A. ACTIVITIES AND MAJOR INTERESTS

The companies of the Royal Dutch/Shell Group are engaged worldwide in all the principal aspects of the oil and natural gas industry. They also have substantial interests in chemicals and additional interests in power generation, renewable resources (chiefly in forestry and solar energy), coal and other businesses.

Oil and gas, by far the largest of the Group companies' business activities, accounted in 1999 for 88% of net proceeds. In fact, Group and associated companies constitute one of the largest oil and gas enterprises in the world. They market their oil products in more countries than any other oil company, and they have a strong position not only in the major industrialised countries but also in the developing ones. The distinctive Shell pecten (a trademark in use since the early part of the century) and trademarks in which the word "Shell" appears support this marketing effort throughout the world. Taken together, Group and associated companies also rank among the world's major chemical companies; in 1999 chemicals accounted for 12% of the net proceeds of Group companies. The Group's interests in power generation and renewable resources are considerably smaller. Nevertheless, through its InterGen joint venture, the Group ranks second in the world as a developer of greenfield power projects, and it currently accounts for 3% of the global market share of solar panels. The Group's various activities are conducted – to one extent or another – in more than 135 countries.

The breakdown of net proceeds of Group companies by industry segment and by geographical region for the years 1997 to 1999 is set out in the following tables:

Net Proceeds by Industry Segment (including inter-segment sales)

$ million	1999	1998	1997
Exploration and Production			
Third parties	9,474	8,119	10,749
Inter-segment	8,849	7,400	11,822
	18,323	15,519	22,571
Downstream Gas and Power			
Third parties	9,729	7,796	913
Inter-segment	295	192	224
	10,024	7,988	1,137
Oil Products			
Third parties	72,450	64,738	101,401
Inter-segment	1,570	1,876	4,011
	74,020	66,614	105,412
Chemicals			
Third parties	12,886	12,272	14,255
Inter-segment	748	849	925
	13,634	13,121	15,180
Corporate and other			
Third parties	827	767	837
Inter-segment	–	–	–
	827	767	837
	116,828	104,009	145,137

Net Proceeds by Geographical Area (excluding inter-segment sales)

$ million	1999	1998	1997
Europe	51,820	44,374	58,989
Other Eastern Hemisphere	21,068	17,785	24,047
USA	17,306	16,603	28,547
Other Western Hemisphere	15,172	14,930	16,572
	105,366	93,692	128,155

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B. BUSINESS ENVIRONMENT

Asian economies returned to strong growth following the region's economic crisis in 1998. As a consequence, oil demand in the region grew by around 0.9 million barrels a day after a decline in demand of around 0.3 million barrels a day in 1998. By contrast, oil demand grew only slightly in the Western Hemisphere in 1999. In spite of strong economic growth in the USA, warm weather, together with a slowdown in several large European economies and in Russia, meant that demand grew by little more than 0.1 million barrels a day in the hemisphere; in 1998 demand grew around 0.6 million barrels per day. Oil demand growth is expected to be strong in all areas in 2000, with a total increase of between 1.5 million and 1.8 million barrels a day relative to 1999.

In 1999 Brent crude prices averaged $17.95 a barrel; the year before they averaged $12.75 a barrel. Following a decline to below $10 a barrel in February 1999, oil prices recovered steeply throughout the rest of the year. The recovery in prices can be attributed to the decline in oil inventories, which is largely the consequence of the high level of compliance with the production levels agreed in March by the major oil-exporting countries combined with the growth of the US and Asia-Pacific economies.

Oil prices have remained high in the first months of 2000. Uncertainties over supply development make the direction of movement in prices in the coming months unpredictable. However, increasing demand and low inventories should ensure that oil prices remain above the historic range of $15 to $20 a barrel for the next few months.

Refining margins in Rotterdam declined to an average of $1.00 a barrel in 1999, from $2.20 a barrel in 1998. The decline reflected high product inventories on both sides of the Atlantic for most of the year and the effects of product price rises that lagged the rapid rise in crude prices. These effects also contributed to the $1-a-barrel fall in margins on the US Gulf Coast, where the West Texas Sour coking margin averaged $1.95 a barrel for the year. In the Asia-Pacific region the increasing refining capacity surplus contributed to a fall in Singapore refining margins, from an average of $1.35 a barrel in 1998 to $0.65 a barrel in 1999.

In 2000 the impact of increased economic activity in Europe and low product inventories in the USA may help margins. Conversely, in the Asia-Pacific region, margins are likely to remain under pressure despite the anticipated recovery in oil demand because of the regional overcapacity.

Chemicals trading conditions improved markedly in the fourth quarter from earlier in 1999, as confidence returned to the Asia-Pacific region and feedstock price rises throughout the year were increasingly reflected in finished-product prices. Still, unit chemical margins remain depressed, and no significant change in trading conditions is anticipated in the short term.

C. GENERAL DEVELOPMENT OF THE BUSINESS

Current investment plans have been scaled back, but they nevertheless represent a substantial continuing commitment to growing the Exploration and Production Business (see "Capital Expenditure and Exploration Expense by Geographical Area" table on page 6). Over the next five years, oil production and gas sales combined are planned to grow at an average annual rate of some 5%. Increases in oil production are expected from a new Canadian oil-sands project as well as from fields in Egypt, Nigeria, Norway, Russia and the USA. Increases in gas sales are expected in Egypt, Nigeria, Oman and the USA.

Net additions to proved reserves of crude oil (including natural gas liquids) over the past five years (1995-99) are equivalent to 120% of the production over that period. Net additions to proved reserves of natural gas over the same period are equivalent to 169% of the production.

Group and associated companies' gas sales volumes have increased by 8% since 1995. Investment continues in the expansion of existing operations and in major new pipelines. Moreover, additional liquefied natural gas (LNG) projects are under construction or are being considered in several countries. The long-term growth prospects for gas and power demand are judged to be good.

Group companies continue to pursue a policy of a diversified supply base, and they trade actively in crude oil and its refined products throughout the world. Their strong downstream market position has been maintained.

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Utilisation of Group companies' refining capacity remains high, and investment continues to reinforce their market position in higher-value-added areas – notably for transportation and speciality products – and to address environmental concerns through tighter product specifications. Above all, Group companies will maintain their emphasis on structural cost control, operational excellence and active portfolio management, including refinery rationalisation. Both refining and marketing operations have maintained efforts to improve their health, safety and environmental performance, while the marine tanker fleet has increased its flexibility through continued restructuring.

Since the beginning of 1999 extensive efforts have been made to ready certain Chemicals businesses for divestment. The businesses that will be retained by the Group are justified on the grounds of, firstly, historically strong performance and, secondly, the good match between the criteria for success in these businesses and the Group's own competencies. The Chemicals portfolio will thus be composed of major cracker products, petrochemical building blocks and large-volume polymers.

In 1997 Group companies' activities in solar power, biomass (wood-based) power and forestry were consolidated. Under the new Renewables organisation, Group companies seek to build on their accumulated experience and invest as appropriate to seize business opportunities.

All the business activities described in this section are supported by research. The finding of oil and gas, the enhancement of recovery from existing fields and the engineering of offshore structures are subjects that receive particular attention, as do the products and processes of oil refining, gas processing and chemicals manufacturing. Group companies are also engaged in research supporting other activities, such as forestry.

D. DESCRIPTION OF ACTIVITIES

1. Exploration and Production

(a) General

Group and associated companies involved in the exploration for and production of crude oil and natural gas operate under an extremely broad range of legislation and regulations, which change over time. These laws and rules cover virtually all aspects of exploration and production activities, including matters such as land tenure, entitlement to produced hydrocarbons, production rates, royalties, pricing, environmental protection, social impact, exports, taxes and foreign exchange. The conditions of the leases, licences and contracts under which oil and gas interests are held vary from country to country. The legal agreements generally have in common that, in almost all cases, they are granted by or entered into with a government, government entity or state oil company, and that the exploration risk practically always rests with the oil company. Of these agreements, the following are most relevant to Group interests:

- "Licences" (or "concessions") entitle the holder to explore for hydrocarbons and exploit any commercial discoveries. Under a licence, the holder bears the risk of exploration, development and production activities and of financing these activities. In principle, the licence holder is entitled to the totality of production minus any royalties in kind. The state or state oil company may sometimes enter as a joint-venture partner sharing the rights and obligations of the licence but usually without sharing the exploration risk. In a few cases the state company or agency has an option to purchase a certain share of production.
- "Production-sharing contracts" entered into with a state or state oil company obligate the oil company, as contractor, to provide all the financing and bear the risk of exploration, development and production activities in exchange for a share of the production. Usually this share consists of a fixed or variable part, which is reserved for the recovery of contractor's cost (cost oil); the remainder is split with the state or state oil company on a fixed or volume/revenue-dependent basis. In some cases the state oil company will participate in the rights and obligations of the contractor and will share in the costs of development and production. Such participation can be across the venture or be on a per-field basis.

Group companies' exploration and production interests, including acreage holdings and statistics on wells drilled and drilling, are shown on pages 9 to 11.

Details of Group companies' and the Group share of associated companies' estimated net proved reserves are summarised in a table on the next page and are set out in the supplementary information on pages G-31 to

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G-33. Particular reference is made to the statement: "Oil and gas reserves cannot be measured exactly since estimation of reserves involves subjective judgement and arbitrary determinations. Estimates remain subject to revision." It should be noted that totals are further influenced by acquisition and divestment activities. 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 also 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 which do not transfer title of the product to those Group companies.

Proved Developed and Undeveloped Reserves (at year end)

million barrels	1999	1998	1997
Crude oil and natural gas liquids			
Group companies	**8,509**	8,779	8,354
Group share of associated companies	**1,266**	1,252	1,327
	9,775	10,031	9,681
			billion standard cubic feet
Natural gas			
Group companies	**52,847**	54,333	49,765
Group share of associated companies	**5,694**	6,129	6,366
	58,541	60,462	56,131

Capital Expenditure and Exploration Expense by Geographical Area[a]
(oil and gas exploration and production only)

$ million	1999	1998	1997
Europe	**1,279**	2,290	2,126
Other Eastern Hemisphere	**2,154**	2,703	1,887
USA	**1,114**	1,811	2,153
Other Western Hemisphere	**650**	1,260	712
	5,197	8,064	6,878

[a] Capital expenditure is the cost of acquiring property, plant and equipment, and – following the "successful efforts" method in accounting for exploration costs – includes exploration drilling costs capitalised pending determination of commercial reserves. In the case of material capital projects, the related interest cost is included until these are substantially complete. Exploration expense is the cost of geological and geophysical surveys and of other exploratory work charged to income as incurred, and exploratory drilling costs which were initially taken up in capital expenditure pending determination of commercial reserves but where the efforts are subsequently determined to be unsuccessful and then charged to income (with a corresponding reduction in capital expenditure). Exploration expense excludes depreciation and release of currency translation differences.

Average Production Costs of Group Companies by Geographical Area

$/barrel of oil equivalent	1999	1998	1997
Europe	3.00	3.77	3.55
Other Eastern Hemisphere	2.47	2.29	2.86
USA	2.38	3.52	3.55
Other Western Hemisphere	3.59	2.64	2.69
Total Group	2.73	3.09	3.21

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Crude Oil Production[a]

						thousand barrels daily
		1999	1998	1997	1996	1995
Europe	UK	**402**	373	329	353	349
	Denmark	**118**	109	106	96	86
	Norway	**83**	87	93	88	73
	Netherlands	**13**	14	16	16	16
	Germany	**6**	7	7	7	8
	Others	**–**	–	–	–	1
		622	590	551	560	533
Other Eastern Hemisphere	***Africa***					
	Nigeria	**212**	232	270	278	268
	Gabon	**89**	110	122	117	111
	Cameroon	**22**	25	21	18	19
	Egypt	**7**	7	7	7	10
	Others	**3**	3	3	3	3
		333	377	423	423	411
	Middle East					
	Oman[b]	**299**	284	289	280	272
	Abu Dhabi	**82**	90	86	85	84
	Syria	**71**	88	68	71	84
	Yemen	**–**	14	12	20	20
	Others	**1**	–	–	–	12
		453	476	455	456	472
	Asia-Pacific					
	Malaysia	**66**	76	70	104	110
	Brunei	**86**	74	77	78	83
	Australia	**47**	54	53	49	32
	China	**20**	27	33	28	15
	Thailand	**18**	18	17	21	19
	Others	**10**	12	14	10	5
		247	261	264	290	264
		1,033	1,114	1,142	1,169	1,147
USA		**504**	521	491	451	441
Other Western Hemisphere	Canada	**61**	68	68	77	71
	Colombia	**–**	18	32	38	50
	Others	**48**	43	44	10	12
		109	129	144	125	133
Total		**2,268**	2,354	2,328	2,305	2,254

					million tonnes a year
Metric equivalent	***113***	*118*	*116*	*115*	*113*

[a] Of Group companies, plus Group share of associated companies, and including natural gas liquids. (Group share of associated companies is assumed to be equivalent to Group interest.) Royalty purchases are excluded. In those countries where production-sharing contracts operate, the figures shown represent the entitlements of the Group companies concerned under those contracts.

[b] Exceptionally, the minority interest is deducted in respect of production volumes given for Oman.

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Natural Gas Sales[a]

				million cubic feet daily[b]	
	1999	1998	1997	1996	1995
Europe					
Netherlands	**1,439**	1,524	1,636	1,901	1,635
UK	**904**	761	722	664	505
Germany	**420**	464	395	429	419
Denmark	**348**	346	361	293	242
Norway	**241**	212	175	108	55
Others	**16**	14	13	14	13
	3,368	3,321	3,302	3,409	2,869
Other Eastern Hemisphere					
Malaysia	**687**	643	787	922	732
Brunei	**519**	545	561	557	557
Australia	**381**	336	322	332	323
New Zealand	**143**	114	173	151	136
Oman	**130**	–	–	–	–
Egypt	**113**	181	175	158	160
Nigeria	**84**	91	92	93	89
Others	**120**	92	67	83	90
	2,177	2,002	2,177	2,296	2,087
USA	**2,051**	1,894	1,779	1,859	1,907
Other Western Hemisphere					
Canada	**585**	595	685	734	721
Others	**37**	50	58	56	40
	622	645	743	790	761
Total	**8,218**	7,862	8,001	8,354	7,624

				million cubic metres daily[b]	
	1999	1998	1997	1996	1995
Europe					
Netherlands	**39**	41	44	51	44
UK	**24**	20	19	18	14
Germany	**11**	13	11	11	11
Denmark	**9**	9	9	8	7
Norway	**6**	6	5	3	1
Others	**1**	*	*	*	*
	90	89	88	91	77
Other Eastern Hemisphere					
Malaysia	**18**	17	21	25	20
Brunei	**14**	15	15	15	15
Australia	**10**	9	9	9	9
New Zealand	**4**	3	4	4	4
Oman	**3**	–	–	–	–
Egypt	**3**	5	5	4	4
Nigeria	**2**	2	2	2	2
Others	**4**	2	2	2	2
	58	53	58	61	56
USA	**55**	51	48	50	51
Other Western Hemisphere					
Canada	**16**	16	18	20	19
Others	**1**	1	2	1	1
	17	17	20	21	20
Total	**220**	210	214	223	204

*Less than one million cubic metres daily

[a] By country of origin from gas produced by Group and associated companies (Group share). In those countries where production sharing contracts operate, the figures shown represent the entitlements of the Group companies concerned under those contracts.

[b] It should be noted that a number of factors can cause differences between reported gas production and sales figures (e.g. variations in the treatment of royalties or in the unit of measurement, reinjection of gas produced, gas vented or flared).

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Location of Activities (at December 31, 1999)[a]

● = Onshore ○ = Offshore

	Exploration		Production		Shell Operator[b]	
Europe						
Austria	●		●		●	
Denmark		○		○		
Germany	●	○	●	○	●	
Ireland, Republic of		○				○
Netherlands	●	○	●	○	●	○
Norway		○		○		○
UK		○		○		○
Other Eastern Hemisphere						
Angola		○				
Australia	●	○	●	○	●	○
Bangladesh	●	○		○	●	○
Brunei	●	○	●	○	●	○
Cambodia		○				
Cameroon		○		○		
China	●	○		○	●	○
Congo		○				
Côte d'Ivoire		○				
D. R. of Congo	●		●			
Egypt	●	○	●		●	○
Gabon	●	○	●		●	○
India	●					
Indonesia		○				○
Iran				○		○
Kazakhstan	●	○			●	
Malaysia		○		○		○
Mauritania		○				
Morocco		○				○
Namibia		○				○
New Zealand		○	●	○	●	○
Nigeria	●	○	●	○	●	○
Oman	●	○	●		●	○
Pakistan	●	○	●			○
Papua New Guinea	●	○				
Philippines		○		○		○
Russia	●	○		○	●	
Syria	●		●		●	
Thailand	●	○	●		●	○
United Arab Emirates	●	○	●	○		
USA	●	○	●	○	●	○
Other Western Hemisphere						
Argentina	●		●		●	
Brazil		○		○		○
Canada	●	○	●		●	○
Colombia		○				
Falklands		○				○
Peru	●				●	
Suriname		○				
Trinidad and Tobago		○				○
Venezuela				○		○

[a] Including associated companies.
[b] In several countries where 'Shell operator' is indicated, a Group interest company is operator of some but not all exploration and/or production ventures.

Oil and Gas Acreage (at December 31)[a,b,c]

thousand acres

	1999				1998			
	Developed		Undeveloped		Developed		Undeveloped	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Europe	10,162	3,218	16,697	5,790	10,078	3,189	20,141	7,640
Other Eastern Hemisphere	44,680	14,530	135,798	75,106	44,896	14,946	158,345	86,520
USA	3,642	1,245	6,074	3,499	4,290	1,331	8,054	4,485
Other Western Hemisphere	1,149	850	61,344	33,215	1,430	1,052	39,910	25,699
	59,633	19,843	219,913	117,610	60,694	20,518	226,450	124,344

Number of Productive Wells (at December 31)[a,b]

thousand acres

	1999				1998			
	Oil		Gas		Oil		Gas	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Europe	1,642	447	1,359	436	1,603	437	1,334	424
Other Eastern Hemisphere	6,299	2,271	352	153	6,037	2,249	275	119
USA	28,165	11,636	1,631	845	27,818	10,679	1,909	938
Other Western Hemisphere	413	267	259	223	1,009	650	260	226
	36,519	14,621	3,601	1,657	36,467	14,015	3,778	1,707

Number of Net Productive Wells and Dry Holes Drilled[a]

	1999		1998		1997		1996		1995	
	Productive	Dry	Productive	Dry	Productive	Dry	Productive	Dry	Productive	Dry
Exploration										
Europe	5	2	6	6	10	8	7	9	5	6
Other Eastern Hemisphere	13	16	12	18	17	18	16	9	11	9
USA	8	9	18	16	33	15	22	27	27	17
Other Western Hemisphere	–	13	6	9	2	4	5	11	5	6
	26	40	42	49	62	45	50	56	48	38
Development										
Europe	32	2	46	1	52	2	51	3	43	1
Other Eastern Hemisphere	149	2	179	6	146	4	150	3	168	2
USA	290	–	555	8	531	8	448	14	242	3
Other Western Hemisphere	14	2	49	–	59	1	39	12	41	1
	485	6	829	15	788	15	688	32	494	7

Number of Wells Drilling (at December 31, 1999)[a,b]

	Exploration		Development		Total	
	Gross	Net	Gross	Net	Gross	Net
Europe	2	1	24	7	26	8
Other Eastern Hemisphere	9	4	27	11	36	15
USA	3	2	23	10	26	12
Other Western Hemisphere	1	–	4	1	5	1
	15	7	78	29	93	36

[a] Including associated companies.
[b] The term 'gross' relates to the total activity in which Group and associated companies have an interest, and the term 'net' relates to the sum of the fractional interests owned by Group companies plus the Group share of associated companies' fractional interests.
[c] One thousand acres equals approximately four square kilometres.

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Oil and Gas Acreage (at December 31)[a,b,c] – continued

thousand acres

1997				1996				1995			
Developed		Undeveloped		Developed		Undeveloped		Developed		Undeveloped	
Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
10,182	3,229	18,672	6,842	10,022	3,223	17,167	6,413	12,087	3,892	19,122	6,871
44,380	15,397	154,907	78,585	44,589	15,145	127,231	57,309	44,467	15,149	144,243	57,273
2,727	1,315	7,745	4,793	2,337	1,379	4,907	3,564	2,545	1,482	3,863	2,827
2,049	1,443	30,415	22,893	2,279	1,678	33,589	24,586	2,123	1,589	31,632	21,926
59,338	21,384	211,739	113,113	59,227	21,425	182,894	91,872	61,222	22,112	198,860	88,897

Number of Productive Wells (at December 31)[a,b] – continued

thousand acres

1997				1996				1995			
Oil		Gas		Oil		Gas		Oil		Gas	
Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
1,584	428	1,257	407	1,754	438	1,268	410	1,795	458	1,249	407
6,372	2,621	285	153	6,069	2,211	304	140	5,840	2,170	266	124
32,176	9,951	1,971	1,030	20,946	13,071	1,572	1,042	22,406	13,548	1,675	1,114
1,187	682	288	234	1,913	875	303	232	1,935	841	390	247
41,319	13,682	3,801	1,824	30,682	16,595	3,447	1,824	31,976	17,017	3,580	1,892

(b) Major oil and gas interests: regulations and recent developments

Recent developments in countries where Group or associated companies have exploration and production interests are summarised, by country, in the following pages. Certain aspects of the legislation, regulations and agreements affecting the activities of the significant companies are also included.

Europe

Denmark A Group company has a 46% non-operated interest in a concession due to expire in 2012. During 1999 the large Halfdan oil field was discovered and directly brought on stream.

Germany A Group company holds a 50% interest in the BEB joint venture, which is the major producer of oil and gas in Germany. BEB is also one of the major gas transmission and distribution companies in Germany (see also page 27). Under Germany's Federal Mining Law, exploration permits used to be granted for an initial period of up to five years with a possibility of extension of up to three years, depending on the agreed work commitment. Exploration licensing procedures are increasingly applying stricter commitments in line with international standards. On grounds of lack of prospectivity, the exploration permits can be relinquished prior to expiry date. Production licences are for up to 50 years, renewable until depletion of the field. Royalties are determined by the individual German states; in 1999 the applicable rates were 0% on oil and sulphur and 12% on natural gas.

Netherlands The Group share of natural gas and crude oil is produced by Nederlandse Aardolie Maatschappij B.V. (NAM), a joint venture in which the Group holds a 50% interest. Much of NAM's gas production is from its 60% share in the very large onshore Groningen gas field.

NAM's production of oil and gas is covered by concessions (onshore) and production licences (offshore). Government participation in development and production varies between 0% and 50%, depending mainly on the legislation applicable when the concessions or licences were granted and whether the participation covered gas or oil. Production is preceded by a drilling permit (onshore) or an exploration licence (offshore), the duration of which, since 1997, varies with the work programme that has to be submitted with the application for a permit or licence. In practice, this means a period of about three to 10 years, which can be shortened by the authorities when the exploration effort falls short of the licence or permit programme. Upon making a commercial discovery, a concession or production licence is granted, the duration of which varies with the estimated production period – normally a period of 15 to 45 years.

Norway A/S Norske Shell (Group interest: 100%) holds an interest in a number of production licences (PLs), three of which encompass currently producing oil and gas fields: Statfjord area (PL 37, expiring in 2009),

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Draugen area (PL 93, expiring in 2024) and Troll area (PL 54, expiring in 2030). A/S Norske Shell also holds interests in three non-producing licences (PL 208, PL209 and PL250) that straddle the large undeveloped Ormen Lange gas field, which was discovered in 1997.

United Kingdom Shell UK Limited (Group interest: 100%) is one of the largest integrated oil and gas exploration and production companies operating in the UK. Almost all its operations are conducted in the North Sea, where it holds a 50% interest in a joint venture. Most of Shell UK's natural gas comes from fields in the southern sector of the North Sea, whereas crude oil comes from the central and northern fields, which include the large Brent field.

Shell UK also has a 50% interest in another, non-operated joint venture in the Atlantic margin, west of the Shetland Islands. Group production in the West of Shetland venture comes from the Foinaven and the Schiehallion fields.

Licences issued before August 20, 1976 were for an initial period of six years and, following successful exploration, were extended for a further 40 years in respect of half the original licence area. Licences issued between August 20, 1976 and June 13, 1980 were for an initial period of four years followed by a second period of three years. In cases of successful exploration, these licences were extended for a further 30 years after relinquishment of two-thirds of the acreage. From June 14, 1980, licences were granted for an initial period of six years (nine years for deep water) and in successful cases extended for a further 30 years (40 years for deep water) in respect of no more than half the licence area. Licences issued since July 1988 carry an additional requirement that if, after 12 years of the 30-year period, no field development has been approved, the licence must be surrendered. No royalty is payable on production from fields for which development approval was granted after April 1982.

The year 1999 saw the start-up of gas production from the Ketch and Corvette fields and oil production from the Gannet G field.

Other Eastern Hemisphere

Australia Shell Development Australia (SDA) (Group interest: 100%) has interests in some 50 offshore production and exploration licences in the North-West Shelf (NWS), in the Browse basin and in the Timor Sea. The interests are held by SDA directly or indirectly through its 34% shareholding in Woodside Petroleum Ltd., which is the operator on behalf of six joint-venture partners of the NWS gas/condensate and oil fields. (See also page 28.) Gas and condensate are produced from the North Rankin and Goodwyn facilities to an onshore treatment and LNG facility at Burrup. Woodside is also the operator of the Laminaria and Corallina fields situated in the Timor Sea; these fields were brought into production in early November 1999.

SDA is also a participant in another joint venture that carries out exploration and production operations in the NWS region. As party to this joint venture, SDA has a 28.57% interest in the significant gas reserves known as greater Gorgon, which are situated west of Barrow Island.

Bangladesh A Group company holds a 50% interest in Blocks 15 and 16 and a 37.5% interest in the producing Sangu gas field (located in Block 16). The Group company took over operatorship of the field in July 1999. A joint venture including a Group company was awarded Block 5 in July 1998 and Block 10 in February 1999. Negotiations about the production-sharing contracts for these two blocks are ongoing.

Brunei A Group company is a 50% shareholder in Brunei Shell Petroleum Company Sendirian Berhad (the other 50% shareholder being the Brunei Government). The company, which has long-term oil and gas concession rights both onshore and offshore Brunei, sells most of its natural gas production to Brunei LNG Sendirian Berhad (Group interest: 25%). (See also page 28.)

China Shell Exploration China Limited (SECL) (Group interest: 100%) – together with another Group company – holds a weighted average of 39% interest in three offshore Xijiang fields (24-1, 24-3 and 30-2). In addition, SECL operates exploration licences in West Xijiang (offshore) and Quingshui (onshore) and, at the end of 1999, concluded a production-sharing contract with China National Petroleum Company (CNPC) for exploration and the possible joint development of the Changbei gas field in the Ordos basin.

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Egypt Shell Egypt (Group interest: 100%) participates in seven exploration concessions (as operator in six of them) and in six development leases (as operator in five of them). All concessions and leases are granted on the basis of production sharing agreements. Included in Shell Egypt's portfolio is a 75% interest (after a farm-out of 25% interest at the end of 1999) in the northeastern Mediterranean deep-water concession, awarded in 1998 and ratified in 1999. Shell Egypt has a 50% interest in the Badr Petroleum Company (Bapetco), a 50:50 joint venture company with the Egyptian General Petroleum Corporation (the Egyptian national oil company). Bapetco operates three producing fields: Badr El Din, Sitra and Obaiyed.

Gabon Shell Gabon (Group interest: 75%) has interests in six onshore mining concessions/exploitation permits, two of which (Rabi/Kounga and Gamba/Ivinga) are operated by the company. The Rabi/Kounga concession expires in 2007, Gamba/Ivinga in 2042; all other concessions expire between 2010 and 2018. Production in Gabon is dominated by the Rabi field, operated by Shell Gabon, which holds a 42.5% stake in the field. Shell Gabon's portfolio also includes four exploration permits – one around the Gamba/Ivinga concession, another south of the Rabi field and two offshore Libreville – all held under production-sharing contracts with the State.

Kazakhstan A Group company holds a 60% interest in the production-sharing agreement for the Temir block in western Kazakhstan. During 1999 the Saigak field was appraised.

Malaysia Four wholly owned Group companies have production-sharing contracts with the state oil company Petronas. In most of these contracts Petronas Carigali Sendirian Berhad (PCSB), a 100% Petronas subsidiary, is the sole joint-venture partner.

One Group company, Sarawak Shell Berhad (SSB) is the operator, with a 50% stake, in five non-associated producing gas fields. The majority of the gas is supplied to Malaysian LNG Sendirian Berhad (Group interest: 15%) for deliveries of liquefied natural gas to customers mainly in Japan and Korea (See page 28.) SSB operates one oil field (D35) and has a 50% stake in the non-operated Baram Delta production-sharing contract. SSB has exploration interests in the deep-water SK-E block and shallow-water blocks SK-307, SK-308 and SK-8.

Another Group company, Sabah Shell Petroleum Company (SSPC) operates five producing fields, of which Kinabalu (in which the company has an 80% interest) is the largest. SSPC also holds exploration acreage in SB-301, SB-J and the deep-water block SB-G.

In 1999 the Group's first west Malaysian acreage was acquired in the form of exploration acreage in Peninsula Malaysia (PM-303).

New Zealand Shell (Petroleum Mining) Company Ltd (SPM) (Group interest: 100%) has an 18.75% interest in the production licences for the large offshore Maui gas field, in which another wholly owned Group company has a further 6.25% indirect interest. SPM also holds a 50% interest in the onshore Kapuni gas field. The produced gas is sold domestically, mainly under long-term contracts. SPM also has interests of up to 50% in other exploration licence areas in the Taranaki basin. All of these interests are operated by Shell Todd Oil Services Ltd, a service company in which SPM has a 50% shareholding.

Nigeria The Shell Petroleum Development Company of Nigeria Ltd. (SPDC) (Group interest: 100%) is operator of a joint venture (Group interest: 30%) with the Nigerian National Petroleum Corporation and two other companies. The venture's offshore oil and gas mining leases expire in 2008, and its onshore leases in 2019. A decision to develop the offshore EA field was taken in 1999.

Shell Nigeria Exploration and Production Company (SNEPCO) (Group interest: 100%) operates production-sharing contracts with 30-year terms and a 55% stake in two deep-water blocks (OPL-212 and 219) and three onshore blocks in the Gongola Basin. The decision to develop the deep-water Bonga field (in OPL-212) was taken in 1999. SNEPCO also has non-operated interests in three other deep-water blocks (OPL-209, -211 and -316). During 1999 the large Ehra oil field was discovered in OPL-209.

Oman A Group company has a 34% interest in Petroleum Development Oman (PDO), which is the operator of an oil concession expiring in 2012, or at such a later date as the Government and the 40% concession-

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owning company Private Oil Holdings Oman Ltd. (in which a Group company has an 85% shareholding) may agree.

Gas Investment and Services Company Ltd. (GISCO) (Group interest: 85%) holds a gas operating agreement that appoints PDO as the operator for any gas discovered in central Oman until 2024, with provisions for extension upon agreement with the Government. The first major central Oman gas project involves the supply of gas to customers in the Sur area of north-east Oman, the largest of which is Oman LNG (Group interest: 30%). (See pages 28 and 29.) The upstream investment required to develop and supply the gas is being provided to the Government by GISCO. Gas production to local customers and associated NGL production commenced mid-1999.

In April 1999 Shell Deepwater Oman (Group interest: 100%) entered into a production-sharing contract for Block 18, for an initial period of three years with options for future extensions.

Pakistan A Group company holds the concession for the deep-water Block 2365-1, located some 150 kilometres south-west of Karachi. A joint-venture agreement was executed in January 1999, to pool onshore assets. As a result, the Group has varying interests in 10 onshore blocks in a proven gas province.

Philippines Shell Philippines Exploration B.V. (SPEX) (Group interest: 100%) is operator and, together with another Group company, holds a 55% interest (after diluting its interest by 45% during 1999) in the deep-water block SC-38, which includes the Malampaya gas field currently under development. SPEX is also the operator and 70% interest holder in exploration area GSEC 91.

Russia Sakhalin Energy (Group interest: 25%) produced its first oil from the Molikpaq facility on the Piltun field, offshore Sakhalin island. This is the first step towards the full development of the Piltun oil field and Lunskoye gas field.

During 1999 the Caspian Pipeline Consortium (CPC) (Group interest: 7.5%) started the construction of a marine terminal at Novorossiysk and a 1,500-kilometre pipeline between Russia's Black Sea coast and some oil fields in north-west Kazakhstan.

The production-sharing-agreement list law for the Salym fields was ratified and signed in 1999. Salym Petroleum Development (Group interest: 50%) has the licence to develop these fields.

Syria Group companies have interests varying from 62.5% to 66.7% in five production-sharing contracts with the Government and with the state-owned Syrian Petroleum Company (SPC). Under the contracts, they have certain rights and obligations in respect of the exploration and production of petroleum. Three contracts (for Ash Sham, Deir Ez-Zor and Fourth Annex) concern development activities, and two (for Al Waleed and Zenoubia) currently concern exploration. In addition, Group companies are parties to a gas utilisation agreement with the Government and SPC for the collection and processing of natural gas from the contract areas for use in Syrian power generation and other industrial plants.

United Arab Emirates Crude oil and natural gas liquids are produced by the Abu Dhabi Company for Onshore Oil Operations, in which the Group's concessionary share is 9.5% (licence expiry in 2014), arising from a 23.75% Group interest in the Abu Dhabi Petroleum Company, which in turn holds a 40% interest in the concession granted by the Abu Dhabi government. A Group company has a 15% interest in Abu Dhabi Gas Industries Limited, which extracts propane and butane, as well as heavier liquid hydrocarbons, for export sales from locally produced "wet" associated natural gas.

USA

Shell Oil Company (Group interest: 100%) produces crude oil, natural gas and natural gas liquids principally in the Gulf of Mexico, California and Texas. These areas provide about 96% of its combined oil and gas production on a crude-oil-equivalent basis. It also produces hydrocarbons internationally, through certain of its subsidiaries.

The majority of Shell Oil's oil and gas production interests are acquired under leases granted by the owner of the minerals underlying a relevant acreage (including many leases for federal onshore and offshore tracts). Such

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leases are generally obtained for an initial fixed term that is automatically extended by the establishment of production for so long as production continues, subject to compliance with the terms of the lease (including, in the case of federal leases, extensive regulations imposed by federal law).

In the Gulf of Mexico, Shell Oil's deep-water operations in 1999 continued at a brisk pace. Four new deep-water fields came on stream: Ursa, Marlin, Macaroni and Angus. Also during 1999 Shell Oil sold certain onshore producing properties and mature assets offshore in the continental shelf in the Gulf of Mexico and diluted its share in a number of deep-water Gulf of Mexico fields.

Shell Oil currently holds interests in two US-based exploration and production joint ventures: Altura Energy, Ltd. (36% interest) holding assets in the Permian basin of west Texas and south-east New Mexico and Aera Energy LLC (51.8% interest) holding exploration and production assets in California. Both ventures are accounted for using the equity method of accounting. The disposal of Shell Oil's common interest in Altura was announced in March 2000.

Other Western Hemisphere

Argentina Shell Compania Argentina de Petroleo (CAPSA) (Group interest: 100%) holds an interest with rights to operatorship and 51.25% of production in the CNO-4 exploration permit for Rio Colorado and Valle Morado exploitation lot. Gas sales from Valle Morado started in November 1999. In addition, CAPSA holds a 22.5% interest in the Acambuco concession and a 40% interest in the non-operated oil-producing La Ventana/Rio Tunuyan concession.

Brazil In 1999 Shell Brasil S.A. (Group interest: 100%) acquired interests in four deep-water exploration blocks, two operated (BC-10 and BS-4) and two non-operated (BC-2 and FZA-1). Group interest in these blocks ranges from 12.5% to 40%. The blocks have a three-year initial exploration phase and a 27-year development term under a tax/royalty regime. The Group retains an interest, through Shell Pecten International (Group interest: 100%), in the revenue stream from the producing offshore Merluza gas field.

Canada Shell Canada (Group interest: 77.9%) is a major producer of natural gas, natural gas liquids and sulphur. The majority of its 1999 gas production came from Alberta. Shell Canada has a 31% stake in the new Sable gas field, offshore Nova Scotia, which will add significant gas production in 2000. A large proportion of its natural gas production requires complex treatment to be marketable; however, the treatment yields substantial volumes of natural gas liquids and sulphur. Exploration rights in Canada are generally granted for terms ranging from one to nine years. Subject to certain conditions, exploration rights can be converted to production leases, which may be extended as long as there is commercial production pursuant to the lease. In late 1999 Shell Canada divested its main interests in crude oil production. The remaining oil production is heavy oil recovered through thermal recovery in the Peace River project.

In 1999 Shell Canada announced plans for the development of the Athabasca oil sands, to produce bitumen (syncrude).

Colombia A wholly owned Group company has a 50% interest in two non-operated blocks in the Caribbean Sea – Macuira and Nazareth – in water depths of up to 3,000 metres.

Venezuela Shell Venezuela S.A. (Group interest: 100%) holds an operating service agreement (expiring 2018) with a subsidiary of the state oil company, Petroleos de Venezuela, to develop and produce the Urdaneta West unit in Lake Maracaibo.

(c) Other oil and gas interests: recent developments

Angola Shell Exploration and Production Angola has an interest of 50% in Block 18 and of 10% in Block 21. Block 16 was relinquished in 1999. In Block 18 exploration drilling during 1999 has resulted in two significant oil discoveries (Platina and Plutonio).

Cameroon A Pecten company (Group interest: 80%) holds an interest in two production-sharing agreements. It is operator in Lokele (40% interest) and non-operator in Rio del Rey (24.5% interest).

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Chad The continued participation in a development in Chad has been reconsidered.

India After a dilution of 50% of its equity during 1999, a Group company currently holds a 50% interest in the production-sharing contract for the Rajisthan block RJ-ON-90/1 (25 years, expiring in 2020). The national oil company, ONGC, has rights under the contract to exercise an option on a 30% interest during the production phase of the venture.

Iran A Group company signed an agreement with the National Iranian Oil Company (NIOC) in November 1999 to develop the Soroosh and Nowrooz fields in the northern Persian Gulf. A Group company will establish operations with a view to handing over operatorship to NIOC once full production has been reached. The Group company will recover the development costs and an agreed remuneration from the production of the fields.

Trinidad Trinidad Shell Exploration and Production B.V. is operator and holds a 55% interest (after diluting its interest by 5% during 1999) in the production-sharing contract for the deep-water Block 25A.

2. Oil Products

(a) General

The Oil Products Business encompasses refining and processing of crude oil and feedstocks into transportation fuels, lubricants, heating and fuels oils, liquefied petroleum gas (LPG) and bitumen; it also encompasses distributing and marketing those products together with complementary services to meet customer needs.

(b) Refining

At the end of 1999 Group companies had 25 refineries (excluding luboil plants at Pililla in the Philippines and Kaohsiung in Taiwan) operating in 17 countries. Group refineries with a crude distillation capacity exceeding 200,000 barrels a day (b/d) (on a 100% capacity basis) are at the following locations:

Country	Location	Capacity
Netherlands	Pernis	390,000 b/d
Singapore	Pulau Bukom	405,000 b/d
UK	Stanlow	245,000 b/d
USA	Deer Park (Texas)[a]	274,000 b/d

[a] Group interest: 50%.

In addition, outside of the USA, associated companies have 22 refineries in 18 countries – including four in Japan – with a total 100% nominal capacity at the end of 1999 of 1.8 million barrels a day (Group share: 0.5 million barrels a day). In the USA, excluding Deer Park, the Group has a share in the five refineries of Equilon (Group interest: 56%) (excluding the El Dorado refinery, which was sold in November 1999) and the four refineries of Motiva (Group interest: 35%). In aggregate, the Group share of the nominal capacity of these US refineries at the end of 1999 was 0.7 million barrels a day.

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Cost of Crude Oil Processed or Consumed
(including upstream margin on crude supplied by Group and associated exploration and production companies) $ per barrel

1999	1998	1997	1996	1995
15.18	12.58	18.88	20.02	16.86

Operable Crude Oil Distillation Capacity[a] thousand barrels daily[b]

	1999	1998	1997	1996	1995
Europe	1,546	1,591	1,602	1,579	1,567
Other Eastern Hemisphere	1,073	1,072	1,070	959	811
USA	222	324	988	907	856
Other Western Hemisphere	371	364	370	346	360
	3,212	3,351	4,030	3,791	3,594

Crude Oil Processed[c] thousand barrels daily[b]

	1999	1998	1997	1996	1995
Europe	1,531	1,602	1,657	1,607	1,530
Other Eastern Hemisphere	918	968	1,065	944	822
USA	188	282	984	900	821
Other Western Hemisphere	352	355	351	320	321
	2,989	3,207	4,057	3,771	3,494
Group share of associated companies	1,139	1,072	487	478	512

Crude Oil Distillation Unit Intake as Percentage of Operable Capacity[d] %

	1999	1998	1997	1996	1995
Europe	99	101	104	102	98
Other Eastern Hemisphere	90	93	101	100	103
USA	86	87	100	99	96
Other Western Hemisphere	97	97	95	93	91
Worldwide	95	97	101	100	98

[a] Group average operating capacity for the year and excluding mothballed capacity.
[b] One barrel daily is equivalent to approximately 50 tonnes a year, depending on the specific gravity of the crude oil. (Daily signifies per calendar day.)
[c] Including natural gas liquids; includes processing for others and excludes processing by others.
[d] Including crude oil and feedstocks processed in crude oil distillation units, and based on calendar-day capacities.

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Refinery Processing Intake[a]

thousand barrels daily[b]

	1999	1998	1997	1996	1995
Crude oil	**2,989**	3,207	4,057	3,771	3,494
Feedstocks	**148**	164	200	193	190
	3,137	3,371	4,257	3,964	3,684
Europe	**1,602**	1,670	1,723	1,675	1,595
Other Eastern Hemisphere	**983**	1,034	1,133	995	873
USA	**192**	308	1,045	970	887
Other Western Hemisphere	**360**	359	356	324	329
	3,137	3,371	4,257	3,964	3,684

million tonnes a year

Metric equivalent	***157***	*169*	*213*	*198*	*184*

Group Share of Equilon and Motiva Volumes
(not included above)

thousand barrels daily[b]

Refinery processing intake	*797*	656	n/a	n/a	n/a

Refinery Processing Outturn[c]

thousand barrels daily[b]

Gasolines	**1,021**	1,088	1,492	1,361	1,304
Kerosines	**368**	387	507	476	422
Gas/Diesel oils	**1,035**	1,079	1,282	1,154	1,040
Fuel oil	**361**	434	538	504	466
Other products	**283**	324	355	354	354
	3,068	3,312	4,174	3,849	3,586

[a] Including crude oil and natural gas liquids plus feedstocks processed in crude oil distillation units and in secondary conversion units.
[b] One barrel daily is equivalent to approximately 50 tonnes a year, depending on the specific gravity of the crude oil. (Daily signifies per calendar day.)
[c] Excluding 'own use' and products acquired for blending purposes.

Europe

Netherlands/Norway Agreement was reached to swap a 10% interest in the Group's Pernis refinery in the Netherlands for a 21% interest in Statoil's Mongstad refinery in Norway. The agreement became effective on January 1, 2000.

Norway Plans are in place for the closure of the Sola refinery in the first half of 2000.

Switzerland An agreement was signed in late 1999 to sell the Cressier refinery in Switzerland in 2000.

United Kingdom Shell Haven refinery was closed in December 1999.

Other Eastern Hemisphere

Japan The Niigata refinery (Group interest: 50%) was converted into an oil-products distribution terminal. In February 2000 it was announced by Showa Shell (Group interest: 50%) and Toa Oil (Group interest: 19%) that they will consolidate management of the refineries they now operate individually in Kawasaki.

Malaysia To comply with legal requirements, the Group intends to reduce its interest in the Port Dickson refinery from 75% to 60% within two years.

Thailand An operating alliance has been formed in 1999 between Rayong Refinery Company Limited (Group interest: 64%), and Star Petroleum Refining Company Limited (a joint venture between Caltex and the Petroleum Authority of Thailand) to manage their respective facilities as a single 300,000 b/d complex.

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USA
Equilon's El Dorado refinery was sold in November 1999. Equilon continues to seek a buyer for its Wood River refinery.

Other Western Hemisphere
Canada As part of the Athabasca Oil Sands project, significant investment is planned over the period 2000–02 at the Scotford refinery.

(c) Marketing
Oil products sold by Group companies include motor, aviation and marine fuels, liquefied petroleum gas (LPG), petrochemical feedstocks, heating oils, fuel oils, bitumens, a range of industrial/engine lubricants and other petroleum products. An increasing number of retail sites are also providing convenience foods and high-quality services to customers.

Group companies continue to lead the field in automotive fuel performance and quality, and there is a continuing drive to enable the customer to enjoy the benefits of the Group's extensive fuel research and development. Co-operation with Ferrari continues: top-level motor sport plays a vital role in the development and testing of high-quality, high-performance fuels and lubricants. Differentiated fuels have been launched in 15 countries. In addition, other environmentally friendlier products were introduced, such as low-sulphur diesel, LPG, biodegradable lubricants for marine leisure and lead-replacement fuel.

Implementation of the "Retail Visual Identity" continues; it can now be seen at over 17,000 sites across some 100 countries. Many sites now have enhanced customer services, including "Select" convenience stores and shops, and superior-quality car washes. Overall, a total of some 6,500 convenience stores are now open in more than 50 countries, many of them for 24 hours a day.

Alternative fuels are a key element of research and development programmes. There are a number of projects related to the development of hydrogen as a future transportation fuel.

A number of e-commerce initiatives have been launched, including some involved with "e-procurement", in the business-to-business and business-to-consumer sectors. Early in 2000 the Group and World Online International, a leading pan-European internet communication company, signed a joint venture agreement to introduce a European internet service provider, named 12move, through which customers would be offered free internet access and a range of services, including news, traffic updates and direct links to the Shell online journey planner, www.shellgeostar.com.

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Product Sales Volumes[a,b]

thousand barrels daily

	1999	1998	1997	1996	1995
Europe					
Gasolines	506	490	462	464	454
Kerosines	192	187	181	174	177
Gas/Diesel oils	747	764	713	685	642
Fuel oil	186	208	216	216	203
Other products	199	193	182	178	162
	1,830	1,842	1,754	1,717	1,638
Other Eastern Hemisphere					
Gasolines	344	347	354	336	312
Kerosines	131	147	152	146	136
Gas/Diesel oils	437	432	437	423	398
Fuel oil	220	221	221	203	194
Other products	130	124	120	126	120
	1,262	1,271	1,284	1,234	1,160
USA					
Gasolines	185	283	825	767	758
Kerosines	31	54	169	158	141
Gas/Diesel oils	74	59	237	193	150
Fuel oil	25	38	58	69	92
Other products	71	269	210	214	175
	386	703	1,499	1,401	1,316
Other Western Hemisphere					
Gasolines	321	310	328	345	331
Kerosines	85	93	80	54	52
Gas/Diesel oils	277	279	289	276	251
Fuel oil	104	118	110	98	86
Other products	123	148	144	149	135
	910	948	951	922	855
Export sales					
Gasolines	279	257	302	306	300
Kerosines	128	113	122	132	122
Gas/Diesel oils	222	253	300	283	281
Fuel oil	175	163	168	162	150
Other products	174	166	180	159	149
	978	952	1,072	1,042	1,002
Total product sales					
Gasolines	1,635	1,687	2,271	2,218	2,155
Kerosines	567	594	704	664	628
Gas/Diesel oils	1,757	1,787	1,976	1,860	1,722
Fuel oil	710	748	773	748	725
Other products	697	900	836	826	741
	5,366	5,716	6,560	6,316	5,971

[a] Sales figures exclude deliveries to other companies under reciprocal purchase and sale arrangements which are in the nature of exchanges. The USA and Canada figures include direct sales into these countries from elsewhere. Sales of condensate and natural gas liquids are included.
[b] By country of destination, except where the ultimate destination is not known at the time of sale, in which case the sales are shown as export sales.

Group Share of Equilon and Motiva Volumes
(not included above)

thousand barrels daily

Total oil product sales	1,429	1,070	n/a	n/a	n/a

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Sales by Product as Percentage of Total Product Sales %

	1999	1998	1997	1996	1995
Gasolines	**30.5**	29.5	34.6	35.1	36.1
Kerosines	**10.6**	10.4	10.7	10.5	10.5
Gas/Diesel oils	**32.7**	31.3	30.1	29.5	28.9
Fuel oil	**13.2**	13.1	11.8	11.8	12.1
Other products	**13.0**	15.7	12.8	13.1	12.4
	100.0	100.0	100.0	100.0	100.0

Net Product Proceeds $ million

by product	1999	1998	1997	1996	1995
Gasolines	**18,594**	18,603	28,957	27,731	24,369
Kerosines	**5,300**	4,748	7,325	7,375	5,886
Gas/Diesel oils	**16,985**	16,018	21,903	21,725	17,275
Fuel oil	**4,309**	3,546	4,873	5,063	4,388
Other products	**8,243**	7,631	10,154	10,095	8,837
Total oil products*	**53,431**	50,546	73,212	71,989	60,755
***comprising**					
Europe	**18,648**	16,944	19,822	20,395	17,440
Other Eastern Hemisphere	**13,254**	12,000	15,482	15,054	13,090
USA	**3,202**	3,916	14,858	14,342	11,824
Other Western Hemisphere	**11,300**	12,240	14,210	13,213	11,064
Export sales	**7,027**	5,446	8,840	8,985	7,337
Total oil products	**53,431**	50,546	73,212	71,989	60,755

Average Net Product Proceeds $ per barrel

by product	1999	1998	1997	1996	1995
Gasolines	**31.16**	30.22	34.93	34.14	30.97
Kerosines	**25.61**	21.91	28.52	30.29	25.69
Gas/Diesel oils	**26.49**	24.55	30.37	31.84	27.48
Fuel oil	**16.62**	12.98	17.26	18.47	16.60
Other products	**32.38**	23.23	33.29	33.36	32.67
Total oil products*	**27.28**	24.23	30.58	31.10	27.88
***comprising**					
Europe	**27.92**	25.20	30.96	32.40	28.93
Other Eastern Hemisphere	**28.78**	25.87	33.04	33.31	31.25
USA	**22.70**	15.27	27.15	27.91	24.62
Other Western Hemisphere	**34.00**	35.37	40.95	39.11	35.46
Export sales	**19.69**	15.67	22.58	23.53	20.06
Total oil products	**27.28**	24.23	30.58	31.10	27.88

Europe

Germany Major parts of the Group's LPG business in the country were sold in 1999.

Greece/United Kingdom A non-binding letter of intent has been signed to swap Texaco's Greek fuels business for Group assets in the UK, including a number of retail stations. The deal, which will be subject to final agreements and the approval of the Greek authorities, is expected to be completed in the first half of 2000.

Italy A non-binding memorandum of understanding has been signed in early 2000 relating to the sale of some 230 retail sites in the south-east of the country.

Netherlands/Norway Petrofina's oil products business in Norway was acquired in 1999 in exchange for a number of retail sites in the Netherlands.

Poland/United Kingdom Sales and purchase agreements were signed in 1999, whereby the Group acquires Texaco's retail business in Poland in exchange for a number of the Group's retail sites in the UK. The transaction was completed in the first quarter of 2000.

Sweden Two hundred and thirty retail sites were sold in 1999.

United Kingdom One hundred and eighty retail sites were sold in 1999 so that they could be leased back over an 18-year term in an innovative deal that will enable the Group to retain operational flexibility.

Other Eastern Hemisphere (excluding Africa)

Regional operations, which are now headquartered in Singapore, are continuing to be restructured according to business segments.

Philippines At the end of 1999, a 15% equity share in the Group's LPG receiving and storage facilities at Tabangao was sold.

Thailand The Group's LPG business in the country was sold in 1999. The sale included the marketing and distribution of LPG to the domestic cooking gas, industrial, commercial and automotive sectors. The Group's production of LPG at refineries and gas separation plants was not included in the sale.

USA

Oil Products activities in the USA consist predominantly of Shell Oil's ownership share of companies engaged in the transportation, refining and marketing of crude oil and petroleum products. These companies include Equilon Enterprises LLC, Motiva Enterprises LLC and the Deer Park Refining Limited Partnership, all of which are accounted for using the equity method of accounting.

Equilon was formed and began operations in January 1998 by combining Shell Oil's and Texaco Inc.'s western and midwestern US refining and marketing businesses and both companies' nationwide trading, transportation and lubricants businesses. Shell Oil owns 56% and Texaco owns 44% of Equilon. Motiva was formed and began operations in July 1998 by combining major elements of Shell Oil's, Texaco's and Saudi Arabian Oil Company's (Saudi Aramco) eastern US and Gulf Coast refining and marketing businesses, including assets previously held by Star Enterprise, a partnership of corporate affiliates of Texaco and Saudi Aramco. Shell Oil interest in this venture is 35%; the remaining 65% interest is split evenly between Texaco and Saudi Refining, Inc., a corporate affiliate of Saudi Aramco. (The ownership will be subject to adjustment in the future on the basis of the performance of the assets.)

Both Equilon and Motiva market petroleum and other products directly and through independent wholesalers and retailers and have the exclusive rights to use the "Shell" and "Texaco" brands on refined oil product sales in those areas of the USA where each company is authorised to conduct its respective business. Together, Equilon and Motiva hold a significant position in the US refined products industry, having an approximate 14.5% share of the US gasoline market. During 1999 the two companies together had approximately 22,000 retail outlets.

Other Western Hemisphere and Africa

Oil Products operations in the countries of Latin America and Africa have been grouped into six clusters. Business segment structures within the clusters have been progressively introduced and are now fully in place.

Brazil Two hundred and eighty-five retail sites and six depots in the midwest of Brazil were sold early in 2000.

El Salvador The Group's LPG business in the country was sold in 1999.

(d) Trading

A global trading network, developed over recent years, is now essentially complete. It embraces trading operations in six centres.

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Tanker Fleets (at December 31)[a]

	number of ships					million deadweight tonnes				
	1999	1998	1997	1996	1995	1999	1998	1997	1996	1995
Oil tankers										
Owned/demise-hired										
VLCCs (very large crude carriers over 160,000 dwt)	**9**	9	12	13	12	**2.6**	2.6	3.6	3.9	3.6
Large range (45,000 to 160,000 dwt)	**17**	18	21	21	21	**1.4**	1.4	1.7	1.7	1.7
Medium range (25,000 to 45,000 dwt)	**7**	8	9	9	10	**0.2**	0.3	0.3	0.3	0.3
General purpose (10,000 to 25,000 dwt)/Specialist	**1**	2	2	2	2	**0.1**	0.1	0.1	0.1	0.1
	34	37	44	45	45	**4.3**	4.4	5.7	6.0	5.7
Time-chartered										
VLCCs	–	–	–	–	1	–	–	–	–	0.3
Large range[b]	**9**	15	18	20	24	**0.8**	1.3	1.6	1.8	2.2
Medium range	**7**	8	10	9	6	**0.3**	0.3	0.3	0.3	0.2
General purpose/Specialist	**1**	1	1	1	–	**0.1**	0.1	0.1	0.1	–
	17	24	29	30	31	**1.2**	1.7	2.0	2.2	2.7
Total oil tankers	**51**	61	73	75	76	**5.5**	6.1	7.7	8.2	8.4
Owned/demise-hired under construction or on order	–	1	1	2	2	–	0.1	0.1	0.1	0.3

Gas carriers	number of ships					thousand cubic metres				
Owned/demise-hired (LPG)	**1**	2	2	2	2	**59**	118	118	118	118
Time-chartered (LPG)	**2**	4	5	5	6	**157**	317	343	240	329
Total gas carriers	**3**	6	7	7	8	**216**	435	461	358	447

[a] Excluding ships of less than 10,000 dwt.
[b] Including one vessel in which a Group company has a minority interest (up to 1997).

(e) Shipping

Tanker and gas carrier fleets at the end of 1999, including demise charters and long-term charters, and excluding ships of less than 10,000 deadweight tonnes (dwt), are listed in the table above.

During 1999 one 11,500 dwt tanker was sold to a third party, one 90,000 dwt tanker was returned to the owners, one VLCC was returned to the owners, and one LPG carrier was returned to the owners. In addition, one newly built VLCC was delivered to a Group company on a short-term demise-hire arrangement.

3. Chemicals

Group companies currently produce a large number of petrochemicals and speciality chemicals. They are among the world's largest producers of detergent intermediates – especially detergent alcohols – and are major suppliers of base chemicals, solvents, and ethylene oxide and its derivatives. In addition, they are major manufacturers of catalysts and additives. At the end of 1999 the Group had a worldwide capacity of approximately 4 million tonnes of polypropylene (approximately 13% of global production capacity).

All in all, the long-term Chemicals portfolio consists of eight product business areas and five stand-alone companies or ventures – Montell, Elenac, Infineum, CRI International and Saudi Arabia Petrochemical Company. Since the beginning of 1999, extensive efforts have been expended to ready certain Chemicals businesses for divestment and to sell them in a series of parallel auctions, which have so far been largely successful. Early in 1999 Dumo NV, a wholly Group-owned polyurethane (PU) foam producer was subject to a management buy-out. The sale of K Balling-Engelsen A/S and Espe Oy, Scandinavian PU foam producers, and of the Group's 50% share in Wavin, a plastic-pipe manufacturer, were closed in the first quarter of 1999 as well. The Group's general-purpose-rubber businesses in the Netherlands and France were sold in the second quarter to Dow Chemicals. Agreement was reached with BASF to create a global polyolefins business as a joint venture, which is subject to competition authority approvals. The joint venture will be formed through a combination of the assets of three companies: Montell and Targor, the polypropylene businesses of the Group and BASF

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respectively, and Elenac, the polyethylene joint venture formed in 1997 between Group companies and BASF. The sales of Group companies' polyvinyl chloride and vinyl chloride monomer assets, and of its downstream polystyrene businesses were completed in the fourth quarter 1999. The sale of the upstream polystyrene business was completed in January 2000, and a sales contract was signed in February 2000 for the polyethylene terephthalate (PET) business. Completion of the latter transaction is expected by mid-2000. The bidding stage of the divestment of each of the epoxy resins and Kraton elastomers businesses was completed in late 1999, and discussions with selected bidders started early in 2000.

Net Proceeds — $ million

By main product category	1999	1998	1997	1996	1995
Base and Intermediates	**4,285**	4,124	5,419	4,791	4,956
Performance products	**5,962**	5,479	5,827	6,122	6,979
Differentiated products	**1,617**	2,127	2,651	2,788	2,349
Other	**1,022**	542	358	305	310
	12,886	12,272	14,255	14,006	14,594
By geographical area					
Europe	**5,365**	5,381	6,468	6,449	6,705
Other Eastern Hemisphere	**1,621**	1,324	1,573	1,468	1,672
USA	**5,327**	4,991	5,582	5,305	5,382
Other Western Hemisphere	**573**	576	632	784	835
	12,886	12,272	14,255	14,006	14,594

Sales Volumes by Main Product Category — thousand tonnes

	1999	1998	1997	1996	1995
Base and Intermediates	**11,358**	10,910	11,219	11,481	9,925
Performance products	**8,282**	6,880	6,388	5,943	5,949
Differentiated products	**1,266**	2,194	1,903	1,917	1,811

Ethylene Capacity[a] (Group and associated companies)

	1999	1998	1997	1996	1995
Nominal capacity (thousand tonnes/year)	**5,307**	5,259	5,195	4,399	4,331
Utilisation (%)	**94**	88	85	95	93

[a] Data includes the ethylene complex at Mossmorran, UK, in which a Group company has 50% offtake rights but no equity interest. Data for 1995 have been restated to accurately reflect Group equity interest.

At December 31, 1999 Group companies had 100% or majority equity interests in chemical manufacturing plants for the selected portfolio, as described below and on the following pages.

Europe

Belgium CRI Catalyst Co Belgium NV (Group interest: 100%) manufactures catalysts at plants in Ghent. Bayer-Shell Isoyanates NV, a 50% joint venture, produces isocyanates in Antwerp. Montell Belgium N.V. has a 50% stake in North Sea Petrochemicals, which operates a propylene splitter and a propane dehydrogenation unit.

France At Berre L'Etang, Shell Chimie (Group interest: 100%) manufactures aromatics and solvents. It also operates polypropylene plants on behalf of Montell, polyethylene plants on behalf of Elenac and a cracker on behalf of a 50:50 Montell/Elenac joint venture. Beginning in 1999 it also operated additives plants on behalf of Infineum. Elenac also manufactures low-density polyethylene at Fos. A new polypropylene plant was started up at Berre L'Etang.

Germany At Godorf, Deutsche Shell AG (Group interest: 100%) manufactures benzene, toluene and xylene isomers. Montell Chemie Köln GmbH produces polypropylene at its plant in Cologne. In addition, Elenac manufactures polyethylene, epoxy resins, elastomers and styrene.

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Netherlands At Pernis (Rotterdam), Shell Nederland Chemie B.V. (Group interest: 100%) manufactures base chemicals, intermediates and industrial chemicals. Lower olefins, ethylene oxide and derivatives, and styrene and propylene oxide are manufactured at Moerdijk. At Pernis, Montell Benelux B.V. produces polypropylene. At Moerdijk, Montell operates a catalloy process polymer plant.

United Kingdom Shell Chemicals UK Ltd. (Group interest: 100%) operates plants at Stanlow, where base chemicals, detergents and intermediates, additives and industrial chemicals are produced. Montell Carrington Ltd. at Carrington produces polypropylene and also operates a low-density polyethylene plant on behalf of Elenac (Group interest: 50%). Derivatives from ethylene oxide and propylene oxide are also manufactured at Carrington on behalf of Shell Chemicals UK. The acquisition of an ethoxylation unit at Wilton from ICI was completed in 1999.

Other Eastern Hemisphere

Australia Montell Australia Pty Ltd (Group interest: 100%) produces polypropylene at plants in Clyde and Geelong, and operates a propylene splitting unit at Clyde.

China Official approval has been granted to conduct a feasibility study for the construction of a joint-venture petrochemicals complex in the Huizhou municipality of the Guangdong province. Negotiations concerning the complex are now taking place. The four project partners and their prospective shareholdings in the project are: the wholly Group-owned Shell Nanhai Ltd. (50%); China National Offshore Oil Corporation (40%); Guangdong Investment & Development Company (5%); and China Merchants Holdings Company Limited (5%).

Saudi Arabia The Saudi Petrochemical Company (SADAF), a 50:50 joint venture with Saudi Basic Industries Corporation, owns a plant capable of producing 3.7 million tonnes a year of ethylene, crude industrial ethanol, ethylene dichloride, caustic soda, styrene and methyl tertiary butyl ether. It is currently building a second styrene plant and electrical co-generation facilities. Local and international marketing of SADAF products is handled by the marketing arms of both partners. The Group's marketing effort is coordinated by Shell Trading (M.E.) Private Ltd. (Group interest: 100%) located in Dubai, United Arab Emirates.

Singapore In 1999 Shell Eastern Petroleum Limited (SEPL) increased its interest in Seraya Chemicals Singapore (Pte) Ltd., owner and operator of an existing styrene monomer/propylene oxide (SM/PO) plant at the Seraya site. It purchased the shares of its joint-venture partner Mitsubishi Chemical Corporation (MCC) whilst MCC acquired capacity rights for up to 380,000 tonnes of SM per year with regard to the existing and a new SM/PO plant. The new SM/PO plant is part of a manufacturing joint venture with BASF that was inaugurated in January 2000; the start-up of the world-scale plant is scheduled for the second half of 2002. A new company, Infineum (Group interest: 50%), was formed in Singapore as part of the additives joint venture with ExxonMobil (formerly Exxon). Group companies also have an equity stake of 50% and 30% in two Sumitomo-managed joint ventures, namely Petrochemical Corporation of Singapore Private Ltd and The Polyolefin Company (Singapore) Pte Ltd, respectively. In March 1999 a $100 million investment in a condensate splitter unit, on a 50:50 basis with Petrochemical Corporation of Singapore, was announced. The unit will be built on Pulau Bukom, where a Group refinery is also located.

USA

Shell Chemical Company (Group interest: 100%) has manufacturing facilities in Alabama, California, Illinois, Louisiana and Texas. It is a major producer of olefins, aromatics, phenol, detergent alcohols, ethylene oxide and derivatives, and oxygenated and hydrocarbon solvents. Montell also owns and operates manufacturing facilities in Texas and Louisiana.

Shell Chemical Company completed a major expansion of its phenol capacity at Deer Park, Texas, with start-up scheduled for early 2000. The company also announced plans for an expansion project at Geismar involving higher olefins and alcohols. The project will include the installation of a new Shell Higher Olefins Process unit, which is expected to be on stream in late 2001, and a new detergent alcohols plant, which is planned to start-up in mid-2002. In addition, the company has signed a non-binding letter of intent to form a joint venture with BASF Corporation and Fina Oil and Chemical Company, a unit of the TotalFina group, to construct the world's largest butadiene extraction facility in Port Arthur, Texas. Scheduled for start-up by 2002, the butadiene

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extraction facility will have a production capacity of 900 million pounds per year. The joint venture will be owned approximately 60% by the Group, 24% by BASF and 16% by Fina.

Concha Chemical Pipeline L.L.C. (Group interest: 100%) sold its Lou-Tex pipeline (a Louisiana and Texas asset) to an affiliate of Enterprise Products Partners L.P. early in March 2000. Enterprise will continue to transport propylene in the Lou-Tex pipeline for Shell Chemical Company through a long-term exchange agreement.

Other Western Hemisphere

Canada Shell Chemicals Canada Limited (Group interest: 100%) produces styrene and isopropyl alcohol, and markets a broad range of petrochemicals. Manufacturing locations are at Scotford, Alberta, and Sarnia, Ontario. Montell Canada Inc. (Group interest: 100%) owns and operates a polypropylene unit both at Varennes, Quebec, and at Sarnia. Montell Canada also operates the isopropyl alcohol plant at Sarnia on behalf of Shell Chemicals Canada. Shell Chemicals Canada is proceeding with the design and construction of a new world-scale ethylene glycol plant in Alberta.

4. Downstream Gas and Power

The Downstream Gas and Power Business encompasses: 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.

Liquefied Natural Gas (LNG) Plants (at December 31, 1999)[a]

		Group interest %	100% capacity million tonnes a year
Asia-Pacific: liquefaction plants			
Australia	Karratha	22	7.5
Brunei	Lumut	25	7.1
Malaysia	Bintulu	15	17.0
Nigeria	Bonny	26	2.9
Europe: regasification terminal			
Belgium	Zeebrugge	17	3.9

[a] Percentage rounded to nearest whole percentage point where appropriate

Utilisation of LNG Plant Capacity %

1999	1998	1997	1996	1995
93	89	94	88	85

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Natural Gas Processing Plants (at December 31, 1999)[a]

		Group interest %	100% capacity million cubic feet daily[b]
Europe			
Norway	Kaarstø[c]	5	873
	Kollsnes	8	3,500
UK	Bacton, Norfolk	50	3,016
	St Fergus, Aberdeenshire	50	1,543
	Mossmorran, Fife[d]	50	c
Middle East			
Abu Dhabi	Asab	15	306
	Bab	15	150
	Bu Hasa	15	512
	Ruwais[d]	15	c
Asia-Pacific			
Australia	Karratha	22	1,435
New Zealand	Oaonui[d]	19	700
USA			
Alabama	Yellowhammer	65	200
Louisiana	Calumet	20	1,200
	Norco[d]	20	c
	Tebone[d]	20	c
	North Terrebonne	20	1,250
	Toco	20	835
Michigan	Kalkaska	100	350
Texas	Houston Central[d]	100	710
	Gregory	100	85
	Texas City	100	105
Canada			
Alberta	Burnt Timber	64	89
	Caroline	56	123
	Hamburg	78	135
	Jumping Pound[d]	78	161
	Waterton[d]	78	187
	Wildcat Hills	27	105

[a] Plants with capacities of at least 100 million cubic feet daily of natural gas, and excluding basic separation units.
[b] One million cubic feet daily is approximately equivalent to 26,700 cubic metres daily.
[c] Fractionation plants processing NGL feedstock only.
[d] Plants with fractionation facilities.

Europe

Belgium A 16.7% Group interest is held in Distrigaz, the Belgian gas distribution company.

Germany BEB, a venture of Brigitta and Elwerath, in each of which a Group company holds a 50% interest, is not only the major producer of oil and gas in Germany but also one of the country's major gas transmission and distribution companies. Group companies have minority shareholdings in major gas transmission and distribution companies, including Ruhrgas (14.7%), Thyssengas (25%), Avacon (2.8%, through Ferngas Salzgitter), Erdgas Munster (15%),Verbundnetz Gas (10.7%) and Hamburger Gas Werke (5.1%). In 1999 Ruhrgas bought an additional 1.5% of Gazprom, thereby increasing its shareholding in the Russian company to 4%.

Netherlands Contracts between Nederlandse Gasunie (Group interest: 25%) and customers in Europe provide for sales of Dutch gas well into this century. In 1999 Gasunie sold 75.4 billion cubic metres of gas for both export and domestic consumption. During 1999 Shell Energy (see "United Kingdom" item on next page) and the gas distribution company Eneco formed a 50:50 joint venture named Eneco Shell Energy Partnership VOF.

Norway A wholly owned Group company holds interests in several gas transportation systems to the European continent: Zeepipe (Group interest: 7%), Europipe I (Group interest: 7%), Norfra (Group interest: 1.29%) and

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Europipe II (Group interest: 1.18%). It also has 5% ownership in the Statpipe transportation and processing system. Additionally, a Group company holds an 8.2% interest in the Kullsnes gas terminal, which handles gas from the Troll field and other fields.

Russia A 25% Group interest is held in Sakhalin Energy, which is proposing an LNG supply project.

United Kingdom A wholly owned Group gas marketing and trading company, Shell Gas Direct, continued to grow, selling nearly 900 million therms of gas during 1999. Shell Energy (Group interest: 100%) was established in 1999 and began trading and marketing electricity in Europe. InterGen (Group interest: 50%) operates the 780MW Rocksavage plant, and a 795MW plant at Coryton is currently under construction.

Other Eastern Hemisphere

Australia A Group company directly and indirectly has a 22.4% interest in the liquefied natural gas (LNG) export phase and a 25.5% interest in the domestic gas phase of a joint venture formed to develop the gas fields of the North-west Shelf (NWS). (See page 12.) Twenty-year sale and purchase agreements with eight Japanese utilities call for the supply of LNG at an annual rate of some 7.5 million tonnes per annum (over 1 billion cubic feet of gas a day). The NWS joint-venture partners are progressing discussions with their Japanese customers about an extension and possible expansion of the supply from the NWS to Japan. The Gorgon area joint-venture partners (Group interest: 28.6%) are evaluating various LNG project options, one of which includes an agreement with the NWS joint venture, as well as a domestic gas alternative. A wholly owned Group company is also involved in a number of licences offshore Darwin in the Northern Territory with opportunities for domestic gas or LNG export.

Brunei Gas is liquefied and sold to customers in Japan and Korea by Brunei LNG Sendirian Berhad (Group interest: 25%). In March 1993 the contract to supply LNG to three power and gas utilities in Tokyo and Osaka was extended for a further 20 years at an increased annual sales quantity of some 5.5 million tonnes – equivalent to approximately 780 million cubic feet of gas per day. The LNG will continue to be delivered in the current fleet of LNG vessels owned by Brunei Shell Tankers Sendirian Berhad (Group interest: 50%). In 1999 the sales quantity increased to some 6.4 million tonnes per annum.

Malaysia Exports of LNG from Sarawak by Malaysia LNG Sendirian Berhad (Group interest: 15%) began in January 1983 to two Japanese customers. The contract delivery rate was increased to 7.6 million tonnes of LNG per year (equivalent to over 1 billion cubic feet of gas per day) in 1993. Three additional liquefaction trains (Group interest: 15%) came on stream at the end of 1995, doubling capacity to some 17 million tonnes per annum, with customers in Japan, South Korea and Taiwan. For this total export volume, gas is supplied from fields operated by Group companies. (See page 13.) During 1995 agreement was reached to establish a third expansion to the Bintulu facilities (Group interest: 10%), the output of which is currently being marketed.

Adjacent to the LNG facilities is a plant, operated by Shell MDS (Malaysia) Sendirian Berhad (Group interest: 71.8%), which was originally designed to convert – by means of Shell-developed technology – approximately 100 million cubic feet per day of natural gas into some 12,000 barrels a day of high-quality middle distillates and other products. First commercial production of middle distillates and solvents from the plant occurred during 1993 using feedstock from offshore gas fields. A full range of liquid and wax products has been produced and sold to the premium markets in the Asia-Pacific region, the USA and Europe. The plant is currently being reconstructed after having been damaged in an explosion; start-up is planned for 2000.

Nigeria An LNG plant owned by Nigeria LNG Limited (NLNG) (Group interest: 25.6%) started up in October 1999. At plateau production levels, it is expected to produce some 5.8 million tonnes of LNG per annum (equivalent to some 810 million cubic feet of gas a day) for export under long-term contracts to customers in Europe. A final investment decision was taken in February 1999 by the shareholders of NLNG to expand the existing project, through the construction of an additional 2.9-million-tonnes-per-annum LNG train and associated facilities. Production is scheduled to commence in 2003, and LNG volumes from the expansion have been sold under long-term contracts to existing customers.

Oman Construction of an LNG plant owned by Oman LNG (Group interest: 30%) continued on schedule during 1999. Sales of LNG are intended to commence in April 2000 to the Korea Gas Corporation, which has

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agreed to purchase more than 4 million tonnes of LNG per annum (equivalent to some 560 million cubic feet of gas per day) over 25 years. Other long-term customers include Osaka Gas of Japan and the Dahbol Power Company of India (Group interest: 10%), which have contracted for 0.7 and 1.6 million tonnes per annum, respectively. Short-term sales of 1.1 million tonnes per annum in 2000 and 2001 to Coral Energy in the USA and Enagas in Spain were agreed in 1999.

USA

Coral Energy (Group interest: 100%) conducts business involving: natural gas pipelines and related storage and arbitrage activities in Texas and Louisiana; undersea natural gas pipelines in the Gulf of Mexico; natural gas marketing and trading in the USA and Canada; power marketing and trading in the USA; power equity investments; structured transaction activities; and an equity investment in Enterprise Products Partners, LP (Group interest: approximately 18%).

The decision was taken to sell and restructure certain of Coral's assets. During 1999 Coral completed the sale of Transok operations and Louisiana gas processing assets. In exchange for its Louisiana NGL assets, Coral received a 20% interest in Enterprise and cash. As part of the transaction, Enterprise has entered into a long-term natural gas processing agreement with Shell Oil for its Gulf of Mexico production.

Shell Energy Services (SESCo) is entering the deregulating retail gas and electricity market. SESCo began retail gas services to customers in the area of Atlanta, Georgia, in 1999 and has approximately a 23% market share.

During 1999 InterGen North America was established as a 50:50 joint venture with Bechtel Enterprises to develop greenfield power opportunities in the USA and Canada.

Other Western Hemisphere

Bolivia In 1997 a wholly owned Group company acquired a 25% stake in Transredes, an oil and gas pipeline company. In 1999 gas exports to Brazil commenced through a pipeline owned by GTB, a Transredes subsidiary in which the Group has a 29.75% stake.

Brazil In 1997 Group companies acquired a minority stake in Comgas, a Brazilian natural gas distributor in the state of São Paulo. In 1998 an interest (25–30%) was acquired in a power station and associated gas supply pipeline at Cuiaba in western Brazil. In the same year an agreement was signed with Petrobras to develop an LNG import terminal in north-east Brazil. In 1999 a joint venture was formed with BG International that successfully bid for the final – and controlling – block of Comgas (total Group interest now: 23%). The first phase of the Cuiaba plant (150MW, diesel fired) has become commercially operational; the pipeline construction is expected to be concluded in 2000.

Colombia InterGen (Group interest: 50%) commenced operations at the 235MW TermoEmcali station in Colombia, in which it holds a 54% interest.

InterGen

InterGen is a major international developer of private power projects in which Group companies acquired a 50% interest in 1997. InterGen brought its third power station into operation in 1999, bringing the total generating capacity to 1,725MW. The company has six other power stations, whose capacities total 2,165MW, under construction in China, the Philippines, the UK, Australia, Egypt and Mexico. Of these, two – at Sidi Krir in Egypt and Milmerran in Australia– secured financing in 1999. During 1999 InterGen sold its interest in a 700-kilometre gas pipeline in Mexico on completion of construction. Further power stations, with a total capacity of 6,440MW, are under active development in Turkey, Brazil, Mexico and the UK.

5. Renewables

Group companies also seek opportunities in other businesses aimed at enhancing longer-term prospects for profitability. Shell Renewables companies' activities cover solar power, biomass (wood-based) energy, wind power and forestry.

The largest business within Renewables is "upstream" forestry, which focuses on short-rotation, high-yield tree crops. Group companies have sole ownership of plantations in Paraguay, Chile and Argentina, and have joint-

venture plantations in Congo (Group interest: 90%), Uruguay (Group interest: 60%), and New Zealand (Group interest: 50%). Group companies also manufacture, market and sell solar photovoltaic cells and panels in the Netherlands and Germany, and a 50:50 joint-venture company in South Africa markets and supplies solar home systems.

In 1999 wholly owned subsidiaries were established in India, Sri Lanka and the Philippines to market solar energy systems. In Germany a world-class solar-cell factory was opened, and approval was given for the Group's first wind energy project. Solar home systems were introduced in South Africa. A facility for the manufacture of wood-fuel briquettes was commissioned in Norway. Forestry companies have been restructured, and a global forestry marketing unit has been set up.

6. Coal

During 1999 it was decided to divest the coal business. The sale is expected to be concluded during 2000. In the meantime, Group and associated companies are involved in coal mining operations in Australia and Venezuela, while coal marketing is carried out by a number of Group companies. In addition, Group companies charter bulk carriers for coal trading. The Group is also involved in the construction of a coal-fired power station. The principal activities are as follows:

Australia Group companies operate five mining ventures and hold minority interests in two coal loading ports used to export Group-company coals. In New South Wales a Group company holds a 75% interest in the Drayton opencast thermal coal mine and a 75% interest in the Dartbrook mine, which produces export thermal coal using longwall extraction methods. In Queensland a Group company has a 67% interest in the Callide opencast domestic thermal coal mine and a 47% interest in the German Creek mine, which produces metallurgical coal for the export market.

A Group company has an 88% interest in the Moranbah North mine located in Queensland. Longwall production at the Moranbah North mine commenced in February 1999.

The Group has a 50% interest in the Callide C power station, the construction of which began in mid-1998 with a view to completion in 2001. The Callide C power station is located in Queensland, adjacent to the Callide mine.

Venezuela The Group has a 25% interest in Carbones del Guasare S.A. This company owns and operates the opencast Paso Diablo mine, which produces thermal coal for export.

7. Research

Group research and development (R&D) programmes are carried out through a worldwide network of laboratories, with major efforts concentrated in the Netherlands, the UK and the USA; other laboratories are located in Belgium, Canada, France, Germany, Japan and Singapore. Group companies' R&D expenses (including depreciation) for the years 1995 to 1999 are set out below:

$ million

	1999	1998	1997	1996	1995
Total (including depreciation)	**505**	799	662	701	764

Exploration and Production

R&D is enabling Group companies to find and extract hydrocarbon reserves more efficiently. It also helps to reduce costs and improve operations, for instance, by providing ways of enhancing or extending existing infrastructure and minimising environmental impact. Safety as well is being improved through R&D, since it provides a better understanding of the underlying causes of accidents.

Specifically, R&D and other technical services aim to keep Group companies at the forefront of technologies by which:

- the subsurface can be imaged and modelled, with a view to improving exploration success rates, increasing hydrocarbon recovery and reducing lead times from discovery to production;

- the performance of oil and gas wells can be improved;
- unit production costs can be reduced, particularly in support of Group companies' deep-water activities; and
- best practices can be identified and implemented speedily at all operating locations around the globe.

Oil Products

R&D programmes continue to emphasise the improvement of key products and technologies that provide Group companies with a competitive advantage. Updated product ranges include differentiated gasolines and advanced diesel fuels, new automotive and industrial lubricants, and high-performance bitumens. Product stewardship considerations, particularly those related to health and the environment, continue to be given high priority in all areas.

Engineering programmes continue to emphasise improvements to the reliability, availability and control of refinery processes and gas plants. Process programmes have also increased the margin generation and flexibility of existing assets, for example, by varying catalysts and by extending the range of operating conditions.

A strategic programme aimed at developing medium-term options in sustainable energy and sustainable mobility is underway.

Chemicals

R&D and other technical services continue to improve key products and technologies that provide Shell Chemicals with sustainable leadership positions in selected products. Improvements in manufacturing processes – achieved by means of increased feedstock flexibility, product yield, energy efficiency or plant throughput – are leading to lower production costs at existing facilities. Process intensification and manufacturing integration is resulting in lower unit investment costs. Market positions are being enhanced through the introduction of new product concepts, close technical links with important industrial customers, and the full integration of R&D into the business.

Downstream Gas and Power

The focus of R&D has been on cost leadership and the creation of viable technical opportunities through advances in the knowledge of liquefied natural gas (LNG), particularly LNG processing, gas conversion, safety, transport and storage. Group companies have a high international reputation in matters of safety and are leading participants in the setting of safety standards for gas operations. The Group is further developing its leading position in gas-to-liquids conversion technology through R&D programmes aimed at improving catalysts and processes as well as reducing capital costs. R&D efforts are furthermore focused on maintaining a leading edge with regard to sustainable development across the Downstream Gas and Power technology portfolio.

Renewables

R&D addresses new technologies that will enhance the value of the tree crops and improve the competitive advantage of Operating Companies. The focus is on the improvement of methods for breeding and deploying new varieties of Eucalyptus and other genera with higher productivity and better wood, fibre and energy properties.

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E. PERSONNEL

Employees by Segment (at December 31)[a] — thousands

	1999	1998	1997	1996	1995
Exploration and Production	13	15	17	17	17
Downstream Gas and Power	1	1	1	1	1
Oil Products	56	58	64	57	51
Chemicals	17	20	21	22	22
Other	9	8	4	5	13
	96	102	107	102	104

Employee Emoluments — $ million

	1999	1998	1997	1996	1995
Remuneration	4,980	5,260	5,515	5,556	5,458
Social law taxes	467	476	511	524	527
Pensions and similar obligations	(10)	245	82	205	259
	5,437	5,981	6,108	6,285	6,244

[a] Excludes employees of associated companies such as those in Brunei, Germany, Oman and the USA. Includes 50% of the employees of Shell Expro in the UK and of NAM in the Netherlands and 30% of Shell Petroleum Development Nigeria.

SELECTED FINANCIAL DATA

Royal Dutch — per N.fl. 1.25 ordinary share[a]

	1999	1998	1997	1996	1995
Net assets – €	**15.91**	13.47	15.61	13.96	12.01
Total assets – €	**16.77**	14.31	16.44	14.68	12.65
Earnings – €	**2.27**	0.12	2.03	2.03	1.49
Dividends declared – €	**1.51**[b]	1.45	1.41	1.20	1.08
Dividends – equivalent payment in dollars	c	1.60	1.55	1.45	1.40

[a] Figures for 1995-96 have been restated to reflect the four-for-one stock split effective on June 30, 1997. The euro figures for 1995-1998 are translated from the guilder amounts at the fixed conversion rate of 2.20371.
[b] Figure includes proposed final dividend of €0.86 per N.fl. 1.25 ordinary share, subject to finalisation by the General Meeting of Shareholders to be held on May 9, 2000.
[c] The 1999 final dividend in dollars will be determined by the dollar/euro exchange rate ruling on May 12, 2000.

Shell Transport — per 25p Ordinary share[a]

	1999	1998	1997	1996	1995
Net assets – pence	**142.4**	135.0	146.7	149.6	153.9
Total assets – pence	**151.1**	144.0	156.2	158.6	161.9
Earnings – pence	**21.4**	0.5	17.8	21.3	16.0
Dividends declared– pence	**14.0**[b]	13.5	13.1	12.3	11.1

[a] Figures for 1995-96 have been restated to reflect the two-for-one capitalisation issue effective on June 30, 1997.
[b] Includes proposed final dividend of 8.5p per 25p Ordinary share, which is subject to approval at the Annual General Meeting of the Company on May 9, 2000.

Shell Transport — per New York Share

	1999	1998	1997	1996	1995
Dividends and tax credits – equivalent payment in dollars	a	1.33	1.42	1.52	1.28

[a] Not available at time of printing.

Under the provisions of the UK/USA Double Taxation Conventions, US resident holders of American Depositary Receipts (New York Shares) receive a tax credit (currently 10/90 of the net dividend) concurrently with their dividend – less a deduction for UK withholding tax at 15% or the value of the tax credit, whichever is the lower. The tax credit was 1/4 of the net dividend for dividends paid in years prior to 1999. US portfolio shareholders are subject to tax on the gross dividend (net dividend plus tax credit) with credit for the UK withholding tax. Amounts shown for 1995 to 1997 are equivalent payments in dollars before deduction of income tax at 15%. The dividends paid in 1998 (1997 final and 1998 interim) were foreign income dividends and, as such, carried no tax credit and were not subject to withholding tax.

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DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ROYAL DUTCH PETROLEUM COMPANY

Translated into a euro amount, Royal Dutch's share in the net income of the Royal Dutch/Shell Group of Companies for the years 1999, 1998 and 1997 respectively amounts to €4,853 million, €245 million and €4,351 million. The dividends distributed from Group companies to Royal Dutch for the years 1999, 1998 and 1997 were respectively €3,183 million, €3,124 million and €3,344 million.

When interest income has been added and administrative expenses deducted, after-tax net income for the year 1999 amounted to €4,861 million compared with €253 million for 1998 and €4,353 million for 1997.

Royal Dutch's 60% interest in the Group net assets, expressed in dollars, has been translated into a euro amount at the year-end rate ($1=€0.9951 at December 31, 1999). The amount thus obtained, which appears in the Balance Sheet on page R-2, should be regarded as a reflection of the dollar value of Royal Dutch's interest in the Group's assets and liabilities. Consequently, changes in the dollar/euro rate lead to translation effects in the Royal Dutch Financial Statements. The movements in the value of the dollar, between $1=€0.8573 at December 31, 1998 and $1=€0.9951 at December 31, 1999, led to a positive translation effect of €4,622 million, compared with a negative translation effect of €1,988 million in 1998. These effects are dealt with separately from the "Translation effect arising from movements in dollar/euro rate", as shown in Note 4 on pages R-3 and R-4. The translation effects are dealt with in the Balance Sheet items "Investments in companies of the Royal Dutch/Shell Group" and "Investment reserves".

The final dividend for 1999 proposed by the Supervisory Board and the Board of Management is €0.86 on each of the ordinary shares of N.fl. 1.25 outstanding at December 31, 1999. Subject to adoption of this proposal by the General Meeting of Shareholders to be held on May 9, 2000, payment of the final dividend will result in a total dividend for 1999 of €1.51 per ordinary share (compared with €1.45 and €1.41 per ordinary share for the years 1998 and 1997, respectively).

Amounts in the Financial Statements of Royal Dutch are rounded to the nearest million with effect from 1999.

Euro reporting

With effect from 1999 euro reporting has been adopted instead of guilder reporting. Comparative data previously reported in guilders have been translated into euro amounts using the fixed conversion rate of 2.20371 guilders per euro. However, the Financial Statements of the Royal Dutch/Shell Group of Companies will continue to be stated in dollars.

Year 2000

Royal Dutch did not experience any Year 2000 incidents at the turn of the year. As described on page 51, the companies of the Royal Dutch/Shell Group made a smooth transition into the year 2000.

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RJW00102013

THE "SHELL" TRANSPORT AND TRADING COMPANY, PUBLIC LIMITED COMPANY

Shell Transport's earnings for the year 1999 amounted to £2,123.6 million (£52.3 million in 1998; £1,768.1 million in 1997). The amount available for distribution (inclusive of distributions from retained earnings by companies of the Royal Dutch/Shell Group) was £1,393.1 million in 1999 (£1,345.1 million in 1998; £1,303.9 million in 1997).

Shell Transport's net assets at December 31, 1999 were £14,172.1 million, in comparison with £13,431.1 million at the end of 1998. Of these two amounts, £14,153.2 million and £13,412.4 million respectively represented Shell Transport's share in the net assets of companies of the Royal Dutch/Shell Group.

A final dividend of 8.5p per 25p Ordinary share has been declared for 1999. Subject to its approval at the Annual General Meeting to be held on May 9, 2000, dividends totalling 14.0p per 25p Ordinary share are payable in respect of 1999, in comparison with dividends paid of 13.5p and 13.1p for 1998 and 1997, respectively.

US dollar reporting

Since 1998 the Group Financial Statements have been 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.

Year 2000

As described on page 51, the companies of the Royal Dutch/Shell Group did not experience any Year 2000 incidents giving rise to material financial or operational consequences.

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ROYAL DUTCH/SHELL GROUP OF COMPANIES

Summarised Financial Data

Income data

$ million

	1999	1998	1997	1996	1995
Sales proceeds					
Oil and gas	**135,472**	124,712	155,998	156,542	134,118
Chemicals	**13,408**	12,795	14,822	14,609	15,385
Other	**826**	767	837	813	1,187
Gross proceeds	**149,706**	138,274	171,657	171,964	150,690
Sales taxes, excise duties and similar levies	**44,340**	44,582	43,502	43,651	40,818
Net proceeds	**105,366**	93,692	128,155	128,313	109,872
Earnings by industry segment[a]					
Exploration and Production	**4,519**	(247)	4,569	4,871	2,947
Downstream Gas and Power	**253**	(349)	245	264	309
Oil Products	**1,687**	2,028	2,169	1,903	1,983
Chemicals	**885**	(718)	969	897	1,731
Other industry segments	**(35)**	(40)	122	(1)	178
Total operating segments	**7,309**	674	8,074	7,934	7,148
Corporate	**252**	227	51	340	(150)
Minority interests					(185)
Earnings on an estimated current cost of supplies (CCS) basis[b]	**7,561**	901	8,125	8,274	6,813
CCS adjustment	**1,023**	(551)	(372)	612	106
Net income	**8,584**	350	7,753	8,886	6,919

Assets and liabilities data (at December 31)

$ million

	1999	1998	1997	1996	1995
Total fixed and other long-term assets	**83,491**	87,469	85,974	85,731	82,575
Net current assets/(liabilities)	**(3,071)**	(8,541)	(1,161)	5,317	3,468
Total debt	**12,931**	13,810	10,607	11,816	12,782
Parent Companies' interest in Group net assets	**56,171**	54,962	60,386	63,006	58,781
Minority interests	**2,842**	2,701	2,216	3,415	3,106
Capital employed	**71,944**	71,473	73,209	78,237	74,669

Cash flow data

$ million

	1999	1998	1997	1996	1995
Cash flow provided by operating activities	**11,059**	14,729	16,730	16,619	14,873
Capital expenditure (including capitalised leases)	**7,409**	12,859	12,274	11,023	10,965
Cash flow used in investing activities	**3,023**	12,500	13,605	10,049	10,338
Dividends paid	**5,611**	5,993	5,382	5,149	4,711
Cash flow provided by/(used in) financing activities	**(6,256)**	(3,582)	(6,088)	(5,753)	(5,178)
Increase/(Decrease) in cash and cash equivalents	**1,326**	(1,589)	(3,375)	943	(459)

Other statistics

	1999	1998	1997	1996	1995
Return on average capital employed[c]	**12.1%**	2.8%	12.0%	12.0%	10.7%
Total debt ratio[d]	**18.0%**	19.3%	14.5%	15.1%	17.1%

[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 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 the Group share of interest expense, less tax on the interest expense, as a percentage of the Group share of average capital employed.

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

Capital investment

$ million

	1999	1998	1997	1996	1995
Capital expenditure[a]					
Exploration and Production	4,137	6,474	5,724	4,995	4,477
Downstream Gas and Power	470	1,816	47	36	30
Oil Products	1,338	2,776	3,818	4,308	4,890
Chemicals	1,178	1,491	2,422	1,409	1,243
Other	286	302	263	275	325
	7,409	12,859	12,274	11,023	10,965
Exploration expense (excluding depreciation and release of currency translation differences)	1,062	1,595	1,160	1,122	870
New investments in associated companies	1,024	1,282	1,726	770	550
Total capital investment*	9,495	15,736	15,160	12,915	12,385
*comprising					
Europe	2,654	4,889	5,185	4,832	4,966
Other Eastern Hemisphere	3,646	3,987	3,749	3,161	3,275
USA	1,822	4,695	4,232	3,671	3,144
Other Western Hemisphere	1,373	2,165	1,994	1,251	1,000
	9,495	15,736	15,160	12,915	12,385

Quarterly income data

$ million

	1999				1998				1997			
	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	43,799	40,147	34,368	31,392	34,604	33,141	34,579	35,950	43,294	41,861	41,816	44,686
less sales taxes, excise duties and similar levies	11,586	11,361	10,772	10,621	11,662	11,160	11,179	10,581	11,378	10,771	10,800	10,553
Net proceeds	32,213	28,786	23,596	20,771	22,942	21,981	23,400	25,369	31,916	31,090	31,016	34,133
Cost of sales	25,341	22,441	18,189	15,868	21,378	17,170	18,499	19,627	25,268	24,230	24,262	26,634
Gross profit	6,872	6,345	5,407	4,903	1,564	4,811	4,901	5,742	6,648	6,860	6,754	7,499
Operating profit	4,713	4,471	3,240	2,808	(4,716)	2,081	2,518	3,221	3,177	3,882	3,948	4,935
Net income[b]	2,582	2,378	1,946	1,678	(3,739)	896	1,497	1,696	1,629	2,063	1,749	2,312
Earnings on an estimated current cost of supplies basis[c]	2,285	2,004	1,667	1,605	(3,568)	918	1,606	1,945	1,698	1,975	1,929	2,523

[a] Capital expenditure includes tangible and intangible fixed assets acquired on purchase of new Group companies and additional joint venture interests.
[b] The large decline in net income in the fourth quarter 1998 reflects special charges due mainly to the impairment of assets and to restructuring and redundancy charges. See pages 41, 43, 45 and 46, and Notes 6(a), 10 and 20 to the Group Financial Statements on pages G-11, G-14 and G-15, and G-19 and G-20.
[c] 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.

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US dollar exchange rates[a]

€1 = $

	1999	1998[c]	1997[c]	1996[c]	1995[c]
Average for year[b]	**1.0655**	0.9002	0.8860	0.7664	0.7250
Year end	**1.0024**	0.8517	0.9202	0.7837	0.7276
Highest	**1.1812**	0.9479	0.9610	0.7968	0.7938
Lowest	**1.0016**	0.8232	0.7850	0.7295	0.6894
As at March 21, 2000	**0.9703**				

£1 = $

	1999	1998	1997	1996	1995
Average for year[b]	**1.6172**	1.6573	1.6376	1.5733	1.5803
Year end	**1.6130**	1.6628	1.6427	1.7123	1.5535
Highest	**1.6765**	1.7222	1.7035	1.7123	1.6440
Lowest	**1.5515**	1.6114	1.5775	1.4948	1.5302
As at March 21, 2000	**1.5725**				

[a] Exchange rates are based upon the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York.
[b] Based upon the average of the daily exchange rates during the year.
[c] The euro-to-dollar exchange rates prior to the fixing of the euro conversion rate in January 1999 are derived from the product of dollars-per-guilder exchange rates and the fixed guilders-per-euro conversion rate of 2.20371.

SUMMARY OF GROUP RESULTS

Financial Results

$ million

	1999	1998	1997
Net income	8,584	350	7,753
Change	*+2,353%*	*–95%*	*–13%*
Earnings on an estimated current cost of supplies (CCS) basis	7,561	901	8,125
Change	*+739%*	*–89%*	*–2%*
Special credits/(charges)	468	(4,245)	94
Adjusted CCS earnings[a]	7,093	5,146	8,031
Change	*+38%*	*–36%*	*–1%*

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

1999

On an estimated current cost of supplies (CCS) basis excluding special items, earnings for the year 1999 – at $7,093 million – are 38% higher than a year ago. Reported net income for the year is $8,584 million, differing by an order of magnitude from the 1998 figure, which included major asset impairments as well as restructuring and redundancy charges.

The increase in earnings is mainly due to higher crude oil prices and cost improvements, which were partly offset by the effects of reduced refining and marketing margins. The cost improvements in 1999 total $2 billion, of which just over $500 million comes from exploration expense. With such progress, the Group is well ahead of schedule towards its raised cost-improvement target of $4 billion annually by 2001 (relative to a 1998 baseline).

Capital investment for 1999 totals $9.5 billion, 40% down from the 1998 figure. This reduction reflects increased efficiency in capital spending and greater discipline in the allocation of capital. The return on average capital employed (on a CCS earnings basis) for the year is 12.1%; last year it was 2.8%. The total debt ratio at the end of the year was 18%, and the financial position remains strong.

Excluding the effects of divestments, oil production in 1999 was comparable with that of the previous year. Natural gas sales were 5% higher. Oil product sales volumes (including the Group share of the volumes sold by Equilon and Motiva in the USA) in 1999 were essentially unchanged in comparison with last year. Excluding the effects of divestments, chemical sales volumes increased by 6% over 1998 volumes.

In 1999 the price of Brent crude averaged $17.95 a barrel – $5.20 higher than the 1998 average price. Although the price dipped to below $10 a barrel in February, oil prices recovered steeply over the rest of the year.

In the opening months of 2000 oil prices continued to increase. But their direction of movement in the coming months is impossible to predict accurately because of the uncertainties over the oil supply.

Refining margins in Rotterdam declined to an annual average of $1.00 a barrel, from $2.20 a barrel in 1998. In the USA, the West Texas Sour coking margin averaged $1.95 a barrel for the year, a $1-a-barrel drop from the 1998 average. Singapore refining margins also fell, from an average of $1.35 a barrel in 1998 to $0.65 a barrel in 1999.

In 2000 the impact of increased economic activity in Europe and low product inventories in the USA may help refining margins. In the Asia-Pacific region, however, refining overcapacity is likely to keep margins under pressure despite the anticipated recovery in oil demand.

Unit chemical margins for the year fell significantly, although in the fourth quarter of 1999 chemicals trading conditions improved as confidence returned to the Asia-Pacific region and feedstock price rises throughout the year were increasingly reflected in finished-product prices. No significant change in trading conditions is anticipated in the short term.

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1998

Excluding special items, earnings on an estimated 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 include 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.

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. Oil product sales volumes in 1998, including the Group share of the volumes sold by Equilon and Motiva in the USA, increased by 3% relative to 1997. 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.

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.

Chemicals trading conditions deteriorated compared with 1997, mainly because of the increasing global impact of the recession in the Asia-Pacific region.

EXPLORATION AND PRODUCTION

$ million	1999	1998	1997
Segment earnings	4,519	(247)	4,569
Special credits/(charges)	164	(2,221)	–
Adjusted segment earnings	4,355	1,974	4,569
Change	*+121%*	*–57%*	*–4%*

1999

Earnings

Excluding special items, earnings amounted to $4,355 million – an increase of 121% over 1998 earnings. The main reasons for the increase were higher crude oil prices and significantly lower operating and exploration costs. The cost improvements achieved in 1999 totalled $450 million, in addition to which $520 million was saved in exploration expense.

Including special items of $164 million, earnings totalled $4,519 million. The special items included profit on sales of a number of assets (mainly in North America), partly offset by asset impairments, resulting in a net gain of $213 million, and restructuring and redundancy charges of $98 million. In 1998 special items amounted to a net charge of $2,221 million.

Crude oil prices

Contrary to their decline in 1998, oil prices recovered in 1999. The average annual Brent price increased more than $5 a barrel – an increase of 41% compared with last year's average price. In fact, the price of Brent crude reached a five-year high of more than $25 a barrel in December, some $15 a barrel higher than 12 months earlier. The surge in the oil price was mainly the result of major oil exporting countries' compliance with the production cut-back that was announced in March 1999. Consequently, world crude oil stocks fell, accelerated by the economic recovery in the Asia-Pacific countries and continued growth in the USA.

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Oil production and gas sales

Oil production was down 4% from last year – principally the result of divestments of major producing assets in the USA, Colombia and Yemen. Excluding the effect of these – and other smaller – divestments, oil production was comparable with that of last year. Increases in Brunei, Denmark, Oman and the UK were offset by decreases in Gabon (due to normal production declines), Nigeria (due to increased community disturbances) as well as Malaysia and Syria (both due mainly to lower entitlement under production-sharing contracts as a result of higher oil prices).

Gas sales increased 5%, mostly as a result of the start-up of new projects in Oman, the UK and the USA (in the deep waters of the Gulf of Mexico). The increases, however, were partly offset by decreases in the Netherlands and Egypt.

Over the next five years, oil production and gas sales combined are expected to grow at an average annual rate of some 5%. Increases in oil production are expected from the new Canadian oil-sands project as well as from fields in Egypt, Russia, Norway, Nigeria and the USA. Increases in gas sales are expected in Nigeria, Oman, the USA and Egypt. However, these planned increases may be affected by further portfolio actions and the prevailing prices in the coming years. In March 2000 the disposal was announced of the Group's 36% common interest in Altura, an associated company in the USA, for a consideration in excess of the carrying amount. The Group share of Altura's production in 1999 represented approximately 54,000 barrels of oil equivalent a day.

Capital investment

Capital investment was down to $5.4 billion – $3 billion lower than in 1998. This reduced spending reflects a stricter investment discipline and more stringent project selection.

Reserves

The overall 1999 replacement ratio of proved crude oil and natural gas reserves and oil sands stands at 101% (147% excluding 1999 divestments and acquisitions). Additions through revisions and discoveries, together with the new Canadian oil-sands project (which is disclosed separately from crude oil and natural gas proved reserves), are offset by reductions due to production and portfolio activities. The replacement ratio of the overall 1999 crude oil and natural gas proved reserves (including natural gas liquids, but excluding oil sands) is 102% before and 56% after divestments and acquisitions.

The three-year rolling average replacement ratio for total crude oil and natural gas proved reserves (including portfolio activities) stands at 132%, reflecting the fact that oil and gas production over 1997–99 has been more than replaced by net additions over the same period.

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 (including $2,182 million relating to associated companies), came to a loss of $247 million. (See Notes 6(a), 10 and 20 to the Group Financial Statements on pages G-11, G-14 and G-15, and G-19 and G-20.) 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.

The special charges include write-downs in the USA totalling $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. (See Note 6(a) to the Group Financial Statements on page G-11.) Also included in the special charges for 1998 are $729 million related to asset write-downs in Venezuela and the UK (totalling $575 million, both due in part to poor reservoir performance), exploration expense write-offs in Peru ($96 million) and restructuring and redundancy charges ($58 million).

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.

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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.

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.

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.

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. 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.

OIL PRODUCTS

$ million

	1999	1998	1997
Segment earnings[a]	1,687	2,028	2,169
Special credits/(charges)	157	(207)	(44)
Adjusted segment earnings	**1,530**	2,235	2,213
Change	*−32%*	*+1%*	*+7%*

[a] CCS earnings.

1999

Earnings

Adjusted CCS earnings of $1,530 million were 32% below the 1998 figure. The benefits of major structural cost reduction programmes only partly offset the impact of weaker refining and marketing margins. Cost improvements achieved in 1999 totalled $700 million before tax.

Special items for the year amounted to a net credit of $157 million. This included a net benefit from asset disposals and impairment of $167 million, principally from the sale of Head Office buildings and land, together with a credit of $73 million from taxation and other items. These credits were partially offset by restructuring and redundancy provisions of $83 million.

In 1999 there were inventory holding gains of $1,023 million, as oil prices rose through the year. In 1998 there were inventory holding losses of $551 million. Inventory holding gains/losses are included in cost of sales in the Group Statement of Income.

Refining margins in Rotterdam declined to an average of $1.00 a barrel for the year, from $2.20 a barrel in 1998. This reflected high product stocks on both sides of the Atlantic for most of the year and product price rises that lagged the rapid rise in crude prices. These effects also contributed to a fall in margins on the US Gulf Coast. Specifically, the West Texas Sour coking margin averaged $1.95 a barrel in 1999 – $1 a barrel lower than the previous year. In the Asia-Pacific region, the increasing refining capacity surplus contributed to a fall in Singapore refining margins from an average of $1.35 a barrel in 1998 to $0.65 a barrel in 1999.

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Full-year 1999 adjusted CCS earnings outside the USA were $1,432 million, 27% lower than in 1998. Substantial progress in structural cost reduction, customer value propositions and portfolio rationalisation mitigated the impact of poorer external market conditions. The major contributor to the decline was refining, with industry margins falling to historically low levels during the course of the year. The benefits of higher utilisation of conversion capacity and of a reduction in unit refining expenses were outweighed by the fall in industry margins.

Marketing continued to be the major contributor to overall earnings. However, gross marketing margins for fuels declined in all regions relative to 1998 as supply costs rose faster than sales prices throughout the year. The impact of higher US dollar supply costs was exacerbated by a weakening of most local currencies relative to the dollar. Partially offsetting these effects were the benefits of reductions in unit marketing expenses, progressive implementation of a differentiated fuels programme and significant further growth in non-fuel retailing revenues. A reduction in wholesale volumes in Europe and in the Asia-Pacific region resulted in a 1% decline for the year in total inland sales volumes.

An increased contribution from trading operations, now carried out through a global network, contrasted with the lower refining and marketing earnings.

In the USA, adjusted CCS earnings fell from $265 million in 1998 to $98 million in 1999. The benefit of improved West Coast refining margins and the synergies generated in the Equilon and Motiva alliances were more than offset by the impact of weaker Gulf Coast refining margins and lower marketing margins. In addition, there were residual costs outside the alliance companies.

Capital investment

Capital investment during 1999 amounted to $1.4 billion – a significant reduction from the 1998 level of $2.9 billion. Expenditure was lower in both refining and marketing. Marketing was the prime focus, with the retail network attracting the major proportion of expenditure.

1998

On an estimated 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 (including $129 million relating to associated companies) 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 (see Note 20 to the Group Financial Statements on pages G-19 and G-20), charges of $106 million relating to asset disposals and impairment (see Notes 6(a) and 10 to the Group Financial Statements on pages G-11, and G-14 and G-15) 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; this includes an adjustment of valuation allowance. (See Note 9(a) to the Group Financial Statements on page G-13.) 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. The new structure in Europe is orientated towards business streams and the needs of their customers, replacing the more traditional national structures, and improving profitability.

Inventory holding losses in 1998 amounted to $551 million, as prices continued to decline over the year. (In 1997 inventory holding losses amounted $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.

Outside North America, 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

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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 expense. Unit refining costs were unchanged despite the higher planned maintenance programme. Refinery intake was 5% lower than a year earlier.

In North America, earnings excluding special items were 7% lower than in 1997 because of lower refining margins and higher financing costs. In 1998 Shell Oil restructured its oil products business into two new ventures, Equilon and Motiva.

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 in 1998 was a 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 1998 expenditure, including an increase in the number of "Select" convenience stores. Group companies' leading position in specialities – liquefied petroleum gas, lubricants and bitumen – was also supported through continued expenditure.

CHEMICALS

			$ million
	1999	1998	1997
Segment earnings	885	(718)	969
Special credits/(charges)	72	(1,170)	66
Adjusted segment earnings	813	452	903
Change	*+80%*	*–50%*	*+18%*

1999

Earnings

Adjusted 1999 earnings were $813 million, which compares with $452 million in 1998. The adjusted 1999 earnings exclude special credits of $72 million, resulting mainly from divestment programme gains ($154 million) that have been partly offset by provisions for redundancy ($84 million). In 1998 special items totalled to a charge of $1,170 million, largely related to provisions for asset impairments resulting from the decision to dispose of a significant portion of the portfolio. Reported earnings for 1999 of $885 million compare with a loss of $718 million in 1998.

Chemical sales volumes increased by 5% over 1998; excluding the effects of divestments, the increase was 6%. The increased volumes reflect new capacity coming on stream in the fourth quarter of 1999 as well as other acquisitions and capacity additions made during the year. Unit margins fell nearly 11% as product price increases failed to compensate for feedstock cost increases during the year. Underlying unit fixed costs were 8% lower than in 1998 as the effect of a cost reduction programme was increasingly felt – particularly in the latter part of the year. Cost improvements of $320 million were realised in 1999. The results for 1999 also benefited from lower depreciation and taxation compared with the 1998 results.

Chemicals trading conditions improved in the fourth quarter from earlier in the year as confidence returned to the Asia-Pacific region and feedstock price rises earlier in the year were increasingly reflected in finished-product prices. Polypropylene margins, though, remained depressed – particularly in North America – in anticipation of additional industry capacity.

Capital investment

Capital investment in 1999 was $1.6 billion, which compares with $2.0 billion in 1998. Significant items included: the acquisition of the remaining 30% share of the Singapore styrene monomer/propylene oxide

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(SM/PO) plant; the completion of the formation of Infineum, a petroleum additives joint venture with ExxonMobil; the continued work on the mono-ethylene glycol plant in Canada; and the completion of the world-scale SM/PO plant with BASF at Moerdijk in the Netherlands.

Future portfolio
The long-term portfolio will focus on businesses justified firstly by their historically strong performance and secondly by the good match between the criteria for success in these businesses and the Group's own competencies. The portfolio will thus be composed of major cracker products, petrochemical building blocks and large volume polymers.

Since the beginning of 1999 extensive efforts have been expended to ready businesses for divestment, so that they can be sold in a series of parallel auctions. Early in 1999 Dumo, a 100% Group-owned polyurethane (PU) foam producer, was subject to management buy-out. The sale of Scandinavian PU foam producers and of the Group's 50% share in Wavin, a plastic pipe manufacturer, were closed in the first quarter of 1999 as well. The general purpose rubber business was sold in the second quarter to Dow Chemicals. Agreement was reached with BASF to create a global polyolefins business as a 50:50 joint venture. The venture, which is contingent on competition authority approvals, will combine the assets of Montell and Targor, the polypropylene businesses of the Group and BASF, respectively, and Elenac, the polyethylene joint venture formed in 1997 with BASF. The sales of the Group's polyvinyl chloride and vinyl chloride monomer assets as well as of its downstream polystyrene businesses were completed in the fourth quarter of 1999. The sale of the upstream polystyrene business was completed in January 2000, and a sales contract was signed in February for the polyethylene terephthalate business. Completion of the latter transaction is expected by mid year. The bidding stage of the divestment of each of the Group's epoxy resin and Kraton elastomer businesses was completed in late 1999, and discussions with selected bidders started early in 2000.

1998
After adjusting for special items, 1998 earnings were $452 million. In 1997 adjusted earnings amounted to $903 million. Wheras 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 (including $47 million relating to associated companies). The 1998 special charges relate mainly to provisions for asset impairments ($1,068 million), restructuring and redundancies ($132 million) resulting from the decisions to dispose of a significant portion of the portfolio and to embark upon a further programme of cost reductions. (See Notes 10 and 20 to the Group Financial Statements on pages G-14 and G-15, and G-19 and G-20.) 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 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 1998. 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 in 1998 was $2.0 billion; in 1997 it was $2.5 billion, including the acquisition of the remaining 50% of Montell. Significant capital investment items in 1998 included: the creation of Elenac; the establishment of Infineum; and the joint venture with BASF to construct a world-scale styrene monomer/propylene oxide plant at Moerdijk, the Netherlands.

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DOWNSTREAM GAS AND POWER

			$ million
	1999	1998	1997
Segment earnings	253	(349)	245
Special credits/(charges)	104	(583)	–
Adjusted segment earnings	149	234	245
Change	*–36%*	*–4%*	*–7%*

1999

Earnings

Adjusted earnings for the year declined by $85 million, to $149 million, primarily because of difficult conditions in the North American gas and power trading businesses and start-up costs not only in the liquefied natural gas (LNG) projects in Oman and Nigeria but also in the retail energy business in the USA. The decline in adjusted earnings is also partly explained by the fact that 1998 benefited from an enhanced dividend from Ruhrgas in Germany and positive settlements in Europe. These effects were partly offset by improved results from storage activities in the USA and higher income from the LNG businesses in the Asia-Pacific region.

Reported earnings for the year of $253 million included a net special credit of $104 million. This comprised net gains on asset disposals of $114 million, mainly arising from the sale of Transok pipeline assets in Oklahoma and the transfer of assets in natural gas liquids in Louisiana to a joint venture with Enterprise Products Partners, partly offset by redundancy provisions of $10 million.

Capital investment

Total capital investment in 1999 was $840 million. Major investments over the year related to the Shell Middle Distillate Synthesis (SMDS) gas-to-liquids plant (Group interest: 71.8%) in Malaysia and the Nigeria Liquefied Natural Gas (NLNG) plant, in which the Group has a 25.6% interest.

The first cargo was shipped from the NLNG plant, and an investment decision was reached to build a third NLNG train. Contracts have also been awarded for a two-train investment in Malaysian LNG facilities.

In the USA, Coral Energy, an affiliate of Shell Oil Company, made its first power investments in three gas-fired co-generation plants with a total capacity of 1300MW.

InterGen (a 50:50 joint venture with Bechtel) secured financing for projects in Egypt and Australia. It was also announced that a new venture (InterGen North America) would be formed to pursue power generation in the USA and Canada.

A consortium including a Group company won the privatisation tender for Comgas, the state gas distribution system in São Paulo, Brazil, further increasing the Group interest in Comgas.

Shell Energy commenced power trading in Europe and formed a 50:50 joint venture with a power distribution company in the Netherlands.

1998

Adjusted 1998 earnings were $234 million, but special items – particularly the write-down of certain assets in the USA – brought unadjusted earnings to a loss of $349 million. There were special charges in 1998 of $649 million arising mainly from the write-down of certain Tejas assets in the USA that were held for sale as a result of a significant downturn in business conditions and a strategic review. (See Note 10 to the Group Financial Statements on pages G-14 and G-15.) These were partly offset by a net special credit of $66 million related to an insurance recovery for the incident at the SMDS plant in Malaysia in the fourth quarter of 1997. All special items related to Group consolidated companies.

Shell Oil acquired Tejas in January 1998 for $1.4 billion. 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.

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OTHER INDUSTRY SEGMENTS

1999

Renewables

For Forestry and Solar, 1999 sales volumes increased over 1998, but prices fell significantly. In Forestry, a cost reduction programme was implemented, and a global marketing unit was established. In Solar, the opening of a world-scale, automated manufacturing plant in Germany will lead to cost reductions in solar cells. Substantial progress was made in the rural electrification markets of South Africa, India, Sri Lanka, the Philippines and elsewhere. The Group's first wind energy project, on a site in Germany, was approved for implementation in 2000. A number of biomass projects in northern Europe were progressed. Capital investment in 1999 amounted to $58 million, mostly in Solar and Forestry. In 1998 capital investment was $67 million.

Coal

The decision was taken in August 1999 to divest the coal business. The sale is expected to be concluded during 2000.

Equity production from all mines rose 20% relative to 1998, to 17.1 million tonnes. This increase in production, combined with improved cost performance from the Australian mines, helped offset the lower prices that prevailed during 1999 in the coal market.

The Moranbah mine, which was commissioned early in 1999, has set Australian production records. The construction of the coal-fired Callide C power station is progressing on schedule. Capital investment for the year totalled $163 million, which compares with $118 million in 1998.

Shell Capital

In 1999 the Shell Capital companies established business lines in structured finance, producer loans, franchisee lending and consumer finance. In partnership with a subsidiary of The Royal Bank of Scotland plc, a Shell Visa Card was launched in the UK. The Shell Capital Energy Finance Program for branded service-station dealers in the USA was initiated. Several financing transactions were completed with independent exploration and production companies holding assets in the USA and in the Caspian region.

1998

Renewables

For Renewables, 1998 was the first full year of operation as a core Business. The business environment, however, was very difficult for the established operations in solar energy and forestry. 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 1998 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. Capital investment for the year totalled $118 million.

CORPORATE

1999

Earnings increased by $25 million, from $227 million in 1998 to $252 million in 1999. Reduced net interest income, which decreased by $211 million to $442 million, was more than offset by lower taxation, lower corporate charges and currency exchange gains.

1998

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 that arose from an accident in December 1997 at the SMDS plant in Malaysia.

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LIQUIDITY AND CAPITAL RESOURCES

Statement of Cash Flows

The net effect of the flow of funds for the year was an increase of $1.3 billion in cash and cash equivalents.

Cash flow generated by operations decreased from $14.7 billion in 1998 to $11.1 billion in 1999, of which $3.0 billion was reinvested in the businesses. Dividends of $5.4 billion were paid to the Parent Companies, Royal Dutch and Shell Transport, and there was net debt repayment of $0.7 billion.

Within cash flow generated by operations, working capital increased by $2.8 billion, largely because of the rise in oil prices. In 1998 it decreased by $3.4 billion.

Within cash flow used in investing activities, capital expenditure and new investments in associates decreased by $5.7 billion, to $8.4 billion. Proceeds from sales of assets and disposals of investments in associates contributed $5.6 billion to cash flow. (In 1998 such proceeds amounted to $1.8 billion.)

Financial condition

Cash, cash equivalents and short-term securities were $4.1 billion at the end of 1999, up $1.3 billion on 1998, whilst the total of short- and long-term debt decreased by $0.9 billion to $12.9 billion. The total debt ratio decreased from 19.3% in 1998 to 18.0% in 1999.

Net assets increased by $1.2 billion to $56.2 billion during the year. Fixed and other long-term assets decreased by $4.0 billion, to $83.5 billion, mainly because of the effects of asset sales. Net current assets excluding cash, cash equivalents, short-term securities and short-term debt increased by $3.3 billion.

Both Parent Companies have announced they are considering a multi-year share buy-back programme. A major hurdle, formed by the Dutch fiscal regime, seems likely to be removed when the new tax laws are implemented with effect from January 2001. Any such programme is expected to be financed from internally generated funds.

Capital investment

Group companies' capital expenditure, exploration expense and new investments in associated companies fell by $6.2 billion to $9.5 billion – a reduction of nearly 40% compared with 1998. This decline reflects increased efficiency in capital spending and greater discipline in the allocation of capital. Exploration and Production expenditure – at $5.4 billion, representing a decrease of $3.0 billion on last year – accounted for more than half of this total. Oil Products investment decreased by $1.5 billion compared with 1998. Chemicals investment was $1.6 billion, $0.4 billion lower than in 1998. In Downstream Gas and Power there was a capital investment of $0.8 billion (compared with $2.1 billion in 1998, which mainly related to the acquisition of Tejas).

Capital investment in 2000 is expected to remain at a similar level to 1999. 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.

OTHER MATTERS

Risk management and internal control

An explicit risk and internal control policy was approved by the Boards of the Group Holding Companies in December 1999. This policy states that the Group has a risk-based approach to internal control and that management in the Group is responsible for implementing, operating and monitoring the system of internal control, which is designed to provide reasonable but not absolute assurance of achieving business objectives.

Consistent with this policy and with published advice on best practice, existing processes are being strengthened and formalised to bring into greater focus the identification, evaluation and reporting of risk as an integral part of the system of internal control. As part of their existing planning processes, businesses will now consolidate and report risk profiles, critical risk response summaries and descriptions of how risk and control management effectiveness will be monitored. In addition to existing ad hoc reporting mechanisms, the Committee of Managing Directors will receive regular updates on this information during quarterly business performance reviews, and will also consider the risks associated with objectives and long-term plans. The results of this work

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will be presented to Conference (meetings between the members of the Supervisory Board and the Board of Management of Royal Dutch and the Directors of Shell Transport) on a quarterly basis.

Group companies adopt a number of specific risk management processes and policies. For example, reputation risks are identified and monitored using the Group Issue Identification and Management System. A common health, safety and environment (HSE) policy has been adopted by Group companies, which were all required to have an HSE management system in place by the end of 1999. A key feature of the internal financial control system is the Group Financial Control Handbook. The Handbook provides managers throughout the Group with practical guidance on core financial controls in main business activities. It also establishes a clear set of criteria against which managers can judge the standards achieved in their own companies. Operating Companies insure against most major property and liability risks with the Group's captive insurance companies. These 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. The management of particular risks related to treasury is described separately below.

Within the essential framework provided by the *Statement of General Business Principles*, the Group's primary control mechanisms are self-appraisal processes in combination with strict accountability for results. These mechanisms are underpinned by a number of elements including mandatory policies and defined procedures, guidelines and standards which relate to particular types of risk, assignment of responsibilities and authorities, structured decision processes, performance reviews and transparent reporting systems.

Formalised self-appraisal and assurance processes are in place covering performance in the areas of financial reporting and business integrity (Letter of Representation), HSE and the Statement of General Business Principles. The Letter of Representation includes a declaration by the management of each of more than 1,900 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 (consisting of six members, three of whom are appointed by the Supervisory Board of Royal Dutch from among its members and three by the Board of Shell Transport from among its members), and support representations made to the external auditors.

Taken together, these processes provide confirmation to the Group Holding Companies that relevant policies have been adopted and procedures have been – or are being – implemented. In addition, audits and business control reviews of Group operations are carried out by internal audit to provide the Group Audit Committee with independent assessments regarding the extent to which risks are being managed and any areas for improvement.

Treasury and trading risks

As further discussed in Note 27 on pages G-29 and G-30, 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 control framework. Wherever possible, treasury operations are operated through specialist Group regional 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 Operating Companies is structured on a floating-rate basis and, except in special cases, further interest rate risk management is discouraged.

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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, using 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 and gas trading and central treasury organisations which have appropriate skills, experience, supervision, and control and reporting systems.

Supplementary information on derivatives and other financial instruments and derivative commodity instruments is given on pages G-34 to G-45.

Environmental and decommissioning costs

Group companies operate in over 135 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, as well as the disposal and handling of wastes at operating facilities, are considered to be an ordinary part of business. As such, these amounts are included within operating expenses. An estimate of the order of magnitude of amounts incurred in 1999 for Group companies in Europe, North America and Africa, based on allocations and managerial judgement, is $600 million. (In 1998 such an estimate amounted to $700 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 1999 were $800 million (1998: $600 million). Those Group companies are expected to incur environmental capital costs of at least $600–$700 million per year during both 2000 and 2001.

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 1999, the total liabilities being carried for environmental clean-up were $505 million (1998: $513 million). In 1999 there were payments of $94 million and releases of provisions of $10 million, partially offset by transfers of provisions from associated companies.

Provisions being carried for expenditures on decommissioning and site restoration, including oil and gas platforms, amounted to $2,539 million (1998: $2,601 million).

Employees

Overall, the number of employees in Group companies is expected to decline over the next year 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.

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Year 2000

As a result of comprehensive and timely action, Group companies made a smooth transition into the year 2000, maintaining safe operations, product quality and service to customers during the subsequent return-to-work period. Group companies plan to maintain operational vigilance for potential date failures during 2000. Since the start of 1997, $490 million has been spent on the Year 2000 programme. Some 65% of this was for IT and communications, 25% for industrial automation, with the remainder on securing the business supply chain and business continuity.

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. So far the demand for euro-denominated business transactions has been very limited. 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.

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 for the next two years. Costs are expensed as incurred.

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