chemicals	Corporate and Other
		Group excluding Shell Oil and Shell Canada	Shell Oil and Shell Canada	Group excluding Shell Oil and Shell Canada	Group excluding Shell Oil and Shell Canada	Shell Oil and Shell Canada	Total Group	Total Group
Sales								
third parties	128,155	6,562	4,187	913	77,706	23,695	14,255	837
inter-segment		8,965	2,857	224	2,117	1,894	925	–
Net proceeds		15,527	7,044	1,137	79,823	25,589	15,180	837
Operating profit/(loss)								
Group companies	13,812	7,754	1,889	67	2,158	736	1,379	(171)
Group share of associated companies	2,130	591	294	441	380	138	278	8
	15,942	8,345	2,183	508	2,538	874	1,657	(163)
Interest and other income	912	100	75	106	101	57	37	436
Interest expense	1,170	79	132	134	592	143	328	(238)
Currency exchange gains/(losses)	(465)	(1)	(17)	(15)	(266)	(13)	(16)	(137)
Taxation	7,422	5,029	746	236	618	227	361	205
Income applicable to minority interests	44	43	87	(16)	(131)	45	20	(4)
Net income	7,753	3,293	1,276	245	1,294	503	969	173
Total assets at December 31	114,550	22,561	15,683	3,864	35,160	11,648	18,286	7,348
Investments in associated companies at December 31	13,034	1,756	4,437	1,850	2,061	321	2,367	242
Capital expenditure and new investments in associated companies	14,000	3,679	2,450	1,014	3,373	711	2,493	280
Depreciation, depletion and amortisation charge								
Impairment	37	–	–	6	15	–	–	16
Other	7,338	2,275	1,388	96	2,006	524	921	128

(b) Industry segment continued

1996 $ million

	Total Group	Exploration and Production		Downstream Gas and Power Generation	Oil Products		Chemicals	Corporate and Other
		Group excluding Shell Oil and Shell Canada	Shell Oil and Shell Canada	Group excluding Shell Oil and Shell Canada	Group excluding Shell Oil and Shell Canada	Shell Oil and Shell Canada	Total Group	Total Group
Sales								
third parties	128,313	6,833	4,152	861	77,332	24,316	14,006	813
inter-segment		9,418	3,553	316	1,855	1,721	749	–
Net proceeds		16,251	7,705	1,177	79,187	26,037	14,755	813
Operating profit/(loss)								
Group companies	15,201	8,102	2,179	107	2,882	627	1,419	(115)
Group share of associated companies	1,928	723	64	386	428	68	262	(3)
	17,129	8,825	2,243	493	3,310	695	1,681	(118)
Interest and other income	928	106	40	60	132	23	53	514
Interest expense	1,043	102	133	148	373	123	304	(140)
Currency exchange gains/(losses)	(42)	7	5	(5)	20	(1)	9	(77)
Taxation	7,819	5,252	731	169	890	206	444	127
Income applicable to minority interests	267	46	91	(33)	60	12	98	(7)
Net income	8,886	3,538	1,333	264	2,139	376	897	339
Total assets at December 31	124,140	22,791	15,529	3,662	38,238	11,588	18,708	13,624
Investments in associated companies at December 31	8,844	1,928	122	1,427	2,549	230	2,326	262
Capital expenditure and new investments in associated companies	11,793	2,856	2,214	424	3,713	851	1,450	285
Depreciation, depletion and amortisation charge								
Impairment	184	–	–	–	122	26	25	11
Other	7,583	2,436	1,607	102	1,852	497	955	134

NOTES TO FINANCIAL STATEMENTS

23 Oil and gas exploration and production activities

(a) Capitalised costs

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

$ million

	1998	1997	1996
Cost			
Proved properties	**58,457**	55,824	64,404
Unproved properties	**2,864**	2,561	2,300
Support equipment and facilities	**1,654**	1,723	2,118
	62,975	60,108	68,822
Depreciation			
Proved properties	**33,403**	32,303	36,730
Unproved properties	**182**	236	372
Support equipment and facilities	**917**	841	1,221
	34,502	33,380	38,323
Net capitalised costs	**28,473**	26,728	30,499

The Group share of associated companies' net capitalised costs was $4,644 million at December 31, 1998 (1997: $6,188 million; 1996: $2,614 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.

1998 $ million

	Eastern Hemisphere		Western Hemisphere		Total
	Europe	Other	USA and Canada	Other	
Acquisition of properties					
Proved	**1**	**507**	**4**	**405**	**917**
Unproved	**40**	**133**	**100**	**174**	**447**
Exploration	**396**	**763**	**590**	**232**	**1,981**
Development	**1,756**	**1,203**	**1,448**	**35**	**4,442**

1997 $ million

	Eastern Hemisphere		Western Hemisphere		Total
	Europe	Other	USA and Canada	Other	
Acquisition of properties					
Proved	–	322	29	265	616
Unproved	5	92	216	–	313
Exploration	359	475	678	102	1,614
Development	1,683	918	1,440	17	4,058

1996 $ million

	Eastern Hemisphere		Western Hemisphere		Total
	Europe	Other	USA and Canada	Other	
Acquisition of properties					
Proved	1	18	173	211	403
Unproved	4	22	167	2	195
Exploration	362	428	664	31	1,485
Development	1,796	563	1,232	11	3,602

The Group share of associated companies' costs incurred was $437 million in 1998 (1997: $364 million; 1996: $406 million).

(c) Earnings

Earnings of Group companies from exploration and production activities are given in the table below. These exclude certain financing costs and related tax effects. In addition, certain purchases of traded product are netted into sales.

1998 $ million

	Eastern Hemisphere		Western Hemisphere		Total
	Europe	Other	USA and Canada	Other	
Sales					
third parties	**4,271**	**1,258**	**1,528**	**132**	**7,189**
intra-group	**1,873**	**3,602**	**1,838**	**86**	**7,399**
Net proceeds	**6,144**	**4,860**	**3,366**	**218**	**14,588**
Production costs[a]	**1,712**	**2,050**	**900**	**105**	**4,767**
Exploration expense	**351**	**591**	**399**	**250**	**1,591**
Depreciation, depletion and amortisation	**1,336**	**715**	**1,164**	**601**	**3,816**
Other income/(costs)	**(353)**	**209**	**(677)**	**(8)**	**(829)**
Earnings before taxation	**2,392**	**1,713**	**226**	**(746)**	**3,585**
Taxation	**1,096**	**1,149**	**(663)**	**14**	**1,596**
Earnings from operations	**1,296**	**564**	**889**	**(760)**	**1,989**

Taxation includes benefits relating to impairment charges reflected in associated companies' earnings.

1997 $ million

	Eastern Hemisphere		Western Hemisphere		Total
	Europe	Other	USA and Canada	Other	
Sales					
third parties	5,024	1,361	2,331	173	8,889
intra-group	2,392	6,610	2,480	240	11,722
Net proceeds	7,416	7,971	4,811	413	20,611
Production costs[a]	1,614	2,437	1,133	118	5,302
Exploration expense	321	388	381	64	1,154
Depreciation, depletion and amortisation	1,313	878	1,173	179	3,543
Other income/(costs)	(315)	(122)	(523)	46	(914)
Earnings before taxation	3,853	4,146	1,601	98	9,698
Taxation	1,856	2,830	654	81	5,421
Earnings from operations	1,997	1,316	947	17	4,277

1996					$ million
	Eastern Hemisphere		Western Hemisphere		Total
	Europe	Other	USA and Canada	Other	
Sales					
third parties	5,279	1,413	2,504	138	9,334
intra-group	2,344	7,025	3,135	320	12,824
Net proceeds	7,623	8,438	5,639	458	22,158
Production costs[a]	1,827	2,711	1,371	110	6,019
Exploration expense	377	352	367	21	1,117
Depreciation, depletion and amortisation	1,223	1,197	1,384	144	3,948
Other income/(costs)	(89)	(19)	(627)	10	(725)
Earnings before taxation	4,107	4,159	1,890	193	10,349
Taxation	1,958	2,855	630	113	5,556
Earnings from operations	2,149	1,304	1,260	80	4,793

[a] Includes certain royalties paid in cash amounting to $814 million in 1998 (1997: $1,246 million; 1996: $1,353 million).

The Group share of associated companies' earnings was $(2,049) million in 1998 (1997: $503 million; 1996: $290 million) after deducting taxation of $208 million in 1998 (1997: $383 million; 1996: $497 million). These exclude certain financing costs and related tax effects.

In the USA comparative data from 1998, 1997 and 1996 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.

24 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 over 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, 1998.

	Exercised	Granted	Under option
Royal Dutch ordinary shares	536,920	2,401,430	7,078,450
Shell Transport Ordinary shares	2,082,378	12,713,384	40,741,224
Shell Canada common shares	51,700	698,800	1,614,569[a]

[a] Unissued

In connection with other incentive compensation plans linked to the appreciation in value of Royal Dutch ordinary shares, Shell Oil Company has entered into certain equity swaps which are designed to hedge a portion of these plans' obligations. Equity swaps relating to the equivalent of 6 million Royal Dutch ordinary shares are outstanding at December 31, 1998 with a contract/notional amount of $287 million and an estimated fair value of $(46) million.

The Shell Petroleum Company Limited, Shell Petroleum N.V. and Montell U.K. Limited each operate a savings-related stock 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-year or five-year contractual savings period.

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, 1998.

	Exercised	Granted	Under option
Shell Transport Ordinary shares	5,555,202	5,534,886	31,062,769

Parent Companies' shares held by Group companies at December 31, 1998 in connection with stock option plans were as follows:

Royal Dutch ordinary shares	6,938,206
Shell Transport Ordinary shares	70,144,279

The net cost of these shares at December 31, 1998 is $700 million. Prior to 1998 such shares were reported as short-term securities.

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

NOTES TO FINANCIAL STATEMENTS

25 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 Zürich 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 $1,911 million at December 31, 1998 (1997: $1,539 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.

26 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.

In June 1998 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards 133, "Accounting for Derivative Instruments and Hedging Activities". This standard, which will be effective for the Group from 2000, requires that all derivative instruments be recorded in the Statement of Assets and Liabilities at their fair value. The Group has not yet completed its evaluation of the impact of the adoption of this standard.

Additional data related to derivatives and risk disclosures, required by the United States Securities and Exchange Commission, are given in the 1998 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:

$ million

	1998		1997	
	Contract/ notional amount	Estimated fair value	Contract/ notional amount	Estimated fair value
Interest rate swaps/forward rate agreements and interest rate caps	**6,736**	**(5)**	6,261	3

The amount of hedging gains or losses on these instruments which had been deferred at December 31, 1998 and at December 31, 1997 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:

$ million

	1998		1997	
	Contract/ notional amount	Estimated fair value	Contract/ notional amount	Estimated fair value
Forward exchange contracts	**4,543**	**28**	4,470	(53)
Currency swaps/options	**625**	**10**	746	78

The amount of hedging gains or losses on these instruments which had been deferred at December 31, 1998 and at December 31, 1997 in respect of firm commitments was not significant.

(d) Commodities

Some Group companies operate as traders in crude oil, natural gas and oil 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.

$ million

	1998		1997	
	Contract/ notional amount	Estimated fair value	Contract/ notional amount	Estimated fair value
Trading purposes				
Assets	**658**	**67**	610	58
Liabilities	**957**	**(79)**	626	(77)
Not for trading purposes	**671**	**(25)**	25	1

The average fair values of commodity swaps/options used for trading purposes during 1998 were: assets of $80 million (1997: $31 million) and liabilities of $65 million (1997: $36 million). Trading gains of $25 million arising on commodity swaps/options were included in 1998 income (1997: gains of $40 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 page and pages 67 and 68. 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. 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. Estimation methods have been refined during 1998. Estimates remain 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.

Proved developed and undeveloped reserves

million barrels

	1998					1997					1996				
	Eastern Hemisphere		Western Hemisphere		Total	Eastern Hemisphere		Western Hemisphere		Total	Eastern Hemisphere		Western Hemisphere		Total
	Europe	Other	USA and Canada	Other		Europe	Other	USA and Canada	Other		Europe	Other	USA and Canada	Other	
Group companies															
At January 1	1,423	5,156	1,416	359	8,354	1,436	4,887	2,349	377	9,049	1,236	4,812	2,334	96	8,478
Revisions and reclassifications	268	884	36	(111)	1,077	100	568	3	11	682	207	353	(51)	298	807
Improved recovery	12	22	–	–	34	30	26	1	–	57	–	64	84	–	148
Extensions and discoveries	28	104	40	2	174	58	59	293	–	410	198	50	149	–	397
Purchases of minerals in place	–	30	1	8	39	–	–	13	–	13	–	4	43	–	47
Sales of minerals in place	(1)	(40)	(32)	(46)	(119)	–	–	(43)	–	(43)	(1)	–	(17)	–	(18)
Transfers to associated companies in the USA	–	–	(27)	–	(27)	–	–	(1,043)	–	(1,043)	–	–	–	–	–
Production	(215)	(374)	(141)	(23)	(753)	(201)	(384)	(157)	(29)	(771)	(204)	(396)	(193)	(17)	(810)
At December 31	1,515	5,782	1,293	189	8,779	1,423	5,156	1,416	359	8,354	1,436	4,887	2,349	377	9,049
Group share of associated companies															
At January 1	2	394	931	–	1,327	2	384	–	–	386	2	366	–	–	368
Revisions and reclassifications	–	56	(137)	–	(81)	–	25	34	–	59	–	38	–	–	38
Improved recovery	–	–	–	–	–	–	4	1	–	5	–	12	–	–	12
Extensions and discoveries	–	8	–	–	8	–	14	–	–	14	–	1	–	–	1
Purchases of minerals in place	–	–	77	–	77	–	–	–	–	–	–	–	–	–	–
Transfers from Group companies in the USA	–	–	27	–	27	–	–	942	–	942	–	–	–	–	–
Production	–	(32)	(74)	–	(106)	–	(33)	(46)	–	(79)	–	(33)	–	–	(33)
At December 31	2	426	824	–	1,252	2	394	931	–	1,327	2	384	–	–	386
Total					10,031					9,681					9,435
Minority interests' share of proved reserves of Group companies															
At December 31	–	62	78	–	140	–	67	85	–	152	–	78	69	–	147

Proved developed reserves

million barrels

	1998					1997					1996				
	Eastern Hemisphere		Western Hemisphere		Total	Eastern Hemisphere		Western Hemisphere		Total	Eastern Hemisphere		Western Hemisphere		Total
	Europe	Other	USA and Canada	Other		Europe	Other	USA and Canada	Other		Europe	Other	USA and Canada	Other	
Group companies															
At January 1	**794**	**1,991**	**704**	**151**	**3,640**	740	1,899	1,505	140	4,284	581	2,200	1,520	83	4,384
At December 31	**963**	**2,314**	**695**	**78**	**4,050**	794	1,991	704	151	3,640	740	1,899	1,505	140	4,284
Group share of associated companies															
At January 1	**1**	**172**	**688**	**–**	**861**	1	181	–	–	182	2	183	–	–	185
At December 31	**1**	**178**	**673**	**–**	**852**	1	172	688	–	861	1	181	–	–	182

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.

Proved developed and undeveloped reserves

thousand million standard cubic feet

	1998					1997					1996				
	Eastern Hemisphere		Western Hemisphere		Total	Eastern Hemisphere		Western Hemisphere		Total	Eastern Hemisphere		Western Hemisphere		Total
	Europe	Other	USA and Canada	Other		Europe	Other	USA and Canada	Other		Europe	Other	USA and Canada	Other	
Group companies															
At January 1	**24,848**	**17,136**	**7,614**	**167**	**49,765**	25,130	14,830	7,341	176	47,477	24,905	9,985	7,795	188	42,873
Revisions and reclassifications	**1,075**	**3,760**	**(3)**	**25**	**4,857**	357	1,436	216	13	2,022	667	4,405	(21)	9	5,060
Improved recovery	**6**	**1**	**–**	**–**	**7**	48	361	–	–	409	–	941	6	–	947
Extensions and discoveries	**185**	**107**	**454**	**–**	**746**	536	900	1,228	–	2,664	876	34	753	–	1,663
Purchases of minerals in place	**–**	**1,737**	**–**	**217**	**1,954**	27	93	347	–	467	8	1	144	–	153
Sales of minerals in place	**(10)**	**(153)**	**(183)**	**–**	**(346)**	–	(1)	(127)	–	(128)	(3)	(1)	(459)	–	(463)
Transfers to associated companies in the USA	**–**	**–**	**(139)**	**–**	**(139)**	–	–	(582)	–	(582)	–	–	–	–	–
Production	**(1,256)**	**(449)**	**(787)**	**(19)**	**(2,511)**	(1,250)	(483)	(809)	(22)	(2,564)	(1,323)	(535)	(877)	(21)	(2,756)
At December 31	**24,848**	**22,139**	**6,956**	**390**	**54,333**	24,848	17,136	7,614	167	49,765	25,130	14,830	7,341	176	47,477
Group share of associated companies															
At January 1	**34**	**5,793**	**539**	**–**	**6,366**	34	5,516	–	–	5,550	34	4,700	–	–	4,734
Revisions and reclassifications	**3**	**(48)**	**(150)**	**–**	**(195)**	3	63	40	–	106	3	449	–	–	452
Improved recovery	**–**	**–**	**–**	**–**	**–**	–	228	1	–	229	–	594	–	–	594
Extensions and discoveries	**12**	**86**	**–**	**–**	**98**	2	214	1	–	217	2	–	–	–	2
Purchases of minerals in place	**–**	**–**	**8**	**–**	**8**	–	–	–	–	–	–	–	–	–	–
Sales of minerals in place	**–**	**–**	**–**	**–**	**–**	–	–	(7)	–	(7)	–	–	–	–	–
Transfers from Group companies in the USA	**–**	**–**	**139**	**–**	**139**	–	–	533	–	533	–	–	–	–	–
Production	**(5)**	**(226)**	**(56)**	**–**	**(287)**	(5)	(228)	(29)	–	(262)	(5)	(227)	–	–	(232)
At December 31	**44**	**5,605**	**480**	**–**	**6,129**	34	5,793	539	–	6,366	34	5,516	–	–	5,550
Total					**60,462**					56,131					53,027
Minority interests' share of proved reserves of Group companies															
At December 31	**–**	**314**	**609**	**–**	**923**	–	61	669	–	730	–	181	460	–	641

SUPPLEMENTARY INFORMATION – OIL AND GAS

Proved developed reserves

thousand million standard cubic feet

	1998					1997					1996				
	Eastern Hemisphere		Western Hemisphere		Total	Eastern Hemisphere		Western Hemisphere		Total	Eastern Hemisphere		Western Hemisphere		Total
	Europe	Other	USA and Canada	Other		Europe	Other	USA and Canada	Other		Europe	Other	USA and Canada	Other	
Group companies															
At January 1	**12,372**	**3,712**	**4,680**	**167**	**20,931**	11,869	3,727	4,783	173	20,552	11,024	4,367	5,304	187	20,882
At December 31	**14,633**	**5,142**	**4,651**	**172**	**24,598**	12,372	3,712	4,680	167	20,931	11,869	3,727	4,783	173	20,552
Group share of associated companies															
At January 1	**33**	**2,477**	**380**	**–**	**2,890**	33	2,215	–	–	2,248	33	2,083	–	–	2,116
At December 31	**42**	**2,259**	**398**	**–**	**2,699**	33	2,477	380	–	2,890	33	2,215	–	–	2,248

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 production activities is expected to derive from reserves which have already been discovered, but which cannot yet be regarded as proved.

$ million

	1998					1997					1996				
	Eastern Hemisphere		Western Hemisphere		Total	Eastern Hemisphere		Western Hemisphere		Total	Eastern Hemisphere		Western Hemisphere		Total
	Europe	Other	USA and Canada	Other		Europe	Other	USA and Canada	Other		Europe	Other	USA and Canada	Other	
Future cash inflows	**70,770**	**86,910**	**24,739**	**1,926**	**184,345**	86,265	123,787	34,048	5,220	249,320	93,555	121,849	70,696	6,212	292,312
Future production and development costs	**25,891**	**36,979**	**11,120**	**1,253**	**75,243**	24,198	35,056	12,510	2,073	73,837	26,879	34,121	19,957	1,495	82,452
Future tax expenses	**17,989**	**27,227**	**4,361**	**65**	**49,642**	27,088	53,650	6,958	1,350	89,046	31,199	61,554	17,147	1,237	111,137
Future net cash flows	**26,890**	**22,704**	**9,258**	**608**	**59,460**	34,979	35,081	14,580	1,797	86,437	35,477	26,174	33,592	3,480	98,723
Effect of discounting cash flows at 10%	**12,592**	**12,587**	**3,329**	**283**	**28,791**	15,884	19,281	5,142	854	41,161	15,593	10,873	13,404	1,414	41,284
Standardised measure of discounted future cash flows	**14,298**	**10,117**	**5,929**	**325**	**30,669**	19,095	15,800	9,438	943	45,276	19,884	15,301	20,188	2,066	57,439
Group share of associated companies					**1,854**					5,208					2,761
Minority interests	**–**	**106**	**324**	**–**	**430**	–	219	251	–	470	–	197	371	–	568

Change in standardised measure of discounted future cash flows

$ million

	1998	1997	1996
At January 1	**45,276**	57,439	37,050
Net changes in prices and production costs	**(43,260)**	(23,598)	36,694
Extensions, discoveries and improved recovery	**1,628**	5,256	7,914
Purchases/(Sales) of minerals in place	**615**	(841)	(246)
Movements to associated companies in the USA	**(146)**	(5,207)	–
Revisions of previous reserve estimates	**6,012**	5,194	9,811
Development cost related to future production	**(3,093)**	(3,159)	(2,008)
Sales and transfers of oil and gas, net of production costs	**(9,821)**	(15,309)	(16,650)
Development cost incurred during the year	**4,442**	4,058	3,602
Accretion of discount	**8,442**	10,060	6,643
Net change in income tax	**20,574**	11,383	(25,371)
At December 31	**30,669**	45,276	57,439

SUMMARISED FINANCIAL DATA

Income data

$ million

	1998	1997	1996	1995	1994
Sales proceeds					
Oil and gas	**124,712**	155,998	156,542	134,118	116,027
Chemicals	**12,795**	14,822	14,609	15,385	11,069
Other	**767**	837	813	1,187	2,013
Gross proceeds	**138,274**	171,657	171,964	150,690	129,109
Sales taxes, excise duties and similar levies	**44,582**	43,502	43,651	40,818	34,279
Net proceeds	**93,692**	128,155	128,313	109,872	94,830
Earnings by industry segment[a]					
Exploration and Production	**(247)**	4,569	4,871	2,947	2,363
Downstream Gas and Power Generation	**(349)**	245	264	309	297
Oil Products	**2,028**	2,169	1,903	1,983	2,785
Chemicals	**(718)**	969	897	1,731	534
Other industry segments	**(40)**	122	(1)	178	(139)
Total operating segments	**674**	8,074	7,934	7,148	5,840
Corporate	**227**	51	340	(150)	433
Minority interests				(185)	(117)
Earnings on an estimated current cost of supplies (CCS) basis[b]	**901**	8,125	8,274	6,813	6,156
CCS adjustment	**(551)**	(372)	612	106	111
Net income	**350**	7,753	8,886	6,919	6,267

Assets and liabilities data (at December 31)

	1998	1997	1996	1995	1994
Total fixed and other long-term assets	**87,469**	85,974	85,731	82,575	75,677
Net current assets/(liabilities)	**(8,541)**	(1,161)	5,317	3,468	4,071
Total debt	**13,810**	10,607	11,816	12,782	11,610
Parent Companies' interest in Group net assets	**54,962**	60,386	63,006	58,781	56,142
Minority interests	**2,701**	2,216	3,415	3,106	1,880
Capital employed	**71,473**	73,209	78,237	74,669	69,632

Cash flow data

	1998	1997	1996	1995	1994
Cash flow provided by operating activities	**14,729**	16,730	16,619	14,873	11,718
Capital expenditure (including capitalised leases)	**12,859**	12,274	11,023	10,965	9,482
Cash flow used in investing activities	**12,500**	13,605	10,049	10,338	7,199
Cash flow provided by/(used in) financing activities	**2,411**	(706)	(604)	(467)	321
Dividends paid	**5,993**	5,382	5,149	4,711	3,890
Increase/(Decrease) in cash and cash equivalents	**(1,589)**	(3,375)	943	(459)	1,425

Other statistics

	1998	1997	1996	1995	1994
Return on average capital employed[c]	**2.8%**	12.0%	12.0%	10.7%	10.3%
Total debt ratio[d]	**19.3%**	14.5%	15.1%	17.1%	16.7%

[a] Financing costs and minority interests are allocated to segments with effect from 1998. Comparative data for 1996 and 1997 have been restated, but it is not practicable to restate data for 1994 and 1995.

[b] On this basis, cost of sales of the volumes sold in the period is based on the cost of supplies of 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. These earnings are more comparable with those of companies using the last-in first-out (LIFO) inventory basis after excluding any inventory drawdown effects.

[c] CCS earnings plus minority interests plus interest expense, less tax on the interest expense, as a percentage of average capital employed.

[d] Total debt as a percentage of capital employed.

SUMMARISED FINANCIAL DATA

Capital investment

$ million

	1998	1997	1996	1995	1994
Capital expenditure[a]					
Exploration and Production	**6,474**	5,724	4,995	4,477	3,811
Downstream Gas and Power Generation	**1,816**	47	36	30	91
Oil Products	**2,776**	3,818	4,308	4,890	4,575
Chemicals	**1,491**	2,422	1,409	1,243	728
Other	**302**	263	275	325	277
	12,859	12,274	11,023	10,965	9,482
Exploration expense (excluding depreciation and release of currency translation differences)	**1,595**	1,160	1,122	870	1,042
New investments in associated companies	**1,282**	1,726	770	550	443
Total capital investment*	**15,736**	15,160	12,915	12,385	10,967
*comprising					
Europe	**4,889**	5,185	4,832	4,966	3,747
Other Eastern Hemisphere	**3,987**	3,749	3,161	3,275	3,789
USA and Canada	**5,304**	4,676	4,013	3,433	2,881
Other Western Hemisphere	**1,556**	1,550	909	711	550
	15,736	15,160	12,915	12,385	10,967

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

Quarterly income data

$ million

	1998				1997				1996			
	4th Quarter	**3rd Quarter**	**2nd Quarter**	**1st Quarter**	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Gross proceeds	**34,604**	**33,141**	**34,579**	**35,950**	43,294	41,861	41,816	44,686	47,718	42,637	41,748	39,861
less sales taxes, excise duties and similar levies	**11,662**	**11,160**	**11,179**	**10,581**	11,378	10,771	10,800	10,553	11,506	10,952	10,703	10,490
Net proceeds	**22,942**	**21,981**	**23,400**	**25,369**	31,916	31,090	31,016	34,133	36,212	31,685	31,045	29,371
Cost of sales	**21,378**	**17,170**	**18,499**	**19,627**	25,268	24,230	24,262	26,634	28,233	24,641	24,356	22,221
Gross profit	**1,564**	**4,811**	**4,901**	**5,742**	6,648	6,860	6,754	7,499	7,979	7,044	6,689	7,150
Operating profit	**(4,716)**	**2,081**	**2,518**	**3,221**	3,177	3,882	3,948	4,935	4,623	4,122	3,795	4,589
Net income	**(3,739)**	**896**	**1,497**	**1,696**	1,629	2,063	1,749	2,312	2,349	2,066	1,802	2,669
Earnings on an estimated current cost of supplies basis[b]	**(3,568)**	**918**	**1,606**	**1,945**	1,698	1,975	1,929	2,523	2,109	1,867	1,810	2,488

[b] On this basis, cost of sales of the volumes sold in the period is based on the cost of supplies of 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. These earnings are more comparable with those of companies using the last-in first-out (LIFO) inventory basis after excluding any inventory drawdown effects.

OPERATIONAL COMPARISONS 1994–1998

Crude oil production
(including Group share of associated companies) thousand barrels daily

	1998	1997	1996	1995	1994
Europe	**590**	551	560	533	525
Africa	**377**	423	423	411	398
Middle East	**476**	455	456	472	467
Asia-Pacific	**261**	264	290	264	239
USA and Canada	**589**	559	528	512	482
Other Western Hemisphere	**61**	76	48	62	83
	2,354	2,328	2,305	2,254	2,194
					million tonnes a year
Metric equivalent	**118**	116	115	113	110

Natural gas sales
(including Group share of associated companies) million cubic feet daily

	1998	1997	1996	1995	1994
Europe	**3,321**	3,302	3,409	2,869	2,911
Other Eastern Hemisphere	**2,002**	2,177	2,296	2,087	1,965
USA and Canada	**2,489**	2,464	2,593	2,628	2,401
Other Western Hemisphere	**50**	58	56	40	40
	7,862	8,001	8,354	7,624	7,317
					billion cubic metres a year
Metric equivalent	**77**	78	82	74	71

Refinery processing intake
thousand barrels daily

	1998	1997	1996	1995	1994
Crude oil	**3,207**	4,057	3,771	3,494	3,493
Feedstocks	**164**	200	193	190	176
	3,371	4,257	3,964	3,684	3,669
Europe	**1,670**	1,723	1,675	1,595	1,608
Other Eastern Hemisphere	**1,034**	1,133	995	873	833
USA and Canada	**573**	1,309	1,211	1,137	1,153
Other Western Hemisphere	**94**	92	83	79	75
	3,371	4,257	3,964	3,684	3,669
					million tonnes a year
Metric equivalent	**169**	213	198	184	183

Oil sales
thousand barrels daily

	1998	1997	1996	1995	1994
Gasolines	**1,687**	2,271	2,218	2,155	2,001
Kerosines	**594**	704	664	628	611
Gas/Diesel oils	**1,787**	1,976	1,860	1,722	1,635
Fuel oil	**748**	773	748	725	720
Other products	**900**	836	826	741	696
Total oil products	**5,716**	6,560	6,316	5,971	5,663
Crude oil	**3,248**	4,121	4,305	4,004	3,678
Total oil sales	**8,964**	10,681	10,621	9,975	9,341
					million tonnes a year
Metric equivalent	**448**	534	531	499	467

Group share of Equilon and Motiva volumes
(not included above) thousand barrels daily

	1998	1997	1996	1995	1994
Refinery processing intake	**656**	n/a	n/a	n/a	n/a
Total oil products sales	**1,070**	n/a	n/a	n/a	n/a

Tanker fleets
(owned/demise-hired and time-chartered, at December 31) number of ships

	1998	1997	1996	1995	1994
Oil tankers	**61**	73	75	76	84
Gas carriers	**6**	7	7	8	3
					million deadweight tonnes
Oil tankers	**6.1**	7.7	8.2	8.4	8.5
					thousand cubic metres
Gas carriers	**435**	461	358	447	197

Chemicals sales: net proceeds
$ million

	1998	1997	1996	1995	1994
Europe	**5,381**	6,468	6,449	6,705	4,655
Other Eastern Hemisphere	**1,324**	1,573	1,468	1,672	1,274
USA and Canada	**5,172**	5,744	5,580	5,749	4,194
Other Western Hemisphere	**395**	470	509	468	244
	12,272	14,255	14,006	14,594	10,367

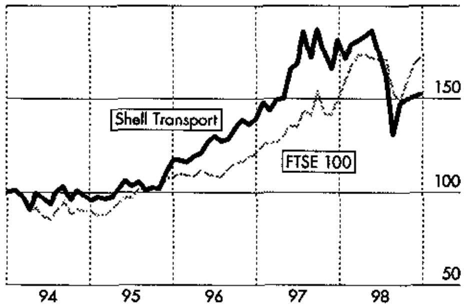
Employees
(average numbers) thousands

	1998	1997	1996	1995	1994
Europe	**41**	40	40	42	43
Other Eastern Hemisphere	**27**	27	25	26	26
USA and Canada	**21**	26	27	27	27
Other Western Hemisphere	**13**	12	12	11	11
	102	105	104	106	107
					$ million
Remuneration	**5,260**	5,515	5,556	5,458	5,120
Social law taxes	**476**	511	524	527	456
Pensions and similar obligations	**245**	82	205	259	396
	5,981	6,108	6,285	6,244	5,972

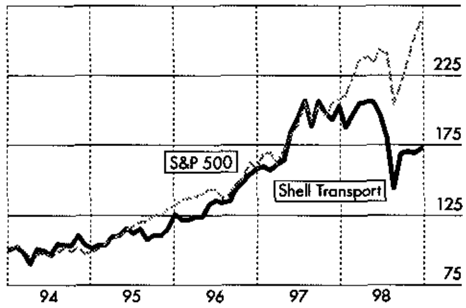
The figures shown in the tables on this page represent the totals reported by Group companies, reflecting their dealings with third parties and with associated companies. However, crude oil production and natural gas sales include the Group share of these associated companies. A separate table has been given in respect of associated companies Equilon and Motiva. Crude oil production, refinery processing intake and oil sales figures include natural gas liquids.

SHAREHOLDER INFORMATION

Shell Transport Share Price/
FTSE 100 Index
Index: December 31, 1993 = 100



Shell Transport ADR/
Standard & Poor's 500 Index
Index: December 31, 1993 = 100



Annual General Meeting

The 101st Annual General Meeting of The "Shell" Transport and Trading Company, p.l.c. will be held at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE, on Friday May 7, 1999 at 11:00 a.m. The Notice convening the Meeting is enclosed.

Shareholder base

The estimated geographical distribution of shareholdings at the end of 1998 was:

%	Royal Dutch	Shell Transport	Combined
United Kingdom	2	96	39
Netherlands	45	a	27
USA	39	4	25
Switzerland	9	a	5
France	3	a	2
Germany	1	a	1
Belgium	1	a	1
Others	a	a	a

[a] Less than 1%

Share prices

London Stock Exchange

pence per 25p Ordinary share	**1998**	1997	1996	1995	1994
Highest	**464**	485	352	287	253
Lowest	**316**	331	276	231	219
Year end	**369**	440	337	284	232

New York Stock Exchange

US dollars per New York Share[b]	**1998**	1997	1996	1995	1994
Highest	**46.50**	47.31	34.38	27.33	23.92
Lowest	**31.00**	33.25	25.54	21.42	18.96
Year end	**37.19**	43.75	34.13	27.13	21.79

Capital gains tax

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

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

Earnings and dividends

pence per 25p Ordinary share	**1998**	1997	1996	1995	1994
Dividends					
Interim	**5.3**	5.1	4.8	4.3	3.7
Final	**8.2**[a]	8.0	7.5	6.8	5.3
	13.5	13.1	12.3	11.1	9.0
Earnings	**0.5**	17.8	21.3	16.0	15.0
Net assets	**135.0**	146.7	149.6	153.9	145.9

[a] Proposed final dividend, subject to approval at the Annual General Meeting of the Company on May 7, 1999. The final dividend will be paid on May 14, 1999 to Members on the Register on April 23, 1999 and to holders of Bearer Warrants who surrender Coupon No. 203.

US dollars per New York Share[b]	**1998**	1997	1996	1995	1994
Dividends					
Interim	**0.53**	0.64	0.59	0.51	0.46
Final	[c]	0.78	0.93	0.77	0.62
	[c]	1.42	1.52	1.28	1.08
Earnings	**0.05**[d]	1.75	1.99	1.52	1.38
Net assets	**13.44**[d]	14.58	15.21	14.29	13.65

[b] One New York Share = six 25p Ordinary shares.

The current Double Taxation Conventions between the United Kingdom and the United States of America and Canada provide for the payment to qualifying United States and Canadian residents of an amount equal to the relevant tax credit, less United Kingdom income tax at the rate of 15% on the sum of the dividend and the tax credit. The final dividend of 1998 will have a tax credit of 10/90ths. In this case the withholding tax at 15% would be more than the tax credit and consequently the payment is treated as being reduced to zero. Tax authorities in the United States and Canada have not ruled on whether a shareholder who pays United States or Canadian income tax should account for the repayable tax credit and claim credit for an equal amount within their tax return, or whether only the net dividend should be reported.

The 1997 final dividend and the 1998 interim dividend were paid as foreign income dividends and consequently did not carry a tax credit. United States and Canadian resident shareholders were therefore not entitled to receive any additional amount under the terms of the respective Double Taxation Conventions in respect of these dividends.

The 1997 interim dividend and prior year dividend amounts are shown as US dollar equivalents of the dividend and tax credit at time of payment before deduction of income tax at 15%.

[c] The Actual amount to be paid will be determined by the US$/£ exchange rate ruling on May 14, 1999.

[d] The US dollar figures for earnings and net assets are translations of the above sterling amounts at the following rates of exchange:

£1=US$	**1998**	1997	1996	1995	1994
Earnings (average rate)	**1.6589**	1.6370	1.5614	1.5815	1.5400
Net Assets (year-end rate)	**1.6599**	1.6566	1.6948	1.5481	1.5600

All 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.

Financial calendar

Financial year ends	December 31, 1998
Announcements	
Full year results for 1998	February 11, 1999
First quarter results for 1999	May 6, 1999*
Second quarter results for 1999	August 5, 1999*
Third quarter results for 1999	November 4, 1999*
Dividends – Ordinary shares (UK Register)	
1998 Final	
Proposed dividend announced	February 11, 1999
Ex-dividend date	April 19, 1999
Record date	April 23, 1999
Payment date	May 14, 1999
1999 Interim	
Announced	August 5, 1999*
Ex-dividend date	September 27, 1999*
Record date	October 1, 1999*
Payment date	November 1, 1999*
Dividends – ADRs (New York Register)	
1998 Final	
Proposed dividend announced	February 11, 1999
Ex-dividend date	April 21, 1999
Record date	April 23, 1999
Payment date	May 20, 1999
1999 Interim	
Announced	August 5, 1999*
Ex-dividend date	September 29, 1999*
Record date	October 1, 1999*
Payment date	November 5, 1999*
Dividends – Preference shares: Payment dates	
5½% First Preference shares	April 1 and October 1
7% Second Preference shares	February 1 and August 1
Report and accounts	
Publication	April 7, 1999
Annual General Meeting	May 7, 1999

*The dates shown are provisional and subject to final confirmation.

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 TSB 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 Depository:
The Bank of New York
101 Barclay Street
New York NY 10286
Attn: Investor Relations – 11 East
Telephone: 888 BNY ADRS (USA only)
+1 212 815 5204 (international)
Fax: +1 212 571 3050

Other

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

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

Shell Customer Service Centre
Rowlandsway House
Rowlandsway, Wythenshawe
Manchester M22 5SB
Telephone: 0800 731 8888
Fax: 0161 499 8088

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

Investor relations

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

London
Shell International Limited
Group Investor Relations
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United Kingdom
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Fax: +44 (0)171 934 3702
E-mail: IR-London@SI.shell.com

The Hague
Shell International B.V.
Group Investor Relations
PO Box 162
2501 AN The Hague
The Netherlands
Telephone: +31 (0)70 377 4540
Fax: +31 (0)70 377 3115
E-mail: IR-Hague@SI.shell.com

New York
Shell Oil Company
712 Fifth Avenue
New York, NY 10019-4102
USA
Telephone: +1 212 261 5660
Fax: +1 212 261 5663
E-mail: IR-NewYork@Shellus.com

FOR MORE ON **SHELL**

Financial and Operational Information 1994–1998

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

The Shell Report 1999

Review of the Group companies' progress in embodying sustainable development in the way they do business and in meeting the economic, environmental and social expectations of stakeholders.

The Group Report on HSE Performance in 1998

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. (Available June 1999.)

Shell's Investment in Society

Information about the Group's social investment programmes, which aim to support the development of local communities and to help address major national and international social issues.

Statement of General Business Principles

Fundamental principles that govern how each Shell company conducts its affairs.

CONTACT ANY OF THE ADDRESSES BELOW FOR COPIES OF PUBLICATIONS
(including the Parent Companies' Annual Reports and Summary Annual Reports)

Shell International Limited
SLBPA Division
Shell Centre
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