MOST CONFIDENTIAL

No. 2494

COMMITTEE OF MANAGING DIRECTORS
MINUTES OF THE MEETING HELD IN THE HAGUE
ON TUESDAY, 11 SEPTEMBER 2001

Present:	P B Watts	Chairman
	J van der Veer	
	H J M Roels	
	P D Skinner	
	W van de Vijver	
In attendance:	S M G Hodge	
	S A Fish	Secretary

1. MINUTES

The Minutes of CMD Meeting No. 2493 were approved, as amended.

2. CHINA EAST-WEST PIPELINE/GAZPROM

Din Megat, Tim Warren, Peter de Wit and Dominique Gardy entered the meeting.

Tim Warren presented a report on recent developments relating, *inter alia*, to the Shell bid and the question of financing support to Gazprom.

In light of these developments, he explained, the proposal is to:

(1) establish a Shell-led consortium of 16% Shell/16% ExxonMobil/16% Gazprom/1% Hong Kong China Gas to negotiate a full 49% participation in the pipeline and associated upstream PSC's;

(2) should either ExxonMobil or Gazprom be unwilling to participate, to consider Petronas as an alternative participant; and

(3) to agree an appropriate timeframe with PetroChina.

The Committee expressed considerable concern over a number of aspects to the proposal including the question of reputation management, the cost of financing, the issue of Board approval, and the ability of Gazprom to deliver on its promises. In particular, the Committee:

(1) queried the cost of the $1 bln guarantee and the basis for the risked exposure of $70 mln;

(2) emphasised the need to obtain real value from Gazprom for any financing support;

(3) sought the assurance that the Group was not already committed (in terms of the protocol with Gazprom);

(4) expressed a desire for a smaller interest in the pipeline; and

(5) acknowledged that introducing Sakhalin would complicate matters but recognised this could be raised in the discussions.

In sum, the Committee accepted there would be some cost to entering into China but that any such cost should be in return for concrete projects supported with enforceable security instruments. It recognised that Shell may have to walk away from the proposal at the risk of disappointing both the Chinese and the Gazprom alliance.

Copy of Minute to: W van de Vijver, L Cook.

3. NICHE ACQUISITIONS

Dominique Gardy, Lorin Brass, Judy Boynton and Aidan McKay entered the meeting.

Aidan McKay presented a further report on EP Niche Acquisitions. He identified five possible targets and compared their various characteristics, valuations, their impact on the EP business and the likely competition for such targets. The targets were ranked in terms of their strategic fit, development and growth opportunities and synergy value. It is proposed to continue with further staff work to ensure preparations are in a "deal ready" state by end December.

The principal aspects of the report were:

(1). Mega mergers have given both BP and ExxonMobil greatly increased scale and additional positions in both old EP and new EP.

(2) Shell EP has a high decline in "old" business and there is an indication that some "new" business will not produce major returns for some time.

(3) There is a desire to reinvest in EP (which has been responsible for delivering 60% of Group cash since 1975).

(4) Certain "old EP" targets may never really become "cheap".

The Committee thanked the presenters for an excellent presentation and the very thorough staff work that had gone into it. The Committee made the following comments:

(1) All acquisition proposals should make clear the assumed forward curve (hard numbers per year) for oil and gas in the presentations and pre-reading materials.

(2). The size of these acquisitions is critical; each one will have a large impact even on overall Group performance. A clear statement on impacts on EP and Group earnings at different prices is required. An assessment of the impact (as options) of the acquisitions against the Base EP plan would be helpful.

(3) An assessment of the EP and GP aspired portfolio is required to determine the gaps and the fit of each of the targets. An analysis of each target's short term and long-term opportunities is required.

(4) There is uncertainty about appropriate energy prices and a clear view on this is required. All the relevant market metrics at L/M/H prices would be helpful.

(5) An assessment of share prices against EBITDA would be helpful, as would an assessment of goodwill effects.

(5) It is becoming very clear that a material shift to gas is going to be difficult for a company of Shell's size even through acquisition.

(6) It is critical to maintain confidentiality on these targets.

The Committee thanked the presenters for an excellent presentation and the very thorough preparatory work and required that during October notes be prepared containing the evaluation criteria and the necessary conditions for launching acquisition efforts. These should be discussed before the Committee in time for the review at the October Conference.

Copy of Minute to: W van de Vijver.

4. EP ANALYSTS PRESENTATION

Dominique Gardy, Lorin Brass, Judy Boynton and Malcolm Brinded entered the meeting.

Walter van de Vijver presented the proposed storyline for the EP presentations to analysts on 19/20 September.

The Committee agreed to revise the production growth rate to 3% a.a.i for the period 2000-2005. The Committee acknowledged, however, that this growth rate should be communicated with "appropriate caveats".

In terms of the proposed messages, the Committee suggested that the statement "productivity improvement from global value delivery drives" would not be clear to analysts. The Committee suggested also that the messages include "robust profitability with downside resilience".

Copy of Minute to: none.

5. YABUCOA REFINERY

Evert Henkes entered the meeting; Rein Willems joined by videoconference.

Evert Henkes presented a proposal to make a $123 mln bid for the 85 kbd Sun refinery at Yabucoa, Puerto Rico. The proposed bid price comprises $20 mln for the acquisition of the fixed refining and logistics assets, $50 mln for working capital, $30 mln for projects to align the refinery to Shell's desired operating mode and $23 mln for projects to improve HSE performance and to complete site re-instrumentation.

The Committee expressed its support for the proposal.

The Committee noted that the $5 mln per annum negative impact on the OP scorecard would be resolved between Chemicals and OP. The Committee noted also that the proposal did not contain an analysis of ROACE impact and requested that the same be included in future proposals for all businesses.

Copy of Minute to: J van der Veer, E Henkes, M Warwick.

6. PROJECT "NEWMARKET"

Tim Warren, Peter Duncan and Peter de Wit entered the meeting.

Tim Warren presented a report on the various options available to EP/GP following the rejection of the revised merger proposal for Woodside Petroleum.

As regards the current position, Woodside have been advised that Shell is concerned by the fact that it has no control and limited influence over major investments, it is unable to gain access to full value from all investments and is exposed to what it regards as Woodside's value-eroding activities. Woodside, by contrast, believes it is in a strong position to remain independent and wishes to retain the current status quo. BHP sees this as an opportunity to increase the scale of its petroleum business, extract synergies and to increase its operating capability.

Two (mutually exclusive) paths for moving forward are proposed:

(1) enhancing Shell's current position with a view to gaining control of Woodside at an appropriate time thereafter; or

(2) exiting Woodside (through facilitating a BHPP/Woodside merger).

The Committee considered the merits of each option. The Committee noted that option 1 (enhanced status quo/gain control) provides some improvement in the short term but will be difficult to achieve in the longer term. Option 2 (exit) is achievable in the short-term although gives rise to a number of uncertainties that require resolution beforehand.

The Committee supported the proposal to maintain "parallel paths" for the time being focusing on enhancing the current status quo as well as exiting.

In relation to the exit option, the Committee suggested that efforts should be directed at determining precisely what Shell's requirements are but leaving the remainder of the work on the proposal to BHPP. The Committee suggested also that an exit for other assets rather than cash would be preferable.

Copy of Minute to: W van de Vijver.

AUSTRALIA COUNTRY REVIEW

Peter Duncan, Peter de Wit, Tim Warren and Campbell Grant entered the meeting.

Peter Duncan presented the Australia Country Review. His review focused on identifying the principal issues confronting Shell in the coming years, presenting a realistic view of the outlook for Shell businesses and presenting certain recommendations regarding the company's operations.

The key challenges facing Shell Australia over the next decade include prospering in the "great game of gas", the Woodside relationship, an overhang of local and regional refining capacity that is leading to hyper-competition particularly in retail gasoline and chasing opportunities in energy retailing.

Shell has $2.3 bln of capital employed in Australia. Shell Development Australia (SDA) has some $1.13 bln in capital employed and the Oil Products business has $1.18 bln in capital employed. SDA's assets are primarily focused on the North West Shelf and Timor Sea but include also the GP/Shell Consumer interests in EdgeCap and Pulse. The OP business is underpinned by refineries in Sydney and Geelong, 21 terminals and about 1,400 service stations.

The recent performance of the two businesses has been very different with SDA returning a record result in 2000 of $724 mln (ROACE 60%), while the OP business lost $30 mln (ROACE -3%). Latest estimates for 2001 indicate EP/GP returning $708 mln (ROACE 68%) and OP returning $43 mln (ROACE 3%). The presenter then discussed the key business strategies for both the EP/GP/Consumer and OP businesses before turning to the outlook for each of these businesses. He concluded with some remarks concerning HSE and Human Resources issues.

Asked by the Committee about the likelihood of the success of the Sunrise Floating LNG proposal, and the reaction of the press thereto, the presenter replied that the reaction had been negative and that the Company was engaged in briefing the press in order to change opinion. Peter de Wit added that the

LNG business will double in the next 15 years and Shell was not well positioned in Australia because of high costs in that country. Floating LNG, if successful, would transform this position, resulting in the lowest cost gas in the region. Shell will most likely have to accept other parties into the venture. He further commented that only 20% of the field is located in East Timor territory, and so the tax issue is less important than for say Phillips, whose interests lie 100% in East Timor territory.

In relation to a question on Group reputation, the presenter replied that Shell's reputation is not very high. Some ten years ago it would have achieved a 20% positive rating; today its reputation probably receives a 10% rating. The decline in reputation is probably attributable to high pump prices (particularly in the face of globalisation) and Woodside.

Asked by the Committee about the Gorgon field and the stranded gas position, Tim Warren replied that one would expect the Gorgon field to be the next field to be developed through North West Shelf, but the company, with Chevron's support, would need to convince BP of this (as the latter hope to develop Tangguh). The joint venture structure is currently quite complicated, thus eroding value, and one objective is to simplify this.

Asked by the Committee about whether Chinese oil companies such as CNOOC could become involved in order to provide a market, Peter de Wit replied that this was a possibility, most likely using gas from Gorgon.

The Committee thanked the presenter for the review and expressed its special appreciation for his loyal service to the Group over the past 35 years.

Copy of Minute to: none.

8. EQUILON GULF OF MEXICO PIPELINES

Mark Williams entered the meeting; Rob Routs, Gus Noojin, Raoul Restucci and John Hollowell joined by videoconference.

Rob Routs and John Hollowell presented an overview of Equilon's Gulf of Mexico (GoM) transportation business as well as a proposal to participate in a significant pipeline play related to BP's deepwater developments in the Southern Green Canyon area.

The presenters explained that Equilon has built an extensive network of transportation assets in the GOM over the past 40 years. It has leveraged that position to attract both affiliate and non-affiliate volumes and has grown the business to an estimated $120 mln in 2001. The challenge ahead is for Equilon to continue to grow this business. The presenters then set out in some detail the proposed pipeline play.

The Committee expressed its directional support for the proposed way forward. It requested that the capital investment proposal, when submitted, should place the proposal within the context of the business' overall strategy and the opportunities that may arise from gaining full control of the oil and gas pipeline system.

Copy of Minute to: P Skinner.

9. PREPARATION FOR 17/18 SEPTEMBER

Malcolm Brinded, Roxanne Decyk and Judy Boynton entered the meeting.

The Committee considered the proposed agenda for the Business Options discussions on 17/18 September.

Copy of Minute to: none.

10. PROJECT "NIKE"

Walter van de Vijver reported that the on-going discussions with Bridas have been widened to include BP also.

Copy of Minute to: none.

11. ANGOLA BLOCK 34

Walter van de Vijver reported that Shell Exploration and Production Angola B.V. has entered into a production sharing contract with Angola's national oil company, Sonangol, in Block 34 offshore Angola.

Copy of Minute to: none.

12. **ASIA VISIT**

Harry Roels reported that he had met with the mayor of Shanghai and the Director General of METI.

Copy of Minute to: none.

13. **PROJECT "POPEYE"**

Harry Roels reported that the GP CEO had met with President Kim of Kogas.

Copy of Minute to: none.

14. **SHELL CAPITAL**

Harry Roels reported that the business would generate a sizeable profit on a recent loan transaction. In terms of the transaction, Shell Capital loaned monies to a coal bed methane company, Mannix, in return for certain royalty rights. Mannix had recently been acquired by Williams who now wish to buy out Shell Capital's rights.

Copy of Minute to: none.

15. **TRADE RANGER**

Harry Roels reported that following the recent technical disappointments, Trade Ranger's financial position was not looking particularly healthy. Trade Ranger members, however, were committed to maintaining the venture. Shell was looking to see whether there was an opportunity to acquire a greater interest in the venture.

Copy of Minute to: none.

16. **PROJECT "SPECTRUM"**

Paul Skinner reported that the FTC had published its Consent Order relating to the Chevron/Texaco merger which provides, inter alia, for the establishment of the trust mechanism. Shell has issued a press release in response indicating its acceptance of this outcome. Shell received thereafter another approach from Texaco's Chairman seeking further discussions with Shell. Shell has set out clear terms and conditions which would form the basis of the meeting including a value range and the acceptance of the terms of the draft MoU. Texaco have accepted these terms.

Copy of Minute to: none.

17. NAMIBIA - FATALITY

Paul Skinner reported, with regret, a road accident that resulted in five third party fatalities. The accident occurred on 2 September when a passenger vehicle with seven occupants collided with a road tanker. The accident is being investigated.

Copy of Minute to: P Skinner.

18. NOTES FOR INFORMATION/DISCUSSION

The following matters were before the Committee as Notes for Information/ Discussion:

ITEMS FOR DISCUSSION

Forthcoming Items for CMD and Conference

Carbon Constrained Future FRD