

Henry, Simon

1 bookings had already been made in the past that the market  
2 might not necessarily be aware of?

3 A Correct.

4 Q I'm handing you what's been marked as Exhibit 254.  
5 Do you recall the email thread that we're looking  
6 at that's been marked as Exhibit 254?

7 A Yes, I do.

8 Q Looks like the Re: line is 'Gorgon communications  
9 to staff,' is that right?

10 A That's the subject.

11 Q And turning to the second page in the middle, there  
12 is an email from you to Ms. Hamilton and Mr. Coopman and  
13 others. What were you trying to convey to them?

14 A This email chain starts with some notes from Shell  
15 Development in Australia about an announcement on the Gorgon  
16 Development by Chevron Texco, the operator of Gorgon. And if  
17 I remember it correctly, it was about obtaining some  
18 permissions which made the development of Gorgon more likely  
19 and actually probably would move it up the pecking order in  
20 terms of priorities for development. And it came to me in  
21 general because any such communications related to material  
22 assets would go to both group IR and group media to ensure  
23 that there was consistent use of the material and preparation  
24 on questions.

25 My email in the middle of the thread is to Rhea

1 Hamilton copying my team and Frank, Frank Coopman, raising a  
2 point about Gorgon that I was already aware without  
3 necessarily having the details that some reserves had been  
4 booked for Gorgon ahead of FID of course because even this  
5 announcement was still some way from an FID, final investment  
6 decision.

7 Q And then that some reserves you're talking about is  
8 the 600 million BOE that you --

9 A I had a figure in mind, the 600 million BOE. I was  
10 looking for Rhea to confirm with the same objective we just  
11 already discussed, if this announcement was made albeit in  
12 Australia, there were still chances of questions coming in to  
13 my team in London about Gorgon and the likelihood of booking  
14 reserves. And then there was a second part of my email which  
15 again looks to be a trait of saying, while we're on the  
16 subject, here is another -- asking about Sakhalin. And the  
17 reserves, the profile or the timing of reserves recognition  
18 for a large project and me trying to ensure I go up the  
19 learning curve in terms of how quickly reserves will be  
20 booked again and the words here in email so we can then show  
21 we don't set expectations too high.

22 Q For someone without the oil and gas expertise that  
23 you have, is that 600 million BOE a large or small volume?

24 A It's a large volume.

25 Q What would losing that 600 million BOE have done to

1 the reserve replacement ratio for 2003?

2 A Around 40 percent.

3 Q Which is also a large percentage?

4 A Well, this is clearly a large --

5 Q Did you convey this issue with Gorgon to Mr. Watts  
6 and Ms. Boynton?

7 MR. FERRARA: I'm sorry, which issue now?

8 MR. CRAINE: You know, the Gorgon and 600 million  
9 BOE booked before FID.

10 THE WITNESS: No, I didn't.

11 BY MR. CRAINE:

12 Q And this is very close in time to where Mr. Watts  
13 is talking about Gorgon in your one-on-ones, right?

14 A Yes, the same week.

15 Q Is there a reason why you didn't inform Mr. Watts  
16 that 600 million BOE were booked before FID, were already on  
17 Shell's books?

18 A I can't think of a specific reason other than this  
19 was just before the meetings, the main meetings I think I  
20 held with Phil. Phil was ex-chief executive of the business  
21 and chairman of the CMD and he was talking about a project  
22 which although it didn't come with the same enthusiasm as the  
23 others, I assumed he knew more about it than I did.

24 Q So, you assumed he knew that the 600 million BOE  
25 had already been booked and that's why you didn't relay it to

1 him?

2 A Well, I guess, yes.

3 Q And if you had thought that there was any way that  
4 Mr. Watts didn't know that the 600 million BOE had already  
5 been booked, would you have not told him?

6 A I would like to think I would have told him if I  
7 thought that there was something that he didn't know that he  
8 should know or otherwise. I do not recall telling him. And  
9 you asked why I didn't tell him, it was not always the  
10 easiest thing to do to tell him things like that but I don't  
11 recall in this case that being necessarily an issue.

12 Q Well, if there was a large volume that had been  
13 booked before FID that de-booking would have caused a 40  
14 percent drop in the reserve replacement ratio, that's  
15 something you would have told Mr. Watts if you didn't think  
16 he knew it, isn't it?

17 A If I felt or believed that a de-booking or a  
18 negative revision was likely to happen, then yes, I would  
19 definitely have advised him whether I thought he knew it or  
20 not because that would have been part of my --

21 Q And if he'd been telling the market that there were  
22 certain volumes that may be booked in the future for Gorgon,  
23 he would need to know about volumes that had been booked in  
24 the past that couldn't be rebooked, correct?

25 A Correct. But he never did give specific data for

1 Gorgon or specific time period. And I was of the impression  
2 that there was more to come from Gorgon, they would just be  
3 less than one might expect.

4 Q But this was an issue that was on your radar  
5 screen?

6 A The fact that when Gorgon was bought or when a  
7 final investment decision was made, that the reserves that  
8 would be added would be less than you might expect, yes, it  
9 was on my radar screen. Where was it on the radar screen?  
10 Somewhat lower than other reserves replacement issues because  
11 we didn't expect a final investment decision for at that time  
12 maybe another two years. Still some time off.

13 Q And just absolutely cutting to the chase, in  
14 February of 2003, you thought that Mr. Watts would have known  
15 about the booking, initial booking of Gorgon or the fact that  
16 Gorgon was on the books, right?

17 A I thought he would have known more than I did in  
18 general. So, I'm saying yes.

19 Q That would be a yes, he would know about Gorgon?

20 A I would have thought that he should have known  
21 about Gorgon. I honestly, because the way he carefully chose  
22 his words around most things and it didn't really cross my  
23 mind that he might not know.

24 Q So, it's something that you assumed he would know?

25 A I would assume that as ex-chief executive, he would

1 have known.

2 Q On the top in the bolded area, and this is another  
3 email draft that's actually I believe drafted by Mr. Pay,  
4 it's on the page --

5 A That's correct. This part was drafted by John Pay.

6 Q Now, in the bolded area, I think he's talking about  
7 Sakhalin and he is noting that, 'I believe it's more likely  
8 that we will exploit flexibility on the rules for booking and  
9 limit the 2003 impact to a maximum of 37 percent." What did  
10 you interpret exploiting flexibility on the rules for booking  
11 to mean?

12 A That the company's experts on the rules for booking  
13 believed that there was flexibility within the rules to make  
14 choices about what was booked in any given year.

15 Q And then what would exploiting that mean?

16 A It would mean making choices within the rules that  
17 in practice given the string before, smooth their bookings  
18 over a period.

19 Q And that would be to try to please the market?

20 A Not necessarily please the market. In this case,  
21 to --

22 Q Or not displease the market?

23 A To give an accurate, is the fact that didn't show a  
24 large negative revision if it were to be determined that  
25 Gorgon would require one.

1 Q And the only group that cared about the information  
2 conveyed in the reserve replacement ratio was the market,  
3 right?

4 A Well, we talked yesterday about the credit rating  
5 agencies, the market, and one could argue anybody engaged in  
6 the industry would have an interest in reserve replacement  
7 from a company the size of Shell.

8 Q Turning to the first page, looks like Rhea  
9 Hamilton's response in the thread to you and others, it looks  
10 like she is confirming what you talked about with some of the  
11 numbers with Gorgon. And then she notes with Gorgon that the  
12 reserve replacement, looking at the bolded area, do you see  
13 that, 'Therefore, the reserve replacement ratio impact will  
14 at best be zero in the short to medium term.' And then she  
15 notes, 'This is something of an IR time bomb.'

16 A I note the words though I don't believe they're  
17 Rhea's. These were John Pay's. This is still in the area of  
18 John Pay.

19 Q Oh, you're right, I apologize. Did you find these  
20 two sentences by it looks like Mr. Pay to be accurate?

21 A The first statement that the RRR impact will at  
22 best be zero in the short to medium term I have to presume  
23 was accurate because he was the expert on the subject.

24 Q Cutting into your expertise, the 'this is something  
25 of an IR time bomb,' do you believe this was accurate?

1           A     Here he was wandering outside his own area of  
2 expertise. It is, clearly it was an issue for us such that  
3 at the point at which Gorgon was booked, sorry, if an  
4 investor FID'ed, if there had not been a negative revision  
5 before that point, then there would be a negative reaction in  
6 the market at the point in which reserves for that year were  
7 made public.

8           Q     Did you convey this to -- go ahead.

9           BY MR. PEAVLER:

10          Q     Why is that?

11          A     Because the booking or, well, the investment  
12 decision of a major project like Gorgon would be expected by  
13 the market to impact reserves of the companies involved. And  
14 particularly in this case, there were two other high profile  
15 companies that were involved. And I have no idea what  
16 bookings they might have made but the market would have  
17 expected reserves for all three.

18          Q     And the absence of booking by Shell when your  
19 partners are making sizeable bookings would in your view have  
20 produced negative reaction about Shell in the market?

21          A     If that had happened, yes, there would have been a  
22 negative reaction in the market.

23          BY MR. CRAINE:

24          Q     Did you come to know that Shell's partners in fact  
25 had not booked Gorgon?



1           A     Not until a much later date of 2004, no. We never  
2 actually know what they've done on any one field. We  
3 sometimes hear in the corridor.

4           Q     So, would you agree with Mr. Pay's comment that  
5 this is something of an IR time bomb? Do you think that's an  
6 accurate statement?

7           A     It's an overstatement but, yes, it's an IR issue  
8 for the future, all other things staying equal.

9           Q     I'm handing you what's been marked as Exhibit 214.  
10 For your benefit, I'm going to start on the second page.

11          A     Okay.

12          Q     Do you recall receiving and participating in this  
13 set of email thread?

14          A     Yes, in fact I initiated this one.

15          Q     And why did you initiate this one?

16          A     This is now April 2003 following the EP/GP  
17 presentation and we're seeing sell side research analysts  
18 doing quite a bit of detailed work and analysis around  
19 historical performance on reserve replacement ratio. In  
20 particular, this email follows a request from the analyst at  
21 Credit Suisse First Boston.

22          Q     Who is that?

23          A     His name is Rod MacLean, (M-a-c-L-e-a-n).

24          Q     Are you certain that this follows his request?

25          A     Yes. This particular request came to me.