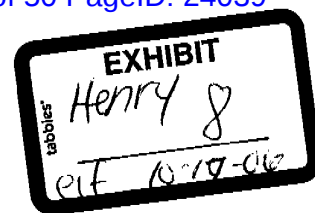


*Tel. +31 (0)70 377 7538
Mob + 31 (0)62 127 8138
Email Rhea.Hamilton@shell.com*

DOCUMENT INFO



Name: Jeroen Van der Veer one-on ones.doc
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Size: 122KB (123,904 bytes)
Modified: Tuesday, Nov 12, 2002 09:46:42 PM

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DOCUMENT INFO

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**Jeroen Van der Veer – One-on-ones
6-7 November 2002**

Merrill Lynch energy conference (New York) – Q&As

Will you continue to do acquisitions even with ROACE outside your desired band?

Do you use \$14 or \$16 Brent as your oil reference condition and where do you see your oil and gas production going?

- Use \$16 Brent and \$3.00 Henry Hub
- We have given up on forecasting oil and gas prices.
- When we do acquisitions, we check the viability at a variety of commodity prices.

Can you talk about your proposed Baja LNG project?

- Still waiting on the Mexican government

When will you achieve your 12% ROACE in US OP?

- By 2004

You emphasized EP and GP today, why do you stay in the downstream or chemical businesses?

- It is largely an integration play between the downstream and chemicals
- Chemical is a very cyclical business over history
- Chemical market is growing by 1-2 times GDP

Can you tell us more about your emphasis on natural gas?

- Today we are about 60% oil and 40% natural gas
- And we focus on both pipeline gas as well as LNG
- In the AP area, Malaysia gas was the first to be shipped as LNG to Japan

Can you talk about the refining environment in Europe and Asia?

- This year has been very tough as well as the previous year
- AP and Europe are the toughest regions right now but they will eventually improve
- Europe – smaller refineries may have to shut down due to new fuel requirements
- We always try and run cash positive

GTL v. LNG plants?

- 10 years ago, LNG plants were better economically

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- New GTL plants have become a lot cheaper to operate and have similar economics as LNG
- Employment for the state government is better if you build a GTL plant
- We want to build new GTL plants that are 75,000 barrels in size
- Also, we do not want to have a situation where there is overcapacity in LNG

Is the arrears situation in Western Africa stabilized?

- Reviewed three reasons for production forecast decline
- Saudi projects are still very slow

Can you comment on your North American gas strategy?

- NA is going to be short hydrocarbons
- Aera has made a good turnaround
- We will buy gas assets only at the right price

Can you comment on oil prices?

- There is still some war premium in the price

T Rowe Price – New York

Going forward, are you going to be more focused on returns or growth?

- Organic opportunities are usually better than acquisitions
- Re acquisitions, we focus on gaps in the portfolio or where we can do it cheaper or more efficiently than someone else
- We believe there remains gaps in our US EP portfolio and still are unhappy with our position in Japan

Can you talk about your production targets?

- Things have changed, so we need to re-review where we are
- Mostly OK...things upcoming include the Middle East, Kazakhstan, and offshore Nigeria to name a few

Where do the Saudi projects currently stand?

- Saudi leadership is currently focused on other things
- Going very slow

Your gearing level, is it going to stay at the current level?

- We would like to keep our AAA credit rating which is very important to us

What is the level of stock buy-backs?

- \$1.3-5.0 is the range this year

What are your thoughts around divestments?

- We are always looking at this and consider all businesses

What about your RRR this year and next?

- Must look at the project decisions that we will be making this year as well as next

Why did you buy McMurray?

- Discussed the Rockies strategy

Is there turmoil at the CMD level? Is there pressure on the CMD from the market?

- Yes, in the areas of production targets and being removed from the S&P

Can you comment on growth v. OPEC quotas in Nigeria?

- Nigeria will not accept the current OPEC quotas

Merrill Lynch Asset Management – New York

What is your Capex level for next year?

- We are still in the planning process
- Will be around \$14 bln organic for 2002

What will your company look like a couple of years out?

- More EP and GP
- More natural gas

Can you comment on acquisitions?

- Organic growth is usually better than acquisitions
- Still will do acquisitions where we have a gap in the portfolio

Where are the returns for your businesses today?

- Only the US downstream is truly hurting
- US downstream can improve in both the marketing as well as refinery liability

Where are you going with capex?

- 70% of it is going to EP and GP

Can you comment on Iraq?

- We have no presence there because the UN sanctions prohibit this
- Doing some training courses under the oil for food program

Can you talk about LNG into the US?

- There is confidence that the economics work

How has your shareholder base changed as a result of the S&P decision?

How should we look at share re-purchases going forward?

- Must look at our overall gearing, buy-backs and capex/acquisitions in a holistic view

Citadel – New York

Can you comment on your acquisition strategy?

- We are interested in doing acquisitions that close gaps in our portfolio
- We still have gaps in the US re gas reserves, Russia and in the ME

Can you comment on where the WE pipeline currently stands?

- Pipeline is a condition for getting some upstream projects
- Discussed Russian reserves in the future
- Discussed who was participating
- Have not signed the final documents

What is currently happening in Russia?

- Sakhalin will be a good project
- But we need to make sure that the gas is largely sold and contracted for
- Alliance with Gazprom – we are beginning to make some progress there
- The Russian oil companies – they do not all operate in concert with our business principles. And at lower oil prices, they are at best; a break-even business but they have good reserves and some good people.

What about growth in Nigeria v. OPEC quotas?

- I cannot predict the future

What are the weaknesses in your competitors?

- We are a solid and sustainable company
- We have a strong balance sheet and do not do wild things

What gives you confidence that you will achieve the desired results with the re-branding exercise in the US?

- Have set targets
- Put new team in place

What upstream technologies are you embracing?

- Going deeper and doing it cheaper is very important

CitiGroup – New York

How important to you is your upstream growth target?

- Growth overall is very important
- First criteria we look at is what are our anticipated profits from a project
- We want a diversified portfolio

Are you going to change your reference conditions?

- No, these are long-term expectations

What about the Henry Hub price?

- If the price stays above \$4, there will be a large number of LNG projects
- If below \$2, then no Canadian gas, thus \$3.00 is a middle road
- We are keen for opportunities in the US
- East Coast LNG looks good from Venezuela, Nigeria and Trinidad

Any worries about what is happening to El Paso or Dynegy?

- We are very selective in who we partner with
- Some of these companies have become more modest due to their financial problems

What about spot LNG?

- Growth has been slower due partly to lack of infrastructure and to the legacy of long-term contracts
- But the % will go up

Are LNG prices going down?

- We currently have the lowest cash cost, the lowest capital cost so we are in a very good position if prices weaken
- But the majority of our gas is under long-term contract

Is capital intensity going down in the North Sea?

- Costs are still relatively low
- There are steep decline rates in the North Sea

Outside the US, do you see further changes?

- Overall, I think we are OK
- We like our current gearing level

- Argentina will be an issue

Why did you buy a lubricants business?

- Outside the US, we have a very strong business
- US, we will lose the Havoline brand
- Huge cost synergies with outside the US
- We will get help in Canada and Mexico
- And could position PQS brands along Shell brands

Are you happy with your portfolio?

- We are always making adjustments to our portfolio
- We only do acquisitions where there are gaps or where we can do it cheaper than someone else
- We prefer organic growth
- Always look at level of profitability

How do you allocate money for buy-backs?

- We look at our balance sheet, opportunities, commodity prices, taxes, etc.

Nigeria – are there going to be funding delays?

- Deep water projects have a different set of returns
- If the project is on-shore or shallow, the government must fund
- There are always delays – in the end, the projects get done, but there are always issues

Lazard – New York

Where is ROACE going?

- Talked about portfolio and commented that it is constantly changing
- Organic growth is usually better than acquisitions
- Reviewed recent acquisitions and why we did them

Can you talk about your acquisition of Enterprise?

- Highest synergies of anyone that could have bought the company
- It has good prospects
- It also provides some upside when oil prices are high

Can you talk about acquisitions in general?

- Organic growth is better than acquisitions
- And we are shifting to organic growth over time
- Acquisitions must be at favorable prices
- NA gas is still a gap

Can you comment on your RRR and F&D costs?

- Have looked at this but it is still too soon to give you any final numbers
- Have done OK this year

Can you comment on the differences between your company and Exxon?

- Diversity is a key value in our company
- And we have a high degree of local sensitivities

How do you see your returns in the future?

- We are very protective of our dividend policy
- Discussed our approach to managing the balance sheet
- Discussed the differences between RD and XOM
- I believe that XOM is a little jealous of our company

What are you going to do to fix the downstream in the US?

- It is a big bet
- 6000 retail sites will be closed
- There are synergies at our refineries and utilization improvement targets
- Reviewed Shell Oil's history with the Group
- And we have a seasoned team in place

How do you view your accounting practices v. other companies?

- We are very transparent
- Have conservative bookkeeping
- Must follow Dutch, UK and US financial rules

Goldman Sachs Asset Management – New York

What are you going to do about your ROACE?

- Our target is that our major businesses are capable of earning 15% at mid-cycle conditions
- 70% of our Capex goes to EP/GP

Why is XOM ahead of you in ROACE?

- They have a goal of being 3% better than everyone else in the industry, but we do not understand or believe them

Is there anything that protects you if you are wrong on ROACE?

- XOM has more assets in the US, so that helps them
- We are partners with them in the UK, so no help there
- We are stronger in the downstream outside the US than they are
- US downstream is really bad in the US for us
- XOM is bigger than we are in Chemicals
- We are bigger than them in LNG

Will you do more acquisitions?

- Organic growth is better than acquisitions
- This year, we have done a lot of acquisitions but all were opportunistic in nature

The \$12 bln in capex supports what level of growth?

- 3% from 2000-2005

What are the holes in your portfolio?

- NA gas
- LNG can fill some of that gap but it will not solve the energy problems of the US

What is your debt to cap goal?

- 20-30%

What about buybacks?

- \$12.5 bln over five years

Putman – Boston

Why are you spending \$14 bln in capex?

- \$12 bln is the “normal” amount
- Explained why we are spending more than that
- Scaling back in OP and Chemicals

Where are you on cost leadership?

Are you going to change your reference conditions?

- No

Can you talk about your RRR?

- First, RRR is a lumpy business
- Must look at when we make FIDs
- Discussed SEC rules on how reserves are booked
- Discussed the 800 million barrels that was mentioned on the conference call

What about eliminating a production target altogether and just focusing on returns?

- Discussed the balance of production growth v. returns

What is an optimum reserve life?

- Talked about reserves in general and focused on reserves next to concessions that were about to expire
- Cannot pick a number
- Want the best possible return on the reserves you have

Is your 3% growth target conservative?

- It is the middle of the river
- NA gas still a gap

Why have a Chemical or downstream business?

- Oil prices would have to stay high to just have an EP business
- We want more upstream but also want profitable growth in OP and Chemicals
- If we only have EP, would be a much more volatile stock
- Having the others sometimes is an entrance to other countries

Where are oil prices going in the future?

20

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Can you talk about production growth?

- Talked about the reasons we changed our production growth rate guidance

Can you comment on Nigeria v. OPEC quotas?

- If you add all the projects, OPEC and non-OPEC growth and compare that to demand, there is a looming issue

If F&D costs are rising, why not just buy companies?

- Take Russia – lots of companies but lots of risks there, so just buying someone might not be such a good idea

Where are we on service costs?

- They are currently high, but will be coming down

Can you comment on NA gas?

- We will not overpay for any acquisition
- Still some opportunities
- Organic growth still better than acquisitions

Where do you see oil demand going?

- 1-2% per year
- Far East still tied to some multiple of GDP growth
- Big unknown is still China

Chemicals – how can you compete against XOM?

- In the US, we have a higher % of advantaged feed stocks
- In Europe, we are better integrated

If you had to trade off dividends v. buybacks, which would win?

- Dividends

Wellington Management – Boston

Can you talk a little about the US downstream?

- Reviewed history of the US downstream
- Discussed improvement plans

Can you talk a little about import of European gasoline?

- They will probably continue to export to the US
- The yield in Europe is shifting primarily due to less gasoline being sold in Europe due to greater diesel demand

How much are you spending on downstream and environmental regulations?

- Smaller refineries may go out of business as opposed to meeting the requirements
- Talked about differentiated fuels

Where are you re NA gas?

- Currently, there is little supply growth
- Canada, smaller fields and LNG may be some of the answer

What are you doing in China?

- Reviewed various initiatives that are on-going in China
- Reviewed WE pipeline/Gazprom partnership

LNG – how will new contracts compare to the old ones?

- There is price pressure – the price itself and the length of the contract
- The price is linked to a basket of energy products

Will we be long with regard to LNG?

- I think yes, in the short term
- But ships can be a bottleneck
- Want part of the LNG output covered by long-term contracts, like at Sakhalin
- Will we have contracts in the US – I do not know, but it is possible

Can you comment on RRR rates, Nigeria v. OPEC quotas?

- Reviewed how we look at reserves, how we book reserves, timing of booking, etc.
- We have had some poor years but have stepped up exploration efforts

- Nigeria is not prepared to cut back on their projects, thus there will be tension in OPEC over future quotas
- Thus, volatility in oil prices is a given

Can you give us an update on the Saudi projects?

- Going very slow
- Leadership of the Kingdom is distracted with other issues

Can you talk about decline rates?

- XOM has a different view of oil demand than we do
- We believe that demand will begin to flatten and will be less
- Best protection is to have the lowest cost and best technology

What about Chinese oil companies – how good are they?

- They can be very competitive
- Have good technical people
- But must catch up to the West's technology

Fidelity – Boston

Can you talk about your ROACE?

- Discussed three reasons why we are below our target range
- We are committed to the range

Can you talk about what your acquisition strategy?

- Discussed Nigeria vs. OPEC quotas
- Discussed why we bought Enterprise

How can you not lose in the US re the downstream?

- Discussed what we did in Europe to improve, which gives us confidence that we can do it in the US
- Our refinery reliability can be improved

Re your capex, how do we know it is not going to grow?

- \$12 bln is our base investment case
- 70% is devoted to the upstream and GP
- Discussed overall financial model
- Organic growth is better than doing acquisitions

Can you talk about acquisitions and NA gas?

- Talked about how DEA was such a good deal and what we look for when we consider an acquisition

How do you compare to BP or XOM?

- XOM is a very professionally run company but is somewhat static in its views
- BP is not as global as we are and outsources a great deal of work

How do you manage risk say in Nigeria v. the North Sea?

- Shell is a good partner for governments to work with

What will happen with Nigeria and OPEC quotas?

- They will get additional capacity
- They are a very poor country
- They will get their way
- But the result will be a volatile oil price

Can you give us an update on Chemicals?

- At the oil/chemical interface, one can make a lot of money
- Chemicals will grow faster than oil
- Can make good cash returns in Chemicals
- Supply side of ethylene will be tight in '04
- The growth in Chemicals will be in the ME and Far East

Fleet Securities – Boston

Can you talk about NA gas?

- We will use LNG imports to help address that situation along with developments in the GoM, Rockies and in Canada

What are you going to do to lift the ROACE in the US downstream?

- Reviewed how we were different in performance outside the US v. in the US
- Reviewed the improvement plan

What about your refinery network in the US – what is wrong?

- Discussed Jerocn's experience when he first came to the US as head of Chemicals where there was not an emphasis on reliability and costs
- The personal credibility of Shell's senior leadership is on the line here

US upstream – what are you going to do about your gas position?

- The US is short gas
- We will import LNG, and will pursue opportunities in the GoM, Rockies and in Canada

Can you talk about your US gas trading business?

- Globally, we are a very big trader
- Have over time, expanded to trade both gas and power
- Discussed the GP strategy and tolling arrangements
- Want to use the present size of the power business to move forward...they are currently focusing on operational excellence

Do you think other companies will enter the power market?

- Our basic model is to have our molecules be used to drive our power generators and then market the resulting power

How do you evaluate acquisitions?

- We look at various metrics including anticipated ROACE, whether it will be accretive or not, etc.
- We evaluate projects on a grid of commodity prices
- And, we look at what the next step is after we acquire the company

State St. – Boston

Is your production growth target of 3% still valid?

- We are currently reviewing that issue
- Need to look at where the production growth will come from particularly in light of our purchase of Enterprise
- Need to re-consider what growth will be at some estimated commodity price
- But I believe that a 5-year growth target is too static and should be shorter
- Should look at the quality and where your reserves are located instead of just the growth target

Where is your capex budget going?

- It will be in the range of \$12-12.5 bln

Why is your Chemical's business doing better?

- Economy is doing a little better
- We are gaining some market share
- But some of the growth is coming from re-stocking
- And, we have seen a little order slowdown in the August/September time frame

Do you have some sort of special mix of product lines in Chemicals?

- Not, not really
- We do see nice growth in polymers where plastics are replacing metals in certain applications

Do you see LNG coming to the US using floating re-gas terminals on ships?

- Possibly
- We do have to consider long-term contracts

What are you doing currently in China?

- Reviewed the China map in the presentation and discuss various initiatives

What is happening in GTL?

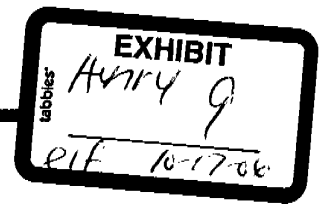
- We want to build some additional plants that are 75,000 b/d
- Qatar and Iran are the two best current candidates
- May take as long as 40 months to construct

Where do the Saudi projects currently stand?

- Something will happen, but not sure when

Iraq -- do you potentially have access to that country after a war?

- We used to be a producer in Iraq
- But, we are not clear what will happen after a war
- And, I am not aware that we have any claims in that country



From: Henry, Simon S SI-FI
To: Pay, John JR SIEP-EPB-P
CC: Nauta, Jaap J SIEP-EPB-P
BCC:
Sent Date: 2002-11-14 09:33:41.000
Received Date: 2002-11-14 09:33:43.000
Subject: RE: Booking reserves
Attachments:

John, many thanks. Sounds like good news for us, and hopefully the WSJ story will focus where there may be issues. Simon

-----Original Message-----

From: Pay, John JR SIEP-EPB-P
Sent: 13 November 2002 18:46
To: Henry, Simon S SI-FI
Cc: Nauta, Jaap J SIEP-EPB-P
Subject: RE: Booking reserves

Simon

The interesting information that one of our competitors has been asked to restate its reserves at the next filing came to us from Rod Sidle in SEPCo, being based on information gleaned at a recent SPE (Society of Petroleum Engineers) Reserves Committee meeting:

[In its review process, the] "SEC identifies specific companies for detailed reviews of reserves and "requires" changes if problems are found (all without public disclosure of the review or any legal action). The company then must "debook" the problem reserves with the next annual filing (10-K). Apparently two companies have been found deficient and so required to make changes at 1-1-2003. The companies were described as "one major and one independent". It was noted that the SEC's goal is to review all companies on a once every three year basis (although it seems very much impossible with the very limited SEC staff available for this work)."

I think it safe to say that we all would have heard by now if we were the "major" referred to. We have received no SEC review enquiries on our Form 20-F submission since 1999. I am expecting the next SEC review to be either in 2003 or 2004. As stated by Jaap, the recent letter was a general enquiry, issued simultaneously to all GoM operators.

John Pay
Group Hydrocarbon Resource Coordinator
Shell International Exploration and Production B.V.
Carel van Bylandtlaan 30, Postbus 663, 2501 CR The Hague, The Netherlands

Tel: +31 (70) 377 7405 Other Tel: +31 (0)6 5252 1964

Email: john.pay@shell.com
Internet: <http://www.shell.com/eandp-en>



Comment

United Kingdom
Oils

EXHIBIT
Henry 10
elf 10-17-06
tabbles

7 February 2003

Steven A. Pfeifer
First Vice-President
(1) 212 449-3729
steven_pfeifer@ml.com

Christopher A. Moore, CFA
(1) 212 449-0220

Craig A. Fowlkes
(1) 212 449-0465

Shell Transport & Trading

Strategy Presentation Reveals Challenges
Facing E&P Business

BUY

Reason for Report: 4Q02 results and strategy
presentation

Volatility Risk:
LOW

Price: \$35.41

12-Month Price Objective \$53.08
Date Established: 7-Feb-2003

Estimates (Dec)	2002A	2003E	2004E
EPS (operating)	\$2.28	\$2.85	\$3.14
P/E (operating)	15.5x	12.4x	11.3x
EPS (GAAP)	\$2.33	\$2.85	\$3.14
P/E (GAAP)	15.2x	12.4x	11.3x
EPS Change (YoY)		27.2%	10.2%
Consensus EPS (First Call: 03-Feb-2003)		2.70	2.62
Cash Flow/Share	4.32	5.21	5.52
Price/Cash Flow	8.2x	6.8x	6.4x
Gross Dividend	1.38	1.48	1.53
Gross Yield	3.9%	4.2%	4.3%

Opinion & Financial Data

Investment Opinion	A-1-7
Mkt Value / Shares Outstanding (mn)	\$58,037.0 / 1,639
Book Value/Share (Dec-2002)	\$14.85
Price/Book Ratio	2.4x
ROE 2002E Average	14.9%
Total Debt / Capital	NA
Est. 5 Year EPS Growth	13.7%
2002E P/E Rel. to Home Mkt	NA

Stock Data

52-Week Range	\$47.33-\$34.01
Symbol / Exchange	SC / NYSE
Brokers Covering (First Call)	20

All figures are in local currency (U.S. dollars) except where otherwise noted

Investors should assume that Merrill Lynch is seeking or will seek investment banking or other business relationships with the companies in this report.

Refer to important disclosures at the end of this report.

Merrill Lynch Global Securities Research & Economics Group
Global Fundamental Equity Research Department

Highlights:

- Shell strategy presentation highlighted challenges in the upstream, shifts in capital spending plans, and an update on synergy capture.
- Reserve replacement ex-acquisitions was an unexpectedly weak 50% in 2002. The result reflects the second year of unprecedented low reserve replacement for a Tier 1 oil company.
- Shell is keeping its 3% CAGR in oil and gas production for 2000-2007, although this now includes the Enterprise Oil acquisition. Excluding Enterprise, production is expected to grow at a 2% CAGR. Base production will be less than previously projected due to reduced capital investment, steeper decline rates, and slippage in development projects.
- Capital spending will be \$12 billion/year in 2003-2004, down from \$14.2 billion in 2002. Shell will high-grade \$1 billion in investment projects between Enterprise and its own portfolio. Chemical capital spending will be less than previous projected due to a shift in Shell's outlook for margins in that business.
- Synergies are targeted at \$1.0 billion, of which a run rate of \$367 million was achieved by year-end 2002. The U.S. downstream still has plenty of synergy left to capture, according to Shell, as the company tries to improve chronically disappointing returns in that business.
- Share buybacks are not a priority for Shell in 2003, as the company announced that it is unlikely to purchase shares in the first half of the year.
- 4Q02 results of \$0.69/SC ADR were above our \$0.63 estimate and the consensus of \$0.68. The upstream business provided the upside surprise versus our estimates.

Shell Transport & Trading – 7 February 2003



Strategy Presentation

Royal Dutch/Shell's 4Q02 Results and Strategy presentation provided insight into the challenges facing the company's upstream business, shifts in capital spending plans, and an update on synergy capture from the company's four acquisitions completed in 2002. Our analysis of the key issues is as follows:

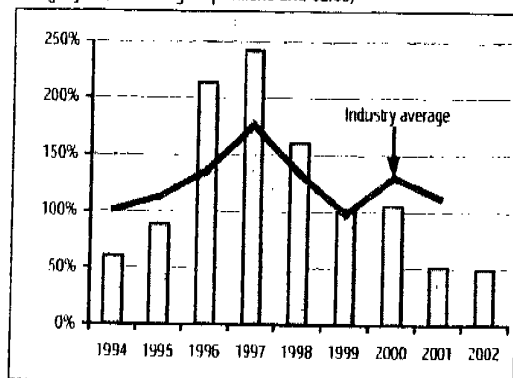
■ Exploration & Production

The Exploration & Production segment provided the key incremental news in the strategy presentation. We view the company's 50% organic reserve replacement as disappointing, especially since it follows weak reserve replacement in 2001. The company's reduction in its volume growth target is not unexpected, but could be at risk given very weak reserve additions.

Very Weak Reserve Replacement for 2nd Year in a Row

Shell's organic reserve replacement over the past two years is not consistent with a sustainable organic growth strategy. Shell indicated that 2002 reserve replacement, excluding acquisitions and sales was only 50% of production. While single year reserve replacement statistics can be choppy, the results are concerning when combined with organic reserve replacement of only 52% in 2001. To put this in context, over the last ten years none of RD/SC's closest competitors (XOM, BP, CVX and TOT) has ever reported organic reserve replacement as low as 50% (the lowest was XOM's 66% in 1992). Including acquisitions (mainly Enterprise Oil), reserve replacement in 2002 was 117%.

Chart 1: Royal Dutch/Shell's Reserve Replacement Ratio
(Single year, excluding acquisitions and sales)



Source: Company reports and Merrill Lynch

Shell's 3% Growth Target Now Includes Enterprise

Shell confirmed its 3%/yr volume growth target from 2000 to 2007, consistent with the 3%/yr growth target from 2000-2005 in last year's presentation. However, the Enterprise Oil acquisition is a significant addition to the portfolio that was not included in last year's projection. In effect, the 3%/year growth target is comprised of 1% for

the addition of Enterprise and 2% from the organic portfolio. This reduction to the organic portfolio growth projection is due to 1) lower capital spending than previously planned (as discussed below), 2) steeper base decline assumptions at existing fields, and 3) slippage on the timing of some development projects.

STAR Model

In May 31, 2002 we published our STAR Model report, which calculates an achievable production growth rate based upon a company's capital spending plans and capital efficiency (finding and development costs). The model calculated that Shell would grow production at an annual rate of only 1.3%, versus the 3% company target, due to rising F&D costs and projected spending that was below 1997-1998 levels. Shell's announcement that production growth ex-Enterprise will be 2% instead of 3% confirms the findings of our STAR Model, we believe. The disappointing 50% reserve replacement figure in 2002 will further deteriorate achievable production growth in our STAR Model, which we will update as complete data is made available in Shell's annual report

■ Corporate Strategy Items

Capital Spending Outlook

Shell set a capital spending budget of \$12 billion/year in 2003 and 2004. The segment breakdown, shown in Table 1, is similar to the levels outlined in the December 2001 presentation. However, we had expected Shell's budget to rise to incorporate the acquisitions made in 2002. In the Upstream, Shell's \$7-8 billion annual budget is the same as it was without Enterprise. The company indicated that it has cut \$1 billion from the combined Shell and Enterprise budget in 2003. The cut is mainly due to high-grading of investment opportunities.

Table 1: Projected Capital Budget

(\$ in billions)	December 2001 Presentation	February 2003 Presentation
F&P	7.5	7 to 8
G&P	0.8	1
Oil Products	2.8	2 to 3
Chemicals & Other	1.1	< 1
Total	12.2	12.0
<i>Time period</i>	<i>2002-2003</i>	<i>2003-2004</i>

Source: Company reports

Update on Synergy Progress

Royal Dutch/Shell has targeted \$1.0 billion in synergies from four acquisitions (Equilon/Motiva, Pennzoil, DEA and Enterprise Oil). Shell stated that during 2002 the company achieved a run rate on these synergies of \$367 million.

Equilon/Motiva: Shell stated that the company has captured \$235 million of the \$400 million in targeted synergies. Retail conversion to the Shell brand is

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Shell Transport & Trading – 7 February 2003

- progressing, with an average increase in sales volumes of 5% achieved after re-branding. Shell still intends to reduce its U.S. station count by 30%.
- **Pennzoil:** Shell stated that the company has achieved \$35 million of synergies versus the \$140 million target. Shell is in the process of pairing back assets, including the closure of seven of the 16 lubes blending plants
- **DEA (Germany):** Of the \$150 million in synergies targeted, the company believes \$80 million has been achieved. The company is nearly half way through a 750 person headcount reduction program.
- **Enterprise Oil:** The company stated that it has captured \$47 million of the original \$300 million synergy target and identified an additional \$80 million in potential synergies.

Share Buybacks Unlikely in 1H03

In 2002, Shell repurchased \$1.3 billion in common stock, reducing its share base by 0.9%. This is down from \$4.0 billion in share repurchases in 2001. For 2003, Shell indicated that it is not likely to repurchase shares in the first half of the year, even though debt/capital is within the targeted range, due to uncertainty about the business environment.

Refining & Marketing

Shell estimates that the Oil Products division generated ROCE of 13% under normalized conditions in 2002. Shell believes it can improve this to 15% in 2004. Targeted acquisition synergies of \$700 million are a big contributor to the targeted improvement in ROCE. In 2002, marketing unit costs were down 3%, while refining/manufacturing costs rose by 1% per unit. The company's target is annual reduction of 3% on both. Unplanned maintenance was a big contributor to the higher refinery unit costs, with the chronically underperforming U.S. business the main culprit. Shell also indicated that it is considering opportunities to rationalize its U.S. refining portfolio.

Chemicals

The incremental information in Chemicals was 1) a reduction in the assumptions for normalized conditions and the normalized ROCE target, 2) reduced capital spending from previous expectations, and 3) unit costs were reduced by 7% in 2002 versus 3% target. The mid-cycle ROCE target has been reduced to 12% from 15%. Shell indicated that the change was due to a redefinition of "mid-cycle" to lower margins as opposed to any impairment to factors within the company's control. In response to the reduced outlook for margins, Shell announced that it has reduced its planned investment in Chemicals over the next five years by \$1.2 billion (\$240 million/year).

4Q02 Results Analysis

Royal Dutch/Shell reported 4Q02 operating EPS of \$0.80/RD ADR, which was above our estimate of \$0.73 but below the consensus of \$0.81. Results were mixed across the company's business segments.

Table 2: Royal Dutch/Shell 4Q02 Operating Earnings Variance vs. Merrill Lynch Estimates

	Merrill Lynch	Actual	Difference
U.S. E&P	\$553	\$503	(\$50)
Int'l E&P	\$1,403	\$1,601	\$198
Downstream G&P	\$116	\$305	\$189
U.S. R&M	\$142	(\$85)	(\$227)
Int'l R&M	\$593	\$572	(\$21)
U.S. Chems	\$4	(\$47)	(\$51)
Int'l Chems	\$169	\$227	\$58
Other	(\$50)	(\$1)	\$49
Corporate	(\$334)	(\$215)	\$119
Minority Interests	(\$70)	(\$78)	(\$8)
Earnings Variance			\$256
ML Earnings Estimate			\$2,526
Actual Earnings			\$2,782

Source: Company reports and Merrill Lynch.

Exploration and Production. The U.S. upstream had earnings of \$503 million, which were slightly below our estimate of \$553 million. However, more than offsetting this was a positive surprise in the international upstream. We had estimated International E&P earnings at \$1,403 million, and Shell bested this by nearly \$200 million. The company benefited from higher oil and gas price realizations along with increased production.

Downstream Gas and Power. The Downstream Gas and Power segment turned in a positive surprise, reporting earnings of \$305 million versus our estimate of \$116 million. Contributing to the strong G&P results were higher earnings from liquefied natural gas, improved trading earnings and better results in the power business.

Refining and Marketing. The company's U.S. downstream results were disappointing. Shell had a loss of \$85 million in U.S. R&M, versus our estimate of a \$142 million in net income. Negatively impacting results in the U.S. downstream were lower refining margins on the West Coast and major shutdowns (planned and unplanned), particularly during October when higher margins prevailed. In addition, marketing earnings were lower as a result of one-off items related to rationalizing the retail business, and trading earnings declined due to lower product margins. The company's International downstream operations performed in line with our expectations, recording a \$572 million gain versus our estimate of \$593 million.

Chemicals. Chemical segment results were disappointing in the U.S., as the company turned in a loss of \$47 million versus our estimate of break-even. U.S. Chemicals were negatively impacted by weak cracker margins in the U.S.

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3

ML 002155

Shell Transport & Trading – 7 February 2003



and low overall utilization. However, the poor U.S performance was offset by the positive results from the company's international chemicals operations. The International Chemical segment reported earnings of \$227 million, versus our estimate \$169 million. Restructuring in Europe resulted in non-recurring fiscal benefits of \$102 million in 4Q02. The group also benefited from lower costs, margin improvements and slightly higher volumes.

■ Investment Opinion

SC ADRs are attractively priced at a discount to XOM and BP on 2003 EV/DACF. The ADRs trade at 7.5x EV/DACF, a discount of 15% to BP and 25% to XOM. We continue to view SC as a low risk relative value stock

among the Tier 1 Majors on the potential for delivery of a material improvement in business performance over the next twelve months.

Our 12-month price objective of \$53.08 assumes that SC closes the valuation gap versus BP and trades at a 2003 EV/DACF of 10x and a 2003 P/E multiple of 17x.

Risks. Deterioration in oil and gas prices or refining margins presents a general risk to all integrated oil companies. Our earnings estimates assume a moderation in oil prices to \$24/BBL during '03-'06 from \$26 10 /BBL (WTI-spot) in 2002.

Table 3: Royal Dutch/ Shell Summary Earnings Model

Segment Earnings (After Tax) (dollars in millions)	2001 A					2002 A					2003 E						
	2000	1Q	2Q	3Q	4Q	2001	1Q A	2Q A	3Q A	4Q A	2002A	1Q E	2Q E	3Q E	4Q E	2003E	2004E
Exploration And Production																	
United States	2,853	902	647	435	244	2,228	263	502	526	503	1,794	539	484	472	513	2,008	2,008
International	6,583	1,945	1,538	1,343	993	5,819	1,192	1,307	1,158	1,601	5,258	1,458	1,461	1,442	1,521	5,882	6,228
Total E&P	9,436	2,847	2,185	1,778	1,237	8,047	1,455	1,809	1,684	2,104	7,052	1,997	1,944	1,914	2,034	7,890	8,235
Downstream Gas & Power	753	355	390	300	172	1,217	216	149	127	305	797	232	196	224	224	876	1,134
Refining And Marketing																	
United States	395	12	271	95	24	402	2	25	63	(85)	5	124	124	124	124	496	640
International	2,643	946	764	704	581	2,975	439	322	464	572	1,797	632	624	744	715	2,715	2,874
Total R&M	3,038	958	1,035	799	585	3,377	441	347	527	487	1,802	756	748	868	839	3,211	3,514
Chemicals																	
United States	263	(72)	28	(49)	(70)	(163)	(20)	(13)	(25)	(47)	(105)	60	60	70	70	260	391
International	662	125	99	77	103	404	95	145	189	227	656	194	194	194	194	776	800
Total Chemicals	925	53	127	28	33	241	75	132	164	180	551	254	254	264	264	1,036	1,191
Other Industry Segments	(95)	(54)	(60)	(71)	(6)	(191)	(41)	(89)	4	(1)	(127)	(50)	(50)	(50)	(50)	(200)	(200)
Corporate Items	(637)	(186)	(42)	(76)	(43)	(347)	(174)	(148)	(214)	(215)	(751)	(229)	(235)	(254)	(251)	(969)	(856)
Minority Interests ⁽¹⁾	(309)	(131)	(115)	(72)	(69)	(367)	21	2	(51)	(78)	(106)	(85)	(85)	(85)	(85)	(340)	(340)
Group Net Income	13,111	3,842	3,520	2,686	1,909	11,957	1,993	2,202	2,241	2,782	9,218	2,875	2,772	2,882	2,975	11,504	2,678
Royal Dutch Share of Group Net Income	7,867	2,305	2,112	1,612	1,145	7,174	1,196	1,321	1,345	1,669	5,531	1,725	1,663	1,729	1,785	6,902	7,607
Shell T & T Share of Group Net Income	5,244	1,537	1,408	1,074	764	4,783	797	881	896	1,113	3,687	1,150	1,109	1,153	1,190	4,602	5,071
Royal Dutch Shares	2,144	2,140	2,126	2,112	2,101	2,120	2,101	2,099	2,088	2,084	2,093	2,084	2,084	2,084	2,084	2,084	2,084
Royal Dutch Earnings Per Share	\$3.67	\$1.08	\$0.99	\$0.76	\$0.55	\$3.38	\$0.57	\$0.63	\$0.64	\$0.80	\$2.64	\$0.83	\$0.80	\$0.83	\$0.85	\$3.31	\$3.64
Shell T & T Shares	1,657	1,654	1,644	1,633	1,625	1,639	1,624	1,622	1,615	1,611	1,618	1,611	1,611	1,611	1,611	1,611	1,611
Shell T & T Earnings Per Share	\$3.16	\$0.93	\$0.86	\$0.66	\$0.47	\$2.92	\$0.49	\$0.54	\$0.56	\$0.69	\$2.28	\$0.71	\$0.69	\$0.72	\$0.74	\$2.85	\$3.14

(1) Prior to 2000, minority interests are allocated to segment earnings

Source: Company reports and Merrill Lynch estimates

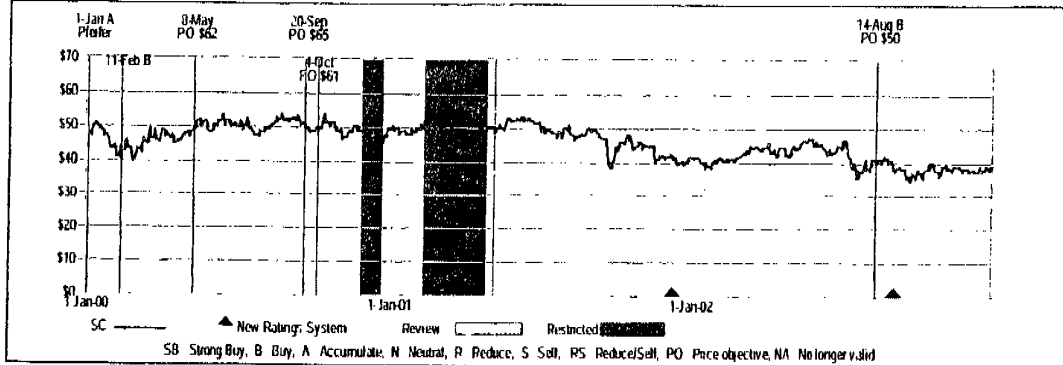
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4



Shell Transport & Trading – 7 February 2003

SC Price Chart



Prior to 8 Dec. 2001, the Investment Opinion System included Buy, Accumulate, Neutral, Reduce and Sell. From 8 Dec. 2001 to 6 Sep. 2002, the Investment Opinion System included Strong Buy, Buy, Neutral, and Reduce/Sell. On 8 Dec. 2001 Buy ratings became Strong Buy, Accumulate became Buy, and Reduce and Sell became Reduce/Sell. On 6 Sep. 2002, Strong Buy and Buy ratings became Buy, and Reduce/Sell became Sell. Any exceptions to these rating revisions are reflected in the Chart. All price objectives for Neutral and Sell rated securities established before 6 Sep. 2002 were eliminated as of that date. The current Investment Opinion System is contained at the end of the report. Dark Grey shading indicates security is restricted with the opinion suspended. Light Grey shading indicates security is under review with the opinion withdrawn.

Investment Rating Distribution: Energy Group (as of 31 December 2002)			Inv. Banking Relationships*		
Coverage Universe	Count	Percent		Count	Percent
Buy	67	55.37%	Buy	31	46.27%
Neutral	49	40.50%	Neutral	15	30.61%
Sell	5	4.13%	Sell	1	20.00%
Investment Rating Distribution: Global Group (as of 31 December 2002)			Inv. Banking Relationships*		
Coverage Universe	Count	Percent		Count	Percent
Buy	1110	43.46%	Buy	391	35.23%
Neutral	1216	48.39%	Neutral	319	25.81%
Sell	208	8.14%	Sell	43	20.67%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months.

[SC] MLPF&S or one or more of its affiliates acts as a market maker for the recommended securities to the extent that MLPF&S or such affiliate is willing to buy and sell such securities for its own account on a regular and continuous basis.

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The analysis(s) responsible for covering the securities in this report receive compensation based upon, among other factors, the overall profitability of Merrill Lynch, including profits derived from investment banking revenues.

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In-depth Report

United Kingdom
Oils / ADR

7 February 2003

Mark Iannotti
(44) 20 7996 2665
Alastair Syme
James Neale
Duncan Goodwin
Ivan Sandrea
Specialist Sales:
James Talbot
Andrew Perks

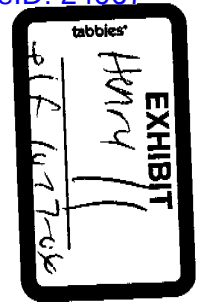
Shell Transport & Trading

Good Results, Good Strategy... Poor Delivery

BUY

Reason for Report: 4Q02 Results and Strategy
Presentation

Volatility Risk:
LOW



Price - Local / ADR: 360p / \$35.41

12-Month Price Objective 535p / \$52.66
Date Established: 14-Aug-2002 / 30-Jan-2003

Estimates (Dec)	2002A	2003E	2004E	2005E
Net Income Adj (USD)	8962	11504	12680	13244
EPS - Adjusted (p)	24.6	30.2	33.3	34.8
DPS - (p)	15.3	15.7	16.2	16.7
CFPS - (p)	49.6	57.3	60.9	62.7
EPS - Adjusted (USD)	0.37	0.47	0.52	0.55
DPS (USD)	0.23	0.25	0.25	0.26
CFPS (USD)	0.71	0.88	0.94	0.97
P/E	14.6	11.9	10.8	10.3
Price / Cash Flow	7.3	6.3	5.9	5.7
EV/EBIDAX	8.5	7.1	6.6	6.3
Yield %	4.2	4.4	4.5	4.6
ADR EPS - Adjusted (USD)	\$2.22	\$2.85	\$3.14	\$3.28
ADR DPS (USD)	\$1.38	\$1.48	\$1.53	\$1.57
ADR CFPS (USD)	\$4.24	\$5.31	\$5.64	\$5.81

Opinion & Financial Data

Investment Opinion - Local	A-1-7
Investment Opinion - ADR	A-1-7
Mkt Value (€ mn) / Shares Outstanding (mn)	34882 / 9,689.5
Book Value/Share (Dec-02)	2.71b
Price/Book Ratio	2.13
ROE 2003E Average	16.9%
Net Debt/Net Equity	19.1%
Est. 5 Year EPS Growth	13.7%
2003E P/E Rel. to Home Mkt.	116%

Stock Data

52-Week Range - Local	541.00p-349.50p
52-Week Range - ADR	\$47-\$34.4
Symbol / Exchange - Local	SHITCF / London
Symbol / Exchange - ADR	SC / New York
Bloomberg / Reuters	SHEL LN / SHEL L
Shares/ADR	6.00
Exchange Rate	GBP0.61/USD
Free Float	100%

All figures are in US Dollar except where otherwise noted.
Note: Due to currency factors, the investment opinion of the ADR may differ from the underlying share.

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Merrill Lynch Global Securities Research & Economics Group
Global Fundamental Equity Research Department

RC#60101805

Highlights:

- The RDS strategy presentation provided few new surprises. ROACE targets were unaltered, the financial framework was unchanged, (capex, dividend policy, gearing targets), restructuring and cost savings initiatives remain on track and 2005 E&P volume targets were lowered from 3% to 2% in line with our expectations (but the profile extended to 2007).
- News that there are unlikely to be share repurchases in the first half of 2003 due to market uncertainty was the only material new piece of information, in our opinion.
- Nevertheless, even with such a simple story, management put in an ordinary performance and in our view again failed to convey a message that a coherent senior management led strategy was being pursued across the business.
- We believe that the Group can push RoACE back into the target 13-15% range by 2004 via acquisition led synergy initiatives and ongoing cost savings across the business. Nevertheless, we expect some downward pressure in profitability in 1H03 due to higher capital employed and the impact of pension credits.
- Despite our ongoing concerns on senior management's ability to deliver a cohesive investment message to the market we remain of the view that the shares are undervalued on both absolute and relative parameters.
- Our 2003 forecasts are unchanged. However, we are lowering 2004 estimates by US\$304 million (2%) to reflect lower anticipated E&P volumes.

ML 002158



Executive Summary

**Good Results, Good Strategy...
Poor Delivery**

The RDS strategy presentation provided few new surprises. ROACE targets were unaltered, the financial framework remains unchanged (capex, dividend policy, gearing targets), 2005 E&P volume targets were lowered in line with our expectations (but the profile extended to 2007) and reserve replacement came in well below 100%. News that there are unlikely to be share repurchases in the first half of 2003 due to market uncertainty was the only material new piece of information in our opinion. Nevertheless, even with such a simple story, management put in an ordinary performance and in our view again failed to convey a message that a coherent senior management led strategy was being pursued across the business. While the emphasis in the formal part of the presentation was clearly focussed towards profitability maximisation, cost savings and acquisition synergies, the Q&A session exposed a management that still has aspirations that are biased towards growth, in spite of the lower production outlook in E&P. We therefore do not rule out further material acquisitions in 2003 and beyond.

Valuation and Recommendation

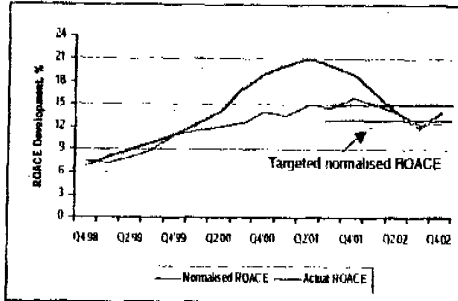
Despite our concerns on senior management and acquisitions we retain our Buy recommendation. We believe that absolute valuation remains well supported by dividend yield at current levels. While dividends are seldom the starting point for us in valuing stocks either on an intra sector basis or versus the market from a fundamental perspective at this time given the recent sharp correction in equity markets Shell's prospective dividend yield at 4.4% (2002) remains higher than UK benchmark 10-year gilts (3.9%). This appears to us an over-correction given that Shell is one of only a small handful of companies in Europe, (and the only company in the UK) with a AAA rating (S&P). RDS has an extremely strong balance sheet (20% net gearing) and has committed to deliver dividend growth through the industry cycle. We have tested our earnings model down to US\$13 Brent/bbl and the group is still able to cover its dividend through earnings.

On our estimates, Shell T&T and Royal Dutch are trading at a 37% discount to Exxon-Mobil, and a 12% discount to BP on 2004 EV/DACF, making RDS the clear value opportunity, in our view, among the industry Super Majors. We believe this is an overly pessimistic perception of the outlook for the RDS Group, despite our valid concerns on senior management's ability to convey a coherent investment message to the investment community. We continue to view RDS as a low risk relative value opportunity among the Tier 1 Majors on the potential for delivery of a material improvement in business performance over the next twelve months.

Group Targets Unchanged

As anticipated, key targets at the Group level were unchanged. The 13-15% RoACE target remains in place. With potential acquisitions synergies of over US\$600 million to be potentially realised in 2003/4 and ongoing unit cost reduction initiatives of US\$500 million per annum across the business, this target should not prove to be a stretch. Nevertheless, we do not expect immediate progress given that 1H 2003 will be weighed by the impact of additional capital employed for a full year, as well as lower credits for pension fund movements (US\$300 million). In fact, normalised RoACE could in fact decline in 1Q03 from the current 12.5%.

Chart 1: RDS ROACE Development



Source: ML estimates

Organic capex of US\$14.2 billion in 2002 was well ahead of the Group's initial US\$12 billion target. The over-run was partly a function of existing commitments from the corporate and asset acquisitions made during the year and partly due to cost over-runs at the Athabasca oils Sands project in Canada. For 2003 and beyond the Group has reaffirmed its plans to restrain capital investment at around the US\$12 billion level, although the capital allocation mix in the portfolio is set to shift slightly in the Downstream space with greater planned investment in Oil Products and less in Chemicals.

Table 1: Projected Capital Budget

(\$ in billions)	December 2001 Presentation	February 2003 Presentation
E&P	7.5	7 to 8
G&P	0.8	1
Oil Products	2.8	2 to 3
Chemicals & Other	1.1	< 1
Total	12.2	12.0
Time period	2002-2003	2003-2004

Source: Company reports.

The group's target 20-30% gearing range remains unchanged, as does a policy of dividend growth at least in line with inflation. News that there are unlikely to be share repurchases in the first half of 2003 due to market

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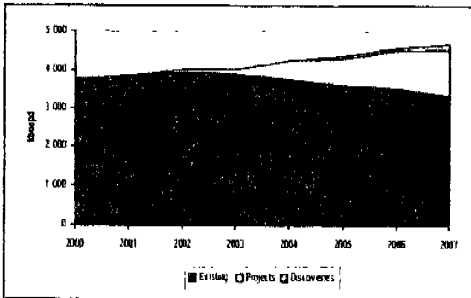
uncertainty was a surprise, particularly given that the current macro environment is well above mid cycle conditions. However, Judy Boynton (CFO) did comment in the Q&A session on the requirement under Dutch Law to repurchase a minimum level once repurchases had commenced, pegged at €1.5 billion, which possibly influence the decision. It should be noted that the Group remains ahead of schedule in its target to increase TSR (dividends and share repurchases) by 50% over the 2000-2005 period

Divisional Overview

■ **E&P.**

As we anticipated in our research report of 30 January 2003, RDS effectively lowered its previous volume growth target from 3% to 2% over the 2000 to 2005 period due to portfolio high-grading, steeper than expected production declines in Oman and project slippage at the end of the profile. We estimate that total lost volumes amount to around 250,000 boe/d in 2005 (6% of previous target including Enterprise Oil) as a result of these factors. We are a little surprised that RDS did not just lower the previous 2000-2005 target rather than choosing to retain the 3% growth target and extending the profile to 2007. Certainly, we see little prospect of 3% volume growth until 2006.

Chart 2: Production capability



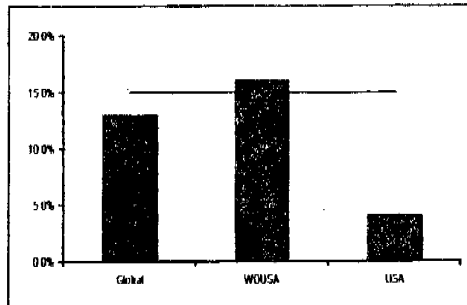
Source: RDS

Organic reserve replacement at 50% was below our 75% estimate, representing the second consecutive poor year of reserve replacement. While we tend not to over emphasise the importance of reserve replacement rates and F&D costs in our analysis, the recent inability of the Group to replace production organically is a worrying trend. To put this in context, over the last ten years none of RD/SC's closest competitors (XOM, BP, CVX and TOT) has ever reported organic reserve replacement as low as 50% (the lowest was XOM's 66% in 1992). Including acquisitions (mainly Enterprise Oil), reserve replacement in 2002 was 117%

■ **Oil Products**

In the worst downstream operating environment of a decade, Shell's Oil Products division delivered a reported ROACE of 7%. Normalising for this exceptionally weak business environment, Shell estimates 2002 Oil Products ROACE to have achieved 13%, still materially short of the targeted 15% normalised ROACE by 2004. The three pivotal issues in the attainment of this target are: 1) the delivery of the 3% targeted unit cost reductions in 2003, 2) the attainment of synergy targets from the DEA, Pennzoil Quaker State, and Equilon-Motiva transactions, and 3) the turnaround in the of the US business. This area of the business continues to disappoint, having turned in a loss in 4Q02

Chart 3: Shell Normalised Oil Products ROACE, 2002



Source: Shell

Following three substantial acquisitions, the group has been successful in holding its profitability at close to the targeted 15% level. We believe that divisional targets are achievable based on the performance improvements elaborated by the company. However, it is also clear that 2003 will be the year in which the US business will have to demonstrate that it is making visible progress against its targets. A 4% ROACE is no longer acceptable in the context of the group's profitability expectations.

■ **Chemicals**

The reduction of Shell's normalised chemicals ROACE target to 12% from 15% reflects an industry trend, first acknowledged by TotalFinaElf, whereby the operating environment in global petrochemicals has become structurally more harsh than before. We believe that this substantially affirms the Shell stated strategy in its chemicals division, of focusing on a 'close-to-the-cracker' strategy, based on adding synergies to the group's refining business

Consistent with this move to reduce the profitability outlook for the business, Shell has reduced its capital investment target for the chemicals division by \$1.2bn over the next five years (\$240m p.a.), taking average annual spend to \$650m.

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CONTENTS

■ Section	Page
Executive Summary	<i>Good Results, Good Strategy... Poor Delivery</i> 2
Overview 1.	6
1. Strategy Presentation	6
Group Targets Unchanged	6
E&P - lowering volume growth targets/poor reserve replacement	8
Oil Products	9
Gas & Power	13
Chemicals	14
4Q Results Comment	16
Valuation & Investment Case	17
Royal Dutch & Shell T&T Price Targets, Risks and Basis for Targets	19
Financials	20

Refer to important disclosures at the end of this report.

5

1. Strategy Presentation

The RDS strategy presentation provided few new surprises. ROACE targets were unaltered, the financial framework remains unchanged (capex, dividend policy, gearing targets). 2005 E&P volume targets were lowered in line with our expectations (but the profile extended to 2007) and reserve replacement came in well below 100%. News that there are unlikely to be share repurchases in the first half of 2003 due to market uncertainty was the only material new piece of information in our opinion. Nevertheless, even with such a simple story, management put in an ordinary performance and in our view again failed to convey a message that a coherent senior management led strategy was being pursued across the business. While the emphasis in the formal part of the presentation was clearly focussed towards profitability maximisation, cost savings and acquisition synergies, the Q&A session exposed a management that still has aspirations that are biased towards growth, in spite of the lower production outlook in E&P. We therefore do not rule out further material acquisitions in 2003 and beyond.

Buy rating retained on support of absolute valuation metrics

Despite our concerns on senior management and acquisitions we retain our Buy recommendation. We believe that absolute valuation remains well supported by dividend yield at current levels. While dividends are seldom the starting point for us in valuing stocks either on an intra sector basis or versus the market from a fundamental perspective at this time given the recent sharp correction in equity markets. Shell's prospective dividend yield at 4.4% (2002) remains higher than UK benchmark 10-year gilts (3.9%). This appears to us an over-correction given that Shell is one of only a small handful of companies in Europe, (and the only company in the UK) with a AAA rating (S&P). RDS has an extremely strong balance sheet (20% net gearing) and has committed to deliver dividend growth through the industry cycle. We have tested our earnings model down to US\$13 Brent/bbl and the group is still able to cover its dividend through earnings.

*37% discount to ExxonMobil,
12% discount to BP on '04
EVIDACF*

On our estimates, Shell T&T and Royal Dutch are trading at a 37% discount to Exxon-Mobil, and a 12% discount to BP on 2004E EV/DACF, making RDS the clear value opportunity, in our view, among the industry Super Majors. We believe this is an overly pessimistic perception of the outlook for the RDS Group, despite our valid concerns on senior management's ability to convey a coherent investment message to the investment community. We continue to view RDS as a low risk relative value opportunity among the Tier 1 Majors on the potential for delivery of a material improvement in business performance over the next twelve months.

Group Targets Unchanged

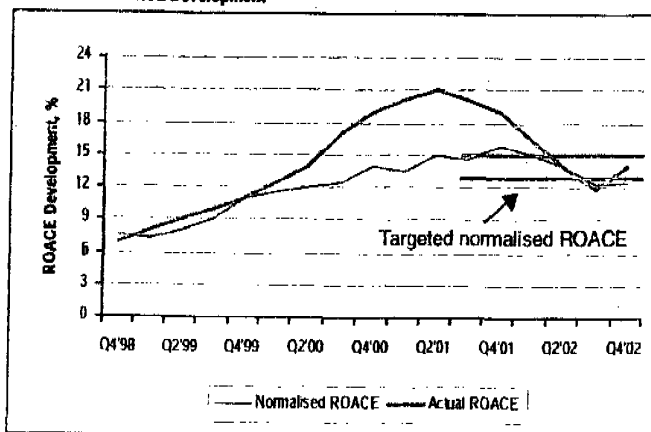
*13-15% ROACE target
retained, but normalised
ROACE under threat near-term*

As anticipated, key targets at the Group level were unchanged. The 13-15% RoACE target remains in place. With potential acquisitions synergies of over US\$600 million to be potentially realised in 2003/4 and ongoing unit cost reduction initiatives of US\$500 million per annum across the business, this target should not prove to be a stretch. Nevertheless, we do not expect immediate progress given that 1H 2003 will be weighed by the impact of additional capital employed for a full year, as well as lower credits for pension fund movements (US\$300 million). In fact, normalised RoACE could in fact decline in 1Q03 from the current 12.5%.



Shell Transport & Trading – 7 February 2003

Chart 4: RDS ROACE Development



Source: ML estimates

Table 2: Cost savings

	Target	Delivered 2002	Remaining to do 2003/2004
Equilon/Motiva	400	235	165
Peranzoni	140	5	135
DEA	150	80	70
OP total	690	320	370
Enterprise	300	47	253
Total	990	367	623

Source: RDS

*2002 capex over-run a function
of cost over-runs and
acquisition commitments*

Organic capex of US\$14.2 billion in 2002 was well ahead of the Group's initial US\$12 billion target. The over-run was partly a function of existing commitments from the corporate and asset acquisitions made during the year and partly due to cost over-runs at the Athabasca oils Sands project in Canada. For 2003 and beyond the Group has re-affirmed its plans to restrain capital investment at around the US\$12 billion level, although the capital allocation mix in the portfolio is set to shift slightly in the Downstream space with greater planned investment in Oil Products and less in Chemicals.

Table 3: Projected Capital Budget

(\$ in billions)	December 2001 Presentation	February 2003 Presentation
E&P	7.5	7 to 8
G&P	0.8	1
Oil Products	2.8	2 to 3
Chemicals & Other	1.1	< 1
Total	12.2	12.0
Time period	2002-2003	2003-2004

Source: Company reports

Refer to important disclosures at the end of this report.

7

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No change to dividend or gearing targets

The group's target 20-30% gearing range remains unchanged, as does a policy of dividend growth at least in line with inflation. News that there are unlikely to be share repurchases in the first half of 2003 due to market uncertainty was a surprise, particularly given that the current macro environment is well above mid cycle conditions. However, Judy Boynton (CFO) did comment in the Q&A session on the requirement under Dutch Law to repurchase a minimum level once repurchases had commenced, pegged at €1.5 billion, which possibly influence the decision. It should be noted that the Group remains ahead of schedule in its target to increase TSR (dividends and share repurchases) by 50% over the 2000-2005 period.

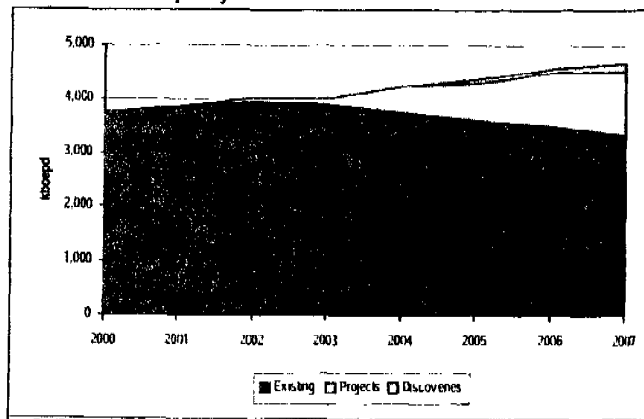
Lower '00-'05 volume growth, as anticipated

E&P - Lowering Volume Growth Targets/Poor Reserve Replacement

As we anticipated in our research report of 30 January 2003, RDS effectively lowered its previous volume growth target from 3% to 2% over the 2000 to 2005 period due to portfolio high-grading, steeper than expected production declines in Oman and project slippage at the end of the profile (Angola Block 18, Corb, Na Kika, Sakhalin)

We estimate that total lost volumes amount to around 250,000 boe/d in 2005 (6% of previous target including Enterprise Oil) as a result of these factors. We are a little surprised that RDS did not just lower the previous 2000-2005 target rather than choosing to retain the 3% growth target and extending the profile to 2007. Certainly, we see little prospect of 3% volume growth until 2006.

Chart 5: Production capability



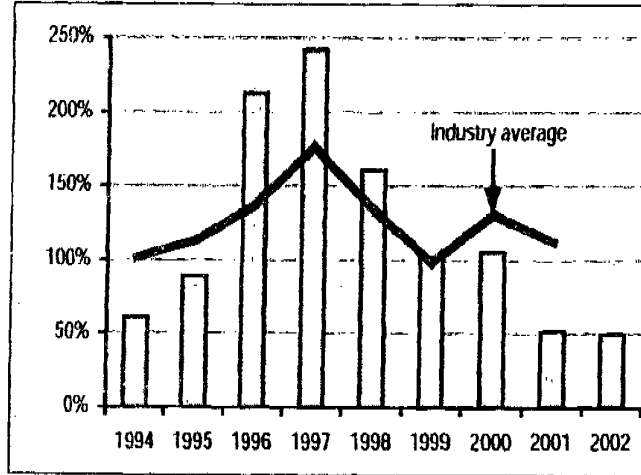
Source: RDS

Poor organic reserve replacement – a new low for the Majors

Organic reserve replacement at 50% was below our 75% estimate, representing the second consecutive poor year of reserve replacement. While we tend not to over emphasise the importance of reserve replacement rates and F&D costs in our analysis, the recent inability of the Group to replace production organically is a worrying trend. To put this in context, over the last ten years none of RD/SC's closest competitors (XOM, BP, CVX and TOT) has ever reported organic reserve replacement as low as 50% (the lowest was XOM's 66% in 1992). Including acquisitions (mainly Enterprise Oil), reserve replacement in 2002 was 117%.



Chart 6: Royal Dutch/Shell's Reserve Replacement Ratio
(Single year, excluding acquisitions and sales)



Source: Company reports and Merrill Lynch

Reported ROACE meets cost of capital in worst downstream environment of a decade

Oil Products

In the worst downstream operating environment of a decade, Shell's Oil Products division delivered a reported ROACE of 7%. Normalising for this exceptionally weak business environment, Shell estimates 2002 Oil Products ROACE to have achieved 13%, still materially short of the targeted 15% normalised ROACE by 2004.

Table 4: Downstream Operating Environment vs 'Reference'

US\$/bbl unless stated	Reference	2002	2002 vs Reference
Refining			
Rotterdam	2.00	0.85	-58%
Singapore	1.25	0.40	-68%
US Gulf	3.50	2.90	-17%
US West Coast	6.00	3.90	-35%
Marketing (index)			
- WQUSA	100	96	-4%
- USA	100	89	-11%

Source: Shell

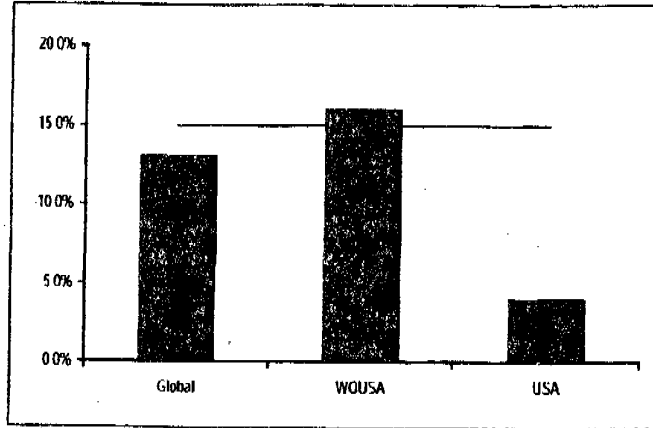
Focus on cost-cutting, synergies, and the US

The three pivotal issues in the attainment of this target are: 1) the delivery of the 3% targeted unit cost reductions in 2003, 2) the attainment of synergy targets from the DEA, Penziorl Quaker State, and Equilon-Motiva transactions, and 3) the turnaround in the US business, which continues to disappoint, having turned in a loss in 4Q02.

Refer to important disclosures at the end of this report.



Chart 7: Shell Normalised Oil Products ROACE, 2002



Source: Shell

Marketing productivity targets reached, refining portfolio misses

Cost reductions

While the marketing division of Oil Products achieved its targeted 3% reduction in unit costs in 2002, refining actually saw a 1% increase. On an aggregate level, divisional unit costs were down 2% y/y on a per barrel of sales basis. To a large extent, we believe that the improvement at the marketing level may be attributable to gains made in the segments delivering 'non-barrel' sales. In this context, we would highlight the Global Solutions business, which saw revenues rise by 30%, as well as the convenience retailing business, which continues to expand, and saw net income up 70% y/y. Clearly the risk in marketing is that cost savings will ultimately be passed on to the end consumer given the highly competitive nature of global fuels marketing. Nevertheless, the business does retain a substantial portfolio of opportunities for further cost reductions heading into 2003 - with the potential to reduce the number of US marketing sites by 30% being high on the agenda.

On the refining side, unplanned maintenance was a big contributor to the higher refinery unit costs, with the chronically underperforming US business the main culprit. Unit costs in this division will continue to be put under pressure in 2003 by high power and heating costs in the inflated commodity price environment, and by the weak US Dollar. However, suggestions that Shell may move in 2003 to rationalise refining capacity in its US business may help substantially in the targeted cost reductions.

Good progress on synergies

Synergies

The Oil Products division was the recipient of three of the four group acquisitions in 2002, at a cost of \$5.1bn (49% of total group acquisition costs). The targeted \$690m in synergies from these three downstream businesses (66% of total group synergies) is a key part in the underlying profitability improvement for the group. At year-end, the division had delivered close to 50% of its downstream synergy targets, and remained confident in driving this through to completion.





Table 5: Oil Products Synergies - Original Targets

	Target (\$m)	Achieved '02	% complete
DEA	150	80	53%
Texaco	400	235	59%
Pennzoil QS	140	5	4%

Source: Shell

*N.B. 2002 Achieved synergies indicates estimated annualised run-rate achievable.

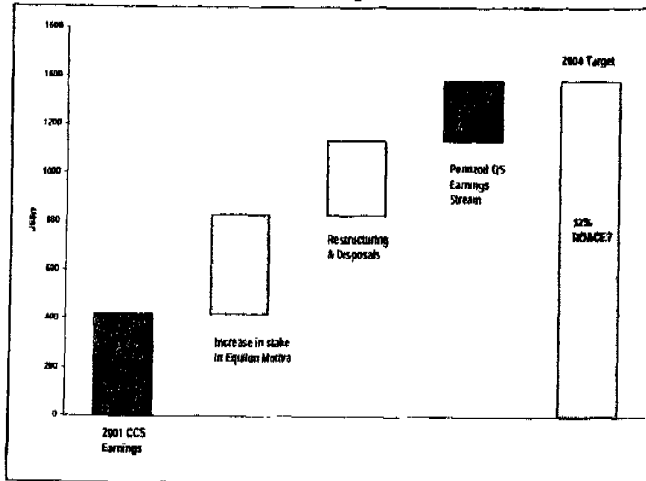
However, it is also important to point out that the performance of these businesses remains weak, given that even after the delivery of \$320m of synergies in 2002, their contribution to the group in terms of incremental cash flow was just \$200m. Obviously a large part of this weakness was attributable to the dire downstream environment which prevailed in 2002. However, this continues to highlight the vital importance of operating at maximum capital efficiency in the downstream business. In this light, the group's move to raise its planned synergies from the DEA acquisition by \$35m is a positive sign.

The US Downstream Business

Evidence continues to point to the fourth quartile performance of the group's US downstream business following a 4Q02 adjusted CCS loss of \$85m. However, this performance may largely be attributed to the exceptional issue of unplanned refinery shutdowns as a result of the Gulf of Mexico hurricanes. With substantial synergies having already been achieved through workforce reductions, and reduced SGA costs, the positive benefits of these moves may largely have been hidden at 4Q02 results. However, it is also clear that this is a business which will require investment before it delivers improved returns. On the marketing side, we estimate re-branding costs in the next two years will run to c. \$500m. On the refining side, the target of more than halving unplanned shutdowns will require investment in neglected operating units.

Under-performance of US downstream business no longer acceptable

Chart 8: Shell US Oil Products... A Realistic Target?



Source: Shell

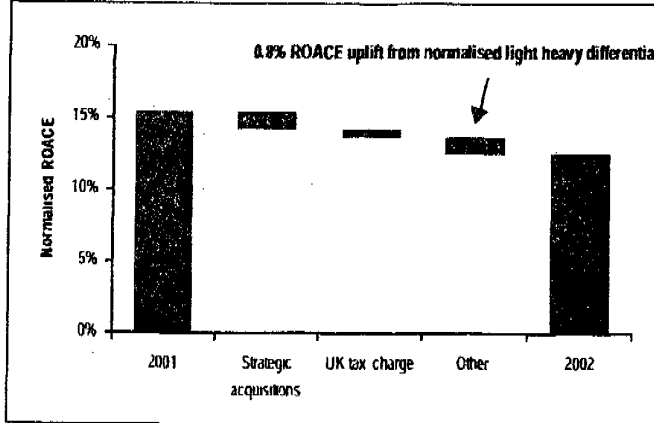


*An 'easy win' for 2003:
normalising light-heavy spread*

Structural Issues – the Light-Heavy Differential

Ultimately, while we see continued challenges to improving underlying profitability in Oil Products, we also see the strong likelihood that 2003 will be handed something of a 'free ride' in the form of recovering light-heavy crude spreads compared to 2002. This is not a feature which is captured in the reference environment, and as the chart below illustrates, was responsible for a substantial negative impact on 2002 underlying profitability.

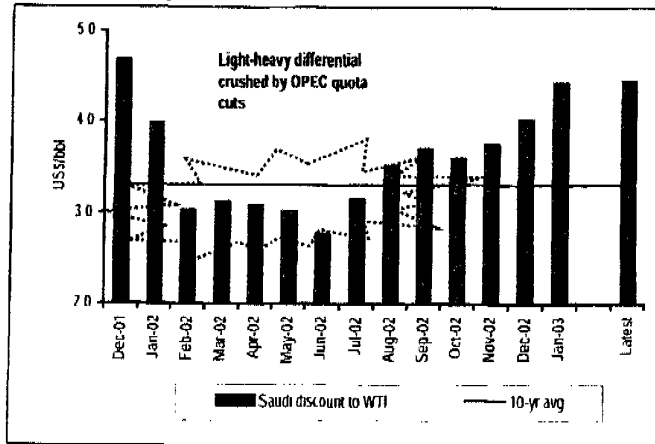
Chart 9: Shell Group Normalised ROACE, 2002



Source Shell

The dependence on a healthy light-heavy spread reflects the complex configuration of Shell's US Gulf and West Coast refining system, which depend on upgrading heavy crude grades (notably Maya in the US Gulf) into lighter product streams. This competitive advantage has disappeared with the reduced output of OPEC heavy crude grades in 1H02. However, with OPEC production ramping up in 2H02 to replace missing Venezuela barrels, the environment has improved substantially into 2003.

Chart 10: Light-Heavy Differential 2002-03



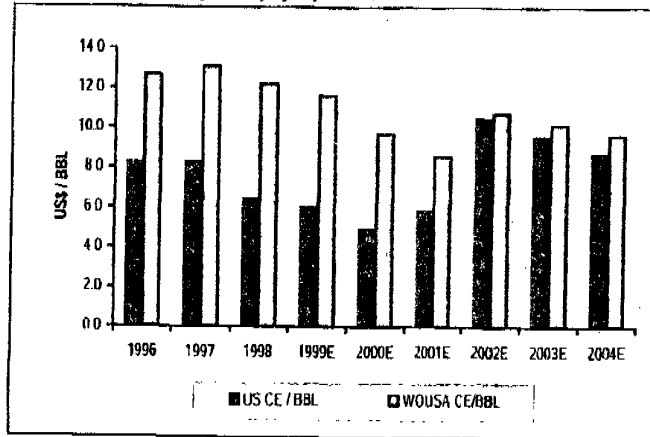
Source: Reuters and Merrill Lynch



2003 and Beyond... eyes on the US

Following three substantial acquisitions, the group has been successful in holding its profitability at close to the targeted 15% level. We believe that divisional targets are achievable based on the performance improvements elaborated by the company. However, it is also clear that 2003 will be the year in which the US business will have to demonstrate that it is making visible progress against its targets. A 4% ROACE is no longer acceptable in the context of the group's profitability expectations.

Chart 11: Oil Products Capital Employed per BBL, 1996-04E



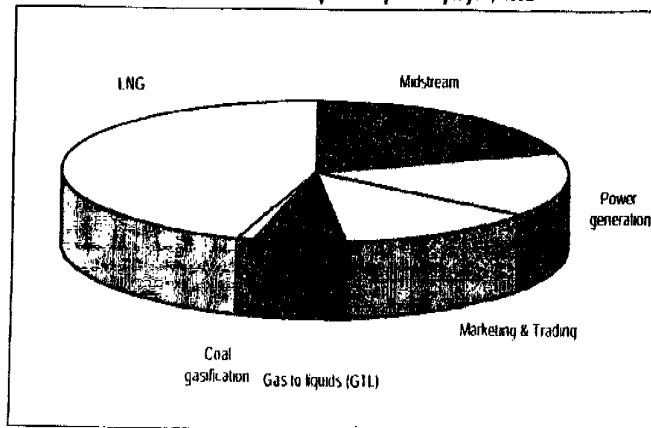
Source: Merrill Lynch estimates

G&P now c.10% of group capital employed

Gas & Power

With capital employed now approaching \$8bn (9.5% of total group), Gas & Power is emerging as increasingly important division within overall business. 2002 ROACE of 12% highlights a respectable profitability performance from these assets, but underlines the continued importance of capital recycling in the division to ensure that growth opportunities do not erode future profitability levels.

Chart 12: Shell's Gas & Power Division: Split of Capital Employed, 2002



Source: Shell

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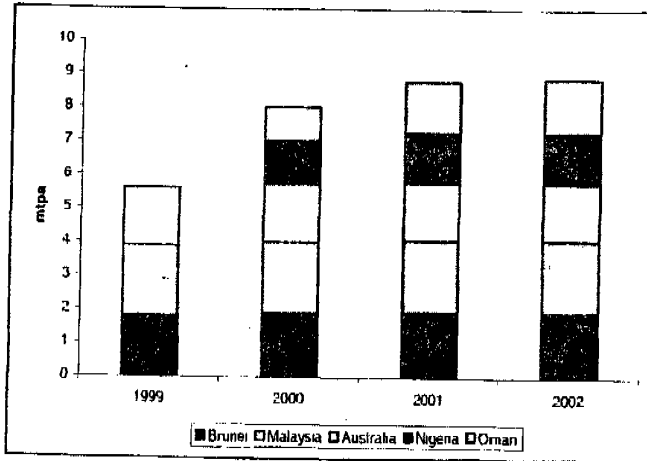


6% LNG volume growth target, could be materially exceeded

LNG is the key focus of the division, accounting for close to 50% of capital employed, and delivering an estimated current ROACE of over 20%. LNG sales volumes have grown by 60% on 1999 levels, with the first cargo from Nigeria LNG being delivered in December, three months ahead of schedule. Unit capacity costs on Train 3 are already 40% lower than those of Trains 1&2, while costs on Trains 4&5, scheduled for start-up in 2005, are expected to be a further 10% lower. Half of the capacity for Trains 4&5 are already contracted.

The group continues to target 6% annual growth in LNG volumes over the 2000-2005 period, although a further c.2mmtpa of potential capacity under discussion could see this target significantly exceeded, leading to growth of 10-11% p.a. A key component of this growth will be the Sakhalin II joint venture (Shell 55%, Mitsui 25%, Mitsubishi 20%), targeting the key Asian markets. The indication this week that Tokyo Gas (Japan's biggest utility) is set to buy up to 1mmtpa of LNG from Sakhalin gives more visibility to the longer term viability of this project.

Chart 13: Shell LNG Volumes, 1999-2002



Source: Shell

Outside LNG, the focus is likely to continue to be on portfolio optimisation. InterGen (68% Shell, 32% Bechtel) assets were written down by \$150m in 4Q02, and the division saw an additional \$600m of asset divestments. Despite this, operating conditions in this business, and in all power and trading markets remain poor, and we question whether this will be the end of the rationalisation process, particularly as the division continues to target growth in highly capital intensive LNG. Of the \$1bn of annual divisional capex targeted, over 50% of this will be directed towards LNG.

Accepting the inevitable: medium term ROACE target reduced to 12%

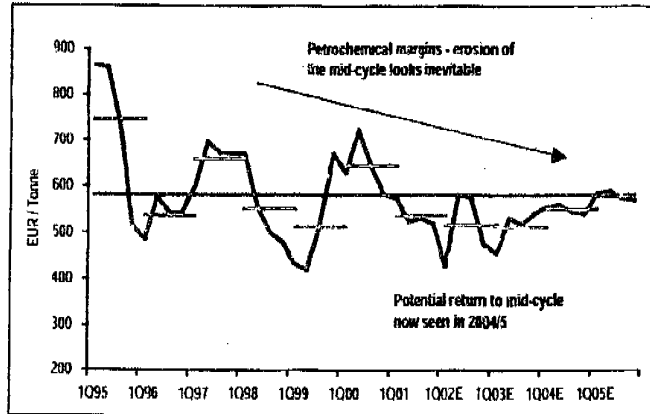
Chemicals

The reduction of Shell's normalised chemicals ROACE target to 12% from 15% reflects an industry trend, first acknowledged by TotalFinaElf, whereby the operating environment in global petrochemicals has become structurally more harsh than before. We believe that this substantially affirms the Shell stated strategy in its chemicals division, of focusing on a 'close-to-the-cracker' strategy, based on adding synergies to the group's refining business.

Consistent with this move to reduce the profitability outlook for the business, Shell has reduced its capital investment target for the chemicals division by \$1.2bn over the next five years (\$240m p.a.), taking average annual spend to \$650m.



Chart 14: Petrochemical Composite Margin Indicator, 1990-2005E



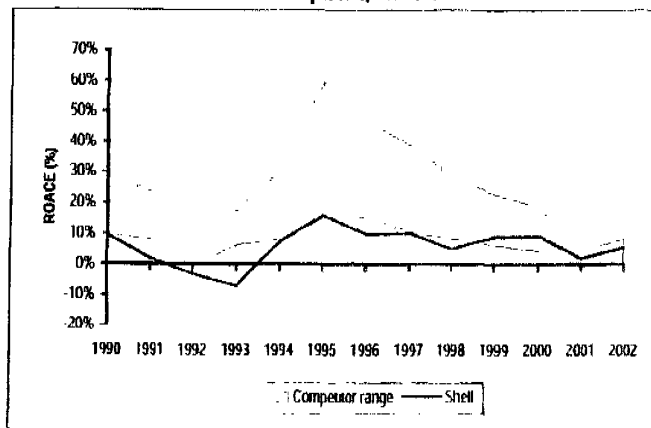
Source: Merrill Lynch estimates

Basell synergies come through

Despite this, the chemicals division has performed in-line with expectations in 2002, driven by a strong delivery of a 7% unit cost reduction, far exceeding the targeted 3% reduction. The key to this delivery is Basell, which achieved its €250m of targeted synergies a year ahead of schedule, enabling the division to emerge from a €214m loss in 2001 to turn a €7m profit in 2002. Shell's chemicals division has now consolidated its position as a second quartile performer in a peer group context (see chart below), and should be well placed to deliver improved cash flow generation in an improving cycle. However, the focus must, in our view, remain on rationalisation and cost efficiency, given the increasingly fleeting nature of cyclical upturns in today's petrochemicals environment.

To this end, we are encouraged by the identification of a further €100m of structural improvements (net to Shell) in the Basell joint venture for 2003.

Chart 15: Shell Chemicals ROCE vs Competitors, 1990-2002



Source - Shell and Merrill Lynch

China the key evolving market

China will continue to evolve as the chemicals division's key source of capital investment over the next 3-5 years. As highlighted in our detailed analysis of Chinese petrochemicals joint ventures (Oil Market Monitor No. 3 'Petrochemicals: The China Syndrome' 06 Nov. 2002) we view China as an unavoidable area of focus for the Tier 1 oil majors. It is clearly the key source of sustainable high

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demand growth rates beyond the near term time horizon, and has the option value of potential access to a vast hydrocarbon customer base of close to 1.2bn individuals. However, the price of this access clearly plays into the hands of the domestic majors, who partner the international majors in all of the key new projects. Furthermore, we are cautious that even China will ultimately be susceptible to the historic patterns of the petrochemicals industry, given that it will be the target market for almost all new capacity coming on stream in Asia and the Middle East in the next 5-7 years. Ultimately the industry has rarely succeeded in restricting capacity build to defend healthy industry operating rates. In our view, the pipeline of new global capacity points to the probability that post 2005, China will not prove to be an exception, and will also fall victim to declining operating rates and reduced pricing power.

Table 6: The Big Six. Foreign Joint Venture Ethylene Project Plans in China, 2005-10E

Project	Capacity	Domestic Counterpart	Foreign Partner	Startup
Yangtze - BASF	600	Yangtze Petrochemical, Sinopec	BASF	2005
Shanghai	800	Shanghai Petrochemical, Sinopec	BP	2006
Nanhai	800	CNOOC & Guangdong Province	RD Shell	2006
Fujian	600	Sinopec & Fujian Province	ExxonMobil, Aramco	2007
Tianjin	600	Tianjin Petrochemical, Sinopec	Dow Chemical	2009
Lanzhou	600	CNPC	ChevronPhillips	2009?

Source: Company reports and Merrill Lynch estimates

4Q Results Comment

- RDS reported adjusted 4Q02 CCS net income of US\$2,782 million (up 46% on 4Q01), ahead of our US\$2,526 million forecast and towards the high end of the market US\$2,400-2,900 million range. Final dividend of 9.3p/share for Shell T&T and €1.00/share for RD in line with our estimates.
- E&P came in ahead of our expectations at US\$2,104 million versus our US\$1,920 million forecast. The variance between our estimates can be attributed to a combination of higher than anticipated volumes and realisations in the WOUSA area. Full year underlying volumes were up 3% in 2002.
- The Oil Products division turned in another weak operating quarter. 4Q02 adjusted earnings of \$487m (-17% y/y, -8% sequentially) came in below our estimate of \$675m on the back of a poorer than expected US result. A loss of \$85m in the US business reflects the greater-than-expected impact of refinery outages on the Gulf Coast as a result of the October storms. Outside the US, earnings of \$572m (+2% y/y, +23% sequentially) were in line with our expectations.
- In Chemicals, 4Q02 adjusted earnings of \$180m were more than four times higher than in 4Q01 and in line with our expectations, despite an operating environment, which has shown few signs of improvement. This was largely driven by higher utilisation rates, and restructuring in the European business.
- Gas & Power had a strong quarter with adjusted earnings of \$305m (+77% y/y) driven by 9% higher equity LNG sales volumes. In 4Q02, the division wrote down the carrying value of InterGen by \$150m, partly offset by the sale of some German midstream assets.



Shell Transport & Trading – 7 February 2003

- Organic capex came in at US\$14.2 billion, versus the Group's initial US\$12 billion target. The over-run was partly a function of existing commitments from the corporate and asset acquisitions made during the year and partly due to cost over-runs at the Athabasca oils Sands project in Canada.

Table 7: RDS Quarterly results

	4Q02	ML 4Q02E	4Q01A	3Q02A	4Q02A v 4Q01
E&P (WOUSA)	1601	1353	993	1158	61.2%
E&P (USA)	503	567	244	526	106.1%
Total E&P	2104	1920	1237	1684	70.1%
Downstream Gas (WOUSA)	266	134	168	127	58.3%
Downstream Gas (USA)	39	2	4	0	875.0%
Total Downstream Gas	305	136	172	127	77.3%
Oil Products (WOUSA)	572	593	551	464	2.0%
Oil Products (USA)	-85	82	24	63	-854.2%
Total Oil Products	487	675	585	527	-16.8%
Chemicals (WOUSA)	227	149	103	189	120.4%
Chemicals (USA)	-47	4	-70	-25	-32.9%
Total Chemicals	180	153	33	164	445.5%
Other	-1	-30	6	-4	-83.3%
Clean Operating Segments	3075	2853	2021	2506	52.2%
CORPORATE					
Clean Corporate Net Income	-215	-257	-43	-214	400.0%
Minorities	-78	-70	-69	-51	13.0%
Clean CCS NET INCOME	2782	7526	1393	2381	99.7%
Royal Dutch EPS (Dutch Shares) (EUR)	0.8	0.73	0.61	0.66	31.1%
Royal Dutch EPS (NY Shares) (\$)	0.8	0.73	0.55	0.64	45.5%
Shell T&T EPS (p)	7.3	6.6	5.4	6	35.2%
Shell T&T EPADR (\$)	0.69	0.63	0.47	0.56	46.8%

Source: Company reports/Merrill Lynch

Dividend yield of 4.4% is higher than 10-yr Treasury equivalent. AAA rating unique in UK context

Valuation & Investment Case

We believe that absolute valuation remains well supported by dividend yield at current levels. While dividends are seldom the starting point for us in valuing stocks either on an intra sector basis or versus the market from a fundamental perspective at this time given the recent sharp correction in equity markets. Shell's prospective dividend yield at 4.4% (2002) remains higher than UK benchmark 10-year gilts (3.9%). This appears to us an over-correction given that Shell is one of only a small handful of companies in Europe, (and the only company in the UK) with a AAA rating (S&P). RDS has an extremely strong balance sheet (20% net gearing) and has committed to deliver dividend growth through the industry cycle. We have tested our earnings model down to US\$13 Brent/bbl and the group is still able to cover its dividend through earnings.

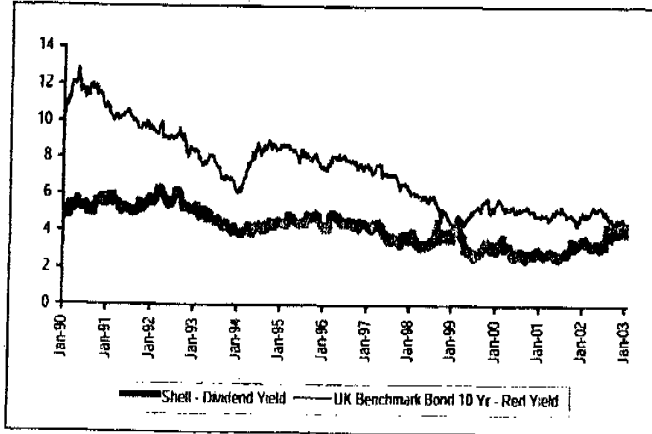
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17

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Chart 16: Shell T&T Equity Yield vs UK Bond Yield

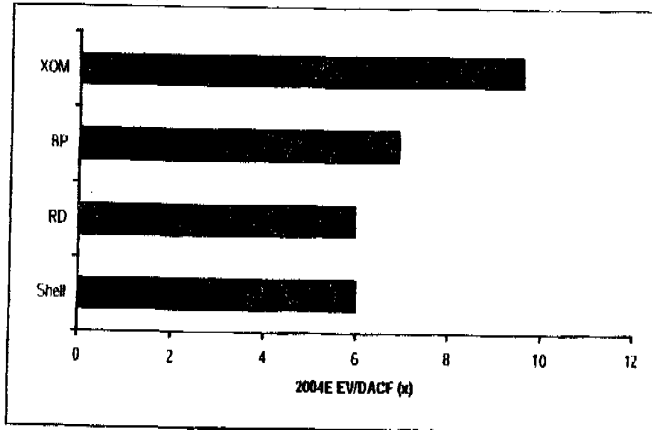


Source: Datastream and Merrill Lynch

Relative discount to ExxonMobil, BP is overly pessimistic, in our view

On our estimates, Shell T&T and Royal Dutch are trading at a 37% discount to Exxon-Mobil, and a 12% discount to BP on 2004E EV/DACF, making RDS the clear value opportunity, in our view, among the industry Super Majors. We believe this is an overly pessimistic perception of the outlook for the RDS Group, despite our valid concerns on senior management's ability to convey a coherent investment message to the investment community. We continue to view RDS as a low risk relative value opportunity among the Tier 1 Majors on the potential for delivery of a material improvement in business performance over the next twelve months.

Chart 17: Super Majors 2004E EV/DACF



Source: Merrill Lynch



Shell Transport & Trading – 7 February 2003

Royal Dutch & Shell T&T Price Targets, Risks and Basis for Targets

In formulating our price objectives, we use DCF estimates based on conservative long-term assumptions. Our models currently incorporate a mid-cycle US\$20/Brent forecast (flat nominal) and a 2% terminal growth rate. Our price objective for Shell T&T and Royal Dutch on this basis remain unchanged at 535p and €56.5 respectively. However, after the recent sharp sell-off in equity markets we believe a rally in equities over the next 12 months could be necessary to achieve these targets. Our equity strategists currently forecast a 15% rally in the UK market to 4000 by the end of the year, supporting our positive stance.

Over and above the specific risks specified above, the major risks to our valuation and price objectives for the Group is a significant fall in the oil price and currency risk (the US\$ is the Group's revenue currency):

- The Brent oil price is currently over US\$30/bbl, well above our US\$22.50/bbl. forecast for 2003. Possible military action in Iraq could place upward pressure on the oil price while downward pressure could come from a breakdown in OPEC discipline, which we view as unlikely at this stage.

Delivery of volume growth in E&P can be negatively impacted by a number of factors such as technology risks, capacity issues (OPEC), and fiscal risks. RDS has substantial OPEC exposure.

- Margins in Chemicals and Refining and Marketing are to a large extent GDP related. Our current expectation, in line with our global economics team, is for a rebound in global GDP growth in 2003, in line with our Merrill Lynch economic forecasts.
- Currency risk. In general a weakening US\$ is disadvantageous to the Group due to lower earnings expectations. Our current currency forecasts broadly reflect the currency markets at this time.

Shell Transport & Trading - 7 February 2003



Financials

Table 8: Summary Income Statement (\$m)

	2000A	2001A	2002E	2003E	2004E	2005E	2006E
Divisional Breakdown:							
E&P (WOUSA)	6,381	5,819	5,010	5,882	6,228	6,306	6,716
E&P (USA)	2,876	2,228	1,858	2,008	2,009	1,836	1,850
Total E&P	9,257	8,047	6,868	7,890	8,237	8,143	8,566
Downstream Gas (WOUSA)	510	950	646	654	903	899	944
Downstream Gas (USA)	(48)	267	(18)	221	232	243	255
Total Downstream Gas	462	1,217	628	875	1,134	1,142	1,199
Oil Products (WOUSA)	2,216	2,975	1,818	2,715	2,874	3,173	3,237
Oil Products (USA)	264	402	172	498	641	792	816
Total Oil Products	2,480	3,377	1,990	3,212	3,515	3,965	4,053
Chemicals (WOUSA)	561	404	578	777	800	824	849
Chemicals (USA)	191	(163)	(54)	260	391	403	415
Total Chemicals	752	241	524	1,037	1,191	1,227	1,264
Other	(120)	(191)	(156)	(200)	(200)	(200)	(200)
Clean Operating Segments	12,831	12,681	9,853	12,814	13,877	14,277	14,881
Special Items	(559)	(432)	122	-	-	-	-
Reported Segments	12,272	12,250	9,975	12,814	13,877	14,277	14,881
Interest Income/ (Expense) (\$m)	594	(242)	(730)	(649)	(537)	(373)	(160)
Currency Exchange Gains/ (Losses)	(10)	25	9	-	-	-	-
Other - Including Taxation	(304)	(103)	(72)	(320)	(320)	(320)	(320)
Clean Corporate Net Income	280	(320)	(793)	(969)	(857)	(683)	(480)
Special Items	(188)	-	-	-	-	-	-
Reported Corporate Net Income	92	(320)	(793)	(969)	(857)	(683)	(480)
minorities	(318)	(387)	(98)	(340)	(340)	(340)	(340)
CCS NET INCOME	12,364	11,552	9,084	11,504	12,680	13,244	14,061
CCS Adjustment	355	(700)	297	-	-	-	-
HC Net Income	12,719	10,852	9,381	11,504	12,680	13,244	14,061
CLEAN CCS NET INCOME	13,111	11,984	8,962	11,504	12,680	13,244	14,061

Source: RD Shell/Merrill Lynch estimates



Shell Transport & Trading – 7 February 2003

Table 9: Summary Cash Flow Statement (\$m)

	2000A	2001A	2002E	2003E	2004E	2005E	2006E
HC Net Income	12,719	10,852	9,381	11,504	12,680	13,244	14,061
DD&A	7,885	6,117	8,252	9,466	9,659	9,787	9,908
Change in Working Capital	(569)	356	(580)	-	-	-	-
Minorities & Other	(1,226)	(270)	293	680	680	680	680
Cash Flow Provided by Operating Activities	18,809	17,055	17,346	21,650	23,019	23,710	24,650
Capital Expenditure (inc acquisitions)	(6,209)	(9,626)	(19,543)	(11,806)	(11,782)	(11,190)	(11,246)
Proceeds From Sale Of Assets	3,852	1,265	460	-	-	-	-
Net Investments in Assoc. & Other Investments	1,025	(567)	(785)	(984)	(984)	(984)	(984)
Cash Flow Used in Investing Activities	(1,332)	(8,928)	(19,868)	(12,790)	(12,766)	(12,174)	(12,230)
Net Change in Debt	(11,658)	1,242	13,356	(1,637)	(2,819)	(3,894)	(4,565)
Change in Minority Interest	(22)	(206)	415	-	-	-	-
Cash Flow Provided by Financing Activities	(11,680)	1,036	13,771	(1,637)	(2,819)	(3,894)	(4,565)
Dividends to Parent Companies (inc buybacks)	(5,239)	(9,406)	(6,961)	(6,655)	(6,854)	(7,060)	(7,272)
Minority Dividends	(496)	(221)	(217)	(228)	(239)	(242)	(242)
Change in Cash Equivalents	62	(464)	4,071	340	340	340	340

Source: RD Shell/Merrill Lynch estimates

Table 10: Summary Balance Sheet (\$m)

	2000A	2001A	2002E	2003E	2004E	2005E	2006E
Net Debt/(Cash)	(4,067)	(1,557)	13,281	11,624	8,804	4,911	346
Cash & Marketable Securities	11,435	6,670	4,318	4,318	4,318	4,318	4,318
Total Debt	7,368	5,113	17,579	15,942	13,122	9,229	4,664
Shareholders Equity	57,086	56,160	65,783	70,633	76,458	82,641	89,431
Capital Employed	63,796	65,457	81,748	84,888	86,211	87,615	86,396
Gearing	2.2%	4.2%	24.9%	21.2%	12.2%	1.9%	0.0%

Source: RD Shell/Merrill Lynch estimates

Refer to important disclosures at the end of this report.

21

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