> ***We conducted our audits in accordance with generally accepted auditing standards in the United States.*** Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management in the preparation of the Financial Statements, as well as evaluating the overall Financial Statement presentation. ***We believe that our audits provide a reasonable basis for our opinion.***
>
> ***In our opinion, the Financial Statements referred to above present fairly, in all material respects, the financial position of the Royal Dutch/Shell Group of Companies at December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998***, in accordance with generally accepted accounting principles in the Netherlands and the United States. [Emphasis added.]

313. As KPMG and PwC knew or were reckless in not knowing, the statements in the previous three paragraphs – that KPMG conducted its audits of Royal Dutch in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of operations, and cash flow of Royal Dutch for the stated time periods in all material respects; that PwC conducted its audits of Shell Transport in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of operations, and cash flow of Shell Transport for the stated time periods in all material respects; and that KPMG and PwC conducted their audits of the Companies in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of operations, and cash flow of the Companies for the stated time periods in all material respects – were materially false and misleading when made for the following reasons: KPMG and PwC violated GAAS in conducting their audits (see ¶¶ 5, 18, 66, 72, 522-25), failed to properly evaluate the Companies' internal controls (see ¶¶ 65, 70, 517-18), failed to recognize and act upon red flags concerning improperly

booked proved reserves (see ¶¶ 148, 518, 526-28), failed to consider whether the Companies supplemental information, concerning oil and gas reserves and forecasted future cash flow based on those reserves, was in conformance with prescribed guidelines (see ¶¶ 519-21); failed to recognize and address the impact of the Companies' improperly booked proved reserves on the Companies' financial results (see ¶¶ 522-25), and suffered from disabling conflicts of interest (see ¶¶ 529-32).

314. According to a July 22, 1999 article in AFX NEWS, Royal Dutch and Shell Transport were named as "top picks" by an analyst at JP Morgan, based upon materially false and misleading information provided by Defendants. The article quoted the analyst as saying:

> "In the long term RD/Shell should have a faster underlying growth rate than its peers ***due to its superior oil and gas reserves*** and its emerging market exposure in the downstream." [Emphasis added.]

315. On September 24, 1999, in an article in AFX NEWS entitled "Royal Dutch Petroleum target price 64 eur – Lehman," Royal Dutch shares were reiterated "outperform" by analysts at Lehman Brothers, based upon materially false and misleading information provided by Defendants.

Statements Made in Fourth-Quarter 1999

316. On December 3, 1999, the Companies filed with the SEC their amended Annual Report on Form 20-F/A for the year ended December 31, 1998 (the "1998 20-F/A"). The 1998 20-F/A contains precisely the same statements quoted above in paragraphs 303 through 312 from the 1998 20-F (with differences only in internal page references), and those statements were materially false and misleading when made for precisely the same reasons given in those paragraphs. In addition, the 1998 20-F/A states as follows:

> Net additions to proved reserves in 1997 were equivalent to 129% of the year's production of crude oil and natural gas liquids and

210% of the year's natural gas production. Additions to oil reserves were achieved through new projects in Nigeria (offshore) and Russia (Sakhalin), [sic] oil reserves also increased in the UK, Canada, Oman and Nigeria (onshore) as a result of new fields and improved field recoveries. The marked increase in gas reserves is largely the result of new fields in Australia, the Malampaya project in the Philippines and other new upstream gas ventures as well as new fields and improved recovery in the Netherlands and Canada.

317. As Defendants knew or were reckless in not knowing, the figures set forth in the previous paragraph for additions to proved oil and gas reserves, and the explanations for those increases, were materially false and misleading when made for the reasons given in ¶ 302 and the paragraphs cited therein.

318. On December 16, 1999, AFX NEWS published an article entitled "Royal Dutch Petroleum higher as JP Morgan sets 72 eur fair." According to the article, JP Morgan raised its year 2000 earnings estimate for the Companies from 2.75 eur a share from 2.78, based on the Companies' upgraded outlook of $3.2 billion in cost savings by 2001 (as expressed in the Companies' analyst presentation on December 15, 1999).

Statements Made in First-Quarter 2000

319. According to a February 8, 2000 article in AFX NEWS, Morgan Stanley Dean Witter raised Royal Dutch shares to "outperform" from "neutral," with a price target of 60 eur a share.

320. According to a February 11, 2000 article in AFX NEWS, JP Morgan analysts raised their 2000 and 2001 earnings per share estimates for the Companies based on their higher than expected earnings.

321. On or about February 16, 2000, Royal Dutch filed a Form 6-K with the SEC, signed by Defendant van der Veer (the "Feb. 16, 2000 6-K"). The Feb. 16, 2000 6-K reported that "The hydrocarbon reserve replacement ratio for 1999 was 101%."

322. As Defendants knew or were reckless in not knowing, the reserve replacement ratio set forth in the previous paragraph was materially false and misleading when made for the reasons given in ¶ 302 and the paragraphs cited therein.

323. Certain of the Companies' financial metrics are directly tied to their reported proved hydrocarbon reserves. Thus, when Defendants made the foregoing materially false and misleading statements concerning those reserves (and related metrics, such as reserve replacement ratios), they also, as a consequence, made false and misleading financial statements. In the Feb. 16, 2000 6-K, Defendants reported year-end cash flow provided by operating activities of $11.059 billion, which was overstated in an amount that cannot be determined from publicly available documents. Exploration costs were reported to be $1.086 billion, which was understated by an amount that cannot be determined from publicly available documents. Defendants reported net income for 1999 to be $8.584 billion, which was overstated in an amount that cannot be determined from publicly available documents. (In their Annual Report on Form 20-F/A for the year ended December 31, 2002, Defendants admit that the Companies' "pre 2000" net income was overstated by $70 million (ignoring adjustments unrelated to reserves). Defendants do not allocate the $70 million overstatement in net income to specific years.)

324. On or about March 17, 2000, Shell Transport filed a Form 6-K with the SEC (the "Mar. 17, 2000 6-K"). The Mar. 17, 2000 6-K set forth the same information described above in connection with the Feb. 16, 2000 6-K, and was materially false and misleading when made for the same reasons.

325. In or about March 2000, Royal Dutch issued its "Annual Report 1999" (the "1999 RD Annual Report"), and Shell Transport issued its "Annual Report 1999" (the "1999 ST Annual Report" and, together with the 1999 RD Annual Report, the "1999 Annual Reports"). Defendant

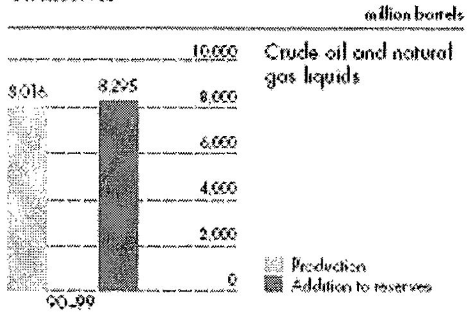
van den Bergh signed the 1999 RD Annual Report on March 8, 2000, and Defendant Moody-Stuart signed the 1999 ST Annual Report on March 9, 1999.

326. The 1999 Annual Reports set forth numerous materially false or misleading statements concerning proved hydrocarbon reserves. For example, the 1999 Annual Reports give the following information concerning Group replacement ratios of crude oil and natural gas for both 1999 and the three-year period from 1997 through 1999:

> Reserves
>
> The overall 1999 replacement ratio of proved crude oil and natural gas reserves and oil sands stands at 101% (147% excluding 1999 divestments and acquisitions). Additions through revisions and discoveries, together with the new Canadian oil-sands project (which is disclosed separately from crude oil and natural gas proved reserves), are offset by reductions due to production and portfolio activities. The replacement ratio of the overall 1999 crude oil and natural gas proved reserves (including natural gas liquids, but excluding oil sands) is 102% before and 56% after divestments and acquisitions.
>
> The three-year rolling average replacement ratio for total crude oil and natural gas proved reserves (including portfolio activities) stands at 132%, reflecting the fact that oil and gas production over 1997-99 has been more than replaced by net additions over the same period.

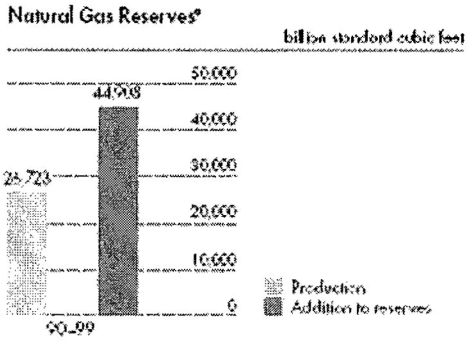
327. The 1999 Annual Reports graphically depict the Companies' oil and natural gas reserve information as follows:

Oil Reserves*



*Group companies, plus Group share of associated companies.

Natural Gas Reserves*



*Group companies, plus Group share of associated companies.

328. In a section entitled "Supplementary information – oil and gas," the 1999 Annual Reports provide the following additional information about the Companies' reserves:

> Proved reserves are the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are those reserves which can be expected to be recovered through existing wells with existing equipment and operating methods. ***The reserves reported exclude volumes attributable to oil and gas discoveries which are not at present considered proved. Such reserves will be included when technical, fiscal and other conditions allow them to be economically developed and produced.*** [Emphasis added.]

329. As Defendants knew or were reckless in not knowing, the statements in the previous three paragraphs – concerning replacement ratios, the explanations for those ratios, the graphical depiction of oil and gas reserves, and the exclusion from reported reserves of volumes

attributable to discoveries "which are not at present considered proved" – were materially false and misleading when made for the reasons given in ¶ 302 and the paragraphs cited therein.

330. Certain of the Companies' financial metrics are directly tied to their reported proved hydrocarbon reserves. Thus, when Defendants made the foregoing materially false and misleading statements concerning those reserves (and related metrics, such as reserve replacement ratios), they also, as a consequence, made false and misleading financial statements. In the 1999 Annual Reports, Defendants reported year-end cash flow provided by operating activities of $11.059 billion, which was overstated in an amount that cannot be determined from publicly available documents. Exploration costs were reported to be $1.086 billion, which was understated in an amount that cannot be determined from publicly available documents. Defendants reported net income for 1999 to be $8.584 billion, which was overstated in an amount that cannot be determined from publicly available documents. (In their Annual Report on Form 20-F/A for the year ended December 31, 2002, Defendants admit that the Companies' "pre 2000" net income was overstated by $70 million (ignoring adjustments unrelated to reserves). Defendants do not allocate the $70 million overstatement in net income to specific years.)

331. Under the heading, "Corporate Governance," the 1999 RD Annual Report states that "The Supervisory Board and Board of Management of Royal Dutch Petroleum Company (Royal Dutch) remain committed to upholding the highest standards of integrity and transparency in their governance of the Company." Similarly, the 1999 ST Annual Report emphasizes Shell Transport's purported "commitment to the highest standards of integrity and transparency in its governance of the Company."

332. Under the heading "Other matters," the 1999 Annual Reports provide the following information, inter alia, concerning the Companies' internal controls:

Risk management and internal control

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

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

* * *

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

333. In addition, the 1999 ST Annual Report states the following concerning Shell Transport's internal financial controls:

The Directors are responsible for, and have reviewed the effectiveness of, Shell Transport's system of internal financial control, ***which is established to provide reasonable assurance of the safeguarding of its assets, the maintenance of proper accounting records and the reliability of financial information***. [Emphasis added.]

334. As Defendants knew or were reckless in not knowing, the statements in the previous three paragraphs – concerning the Companies' commitment to upholding the highest standards of integrity and transparency, the existence of strengthened and effective internal controls, and the effectiveness of Shell Transport's system of internal financial control – were materially false and misleading when made for the reasons given in ¶ 309 and the paragraphs cited therein.

335. The 1999 RD Annual Report attaches KPMG's "Report of the Auditors" concerning Royal Dutch's annual accounts for 1999. The KPMG Report, which is dated March 8, 2000, states:

> We have audited the Annual Accounts for the year 1999 of Royal Dutch Petroleum Company. These Accounts are the responsibility of the Company's management. Our responsibility is to express an opinion on these Accounts based on our audit.
>
> We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual accounts. ***We believe that our audit provides a reasonable basis for our opinion.***
>
> ***In our opinion, these Accounts – of which the Financial Statements of the Royal Dutch/Shell Group of Companies and the Notes thereto on pages 33 to 53 form part – give a true and fair view of the financial position of the Company at December 31, 1999, and of the results and the cash flows for the year then ended*** in accordance with accounting principles generally accepted in the Netherlands and comply with the legal requirements in the Netherlands regarding annual accounts. [Emphasis added.]

336. Similarly, the 1999 ST Annual Report attaches PwC's "Report of the Auditors" concerning Shell Transport's financial statements for 1999. The PwC Report, which is dated

March 9, 2000, states, inter alia: "In our opinion, the Financial Statements give a true and fair view of the state of the Company's affairs at December 31, 1999 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985."

337. The 1999 Annual Reports also attach KPMG and PwC's "Report of the Auditors" for Royal Dutch and Shell Transport relating to specified financial statements. This Report, which is dated March 8, 2000, states in relevant part:

> We have audited the Financial Statements appearing on pages 33 to 53 of the Royal Dutch/Shell Group of Companies for the years 1999, 1998 and 1997. The preparation of Financial Statements is the responsibility of management. Our responsibility is to express an opinion on Financial Statements based on our audits.
>
> ***We conducted our audits in accordance with generally accepted auditing standards***. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management in the preparation of Financial Statements, as well as evaluating the overall Financial Statement presentation. ***We believe that our audits provide a reasonable basis for our opinion.***
>
> ***In our opinion, the Financial Statements referred to above present fairly, in all material respects, the financial position of the Royal Dutch/Shell Group of Companies at December 31, 1999 and 1998 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999*** in accordance with generally accepted accounting principles in the Netherlands and the United States. [Emphasis added.]

338. As KPMG and PwC knew or were reckless in not knowing, the statements in the previous three paragraphs – that the financial statements in question give a true and fair view of the financial position, results, and cash flow of Royal Dutch for the stated time period, that the financial statements in question give a true and fair view of the state of Shell Transport's affairs

for the stated time period, that KPMG and PwC conducted their audits of the Companies in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of operations, and cash flow of the Companies for the stated time periods in all material respects – were materially false and misleading when made for the reasons given in ¶ 313 and the paragraphs cited therein.

Statements Made in Second-Quarter 2000

339. On April 11, 2000, the Companies filed with the SEC their Annual Report on Form 20-F for the year ended December 31, 1999 (the "1999 20-F"), signed by Defendant Maarten van den Bergh for Royal Dutch, and by Defendant Mark Moody-Stuart for Shell Transport. Under the headings "Description of Activities/Exploration and Production," the 1999 20-F gives the following summary information for proved developed and undeveloped reserves (at year end) for 1997, 1998, and 1999:

PROVED DEVELOPED AND UNDEVELOPED RESERVES (at year end)			
			million barrels
	1999	1998	1997
Crude oil and natural gas liquids			
Group companies	8,509	8,779	8,354
Group share of associated companies	1,266	1,252	1,327
	9,775	10,031	9,681
			Billion standard cubic feet
Natural gas			
Group companies	52,847	54,333	49,765
Group share of associated companies	5,694	6,129	6,366
	58,541	60,462	56,131

340. Under the heading "Exploration and Production," the 1999 20-F gives the following information concerning replacement ratios of crude oil and natural gas for both 1999 and the three-year period from 1997 through 1999:

> Reserves
>
> The overall 1999 replacement ratio of proved crude oil and natural gas reserves and oil sands stands at 101% (147% excluding 1999 divestments and acquisitions). Additions through revisions and discoveries, together with the new Canadian oil-sands project (which is disclosed separately from crude oil and natural gas proved reserves), are offset by reductions due to production and portfolio activities. The replacement ratio of the overall 1999 crude oil and natural gas proved reserves (including natural gas liquids, but excluding oil sands) is 102% before and 56% after divestments and acquisitions.
>
> The three-year rolling average replacement ratio for total crude oil and natural gas proved reserves (including portfolio activities) stands at 132%, reflecting the fact that oil and gas production over 1997-99 has been more than replaced by net additions over the same period.

In this same section, the 1999 20-F repeats verbatim the materially false and misleading language from the 1998 20-F and 1998 20-F/A concerning replacement ratios quoted in paragraph 304, above.

341. In a section entitled "Supplementary Information – Oil and Gas," the 1999 20-F provides the following additional information about the Companies' reserves:

> Proved reserves are the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are those reserves which can be expected to be recovered through existing wells with existing equipment and operating methods. ***The reserves reported exclude volumes attributable to oil and gas discoveries which are not at present considered proved. Such reserves will be included when technical, fiscal and other conditions allow them to be economically developed and produced.*** [Emphasis added.]

342. As Defendants knew or were reckless in not knowing, the statements in the previous three paragraphs – concerning the figures for proved developed and undeveloped reserves (at year end), replacement ratios and the explanations for those ratios, and the exclusion from reported reserves of volumes attributable to discoveries "which are not at present considered proved" – were materially false and misleading when made for the reasons given in ¶ 302 and the paragraphs cited therein.

343. Certain of the Companies' financial metrics are directly tied to their reported proved hydrocarbon reserves. Thus, when Defendants made the foregoing materially false and misleading statements concerning those reserves (and related metrics, such as reserve replacement ratios), they also, as a consequence, made false and misleading financial statements. In the 1999 20-F, Defendants reported year-end cash flow provided by operating activities of $11.059 billion, which was overstated in an amount that cannot be determined from publicly available documents. Exploration costs were reported to be $1.086 billion, which was understated in an amount that cannot be determined from publicly available documents. Defendants reported net income for 1999 to be $8.584 billion, which was overstated in an amount that cannot be determined from publicly available documents. (In their Annual Report on Form 20-F/A for the year ended December 31, 2002, Defendants admit that the Companies' "pre 2000" net income was overstated by $70 million (ignoring adjustments unrelated to reserves). Defendants do not allocate the $70 million overstatement in net income to specific years.)

344. Under the heading "Other Matters," the 1999 20-F also provides the following information, inter alia, concerning the Companies' internal controls:

Risk management and internal control

> An explicit risk and internal control policy was approved by the Boards of the Group Holding Companies in December 1999. This policy states that the Group has a risk-based approach to internal control and that management in the Group is responsible for implementing, operating and monitoring the system of internal control, which is designed to provide reasonable but not absolute assurance of achieving business objectives.
>
> ***Consistent with this policy and with published advice on best practice, existing processes are being strengthened and formalized to bring into greater focus the identification, evaluation and reporting of risk as an integral part of the system of internal control.*** As part of their existing planning processes, businesses will now consolidate and report risk profiles, critical risk response summaries and descriptions of how risk and control management effectiveness will be monitored. In addition to existing ad hoc reporting mechanisms, ***the Committee of Managing Directors will receive regular updates on this information during quarterly business performance reviews, and will also consider the risks associated with objectives and long-term plans. The results of this work will be presented to Conference (meetings between the members of the Supervisory Board and the Board of Management of Royal Dutch and the Directors of Shell Transport) on a quarterly basis.***
>
> * * *
>
> Within the essential framework provided by the *Statement of General Business Principles*, the Group's primary control mechanisms are self-appraisal processes in combination with strict accountability for results. These mechanisms are underpinned by a number of elements including mandatory policies and defined procedures, guidelines and standards which relate to particular types of risk, assignment of responsibilities and authorities, structured decision processes, performance reviews and transparent reporting systems. [Emphasis added.]

345. As Defendants knew or were reckless in not knowing, the statements in the previous paragraph concerning the existence of strengthened and effective internal controls were materially false and misleading when made for the reasons given in ¶ 309 and the paragraphs cited therein.

346. The 1999 20-F attaches KPMG's "Report of Independent Accountants" for Royal Dutch relating to specified financial statements. The KPMG Report, which is dated March 8, 2000, states in relevant part:

> We have audited the Financial Statements of Royal Dutch Petroleum Company for the years 1999, 1998 and 1997 appearing on pages R-2 to R-5. The preparation of these Financial Statements is the responsibility of the Board of Management. Our responsibility is to express an opinion on the Financial Statements based on our audits.
>
> ***We conducted our audits in accordance with auditing standards generally accepted in the United States.*** Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Management in the preparation of the Financial Statements, as well as evaluating the overall Financial Statement presentation. ***We believe that our audits provide a reasonable basis for our opinion.***
>
> ***In our opinion, the Financial Statements referred to above present fairly, in all material respects, the financial position of Royal Dutch Petroleum Company at December 31, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999*** in accordance with the accounting policies described on page R-3. [Emphasis added.]

347. Similarly, the 1999 20-F attaches PwC's "Report of Independent Accountants" for Shell Transport relating to specified financial statements. The PwC Report, which is dated March 9, 2000, states in relevant part:

> We have audited the Financial Statements of The "Shell" Transport and Trading Company, Public Limited Company for the years 1999, 1998 and 1997 appearing on pages S-2 to S-8. The preparation of the Financial Statements is the responsibility of the Company's Directors. Our responsibility is to express an opinion on those Financial Statements based on our audits.

> ***We conducted our audits in accordance with auditing standards generally accepted in the United States.*** Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Directors in the preparation of the Financial Statements, as well as evaluating the overall Financial Statement presentation. ***We believe that our audits provide a reasonable basis for our opinion.***
>
> ***In our opinion, the Financial Statements referred to above present fairly, in all material respects, the financial position of The "Shell" Transport and Trading Company, Public Limited Company at December 31, 1999 and 1998, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 1999*** in conformity with the accounting principles described in Note 1 on page S-5. [Emphasis added.]

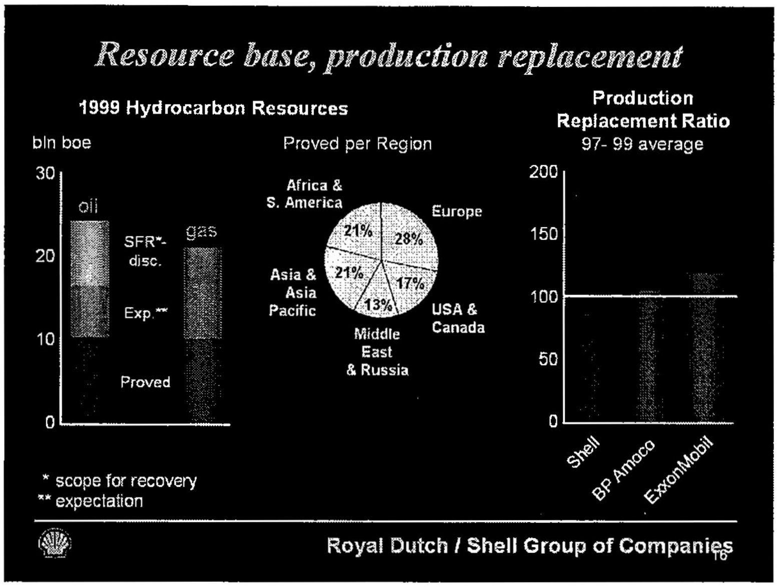
348. The 1999 20-F also attaches KPMG and PwC's "Report of Independent Accountants" for Royal Dutch and Shell Transport relating to specified financial statements. This Report, which is dated March 8, 2000, states in relevant part:

> We have audited the Financial Statements appearing on pages G-2 to G-30 of the Royal Dutch/Shell Group of Companies for the years 1999, 1998 and 1997. The preparation of Financial Statements is the responsibility of management. Our responsibility is to express an opinion on Financial Statements based on our audits.
>
> ***We conducted our audits in accordance with auditing standards generally accepted in the United States***. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management in the preparation of the Financial Statements, as well as evaluating the overall Financial Statement presentation. ***We believe that our audits provide a reasonable basis for our opinion***.
>
> ***In our opinion, the Financial Statements referred to above***

> ***present fairly, in all material respects, the financial position of the Royal Dutch/Shell Group of Companies at December 31, 1999 and 1998 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999*** in accordance with generally accepted accounting principles in the Netherlands and the United States. [Emphasis added.]

349. As KPMG and PwC knew or were reckless in not knowing, the statements in the previous three paragraphs – that KPMG conducted its audits of Royal Dutch in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of operations, and cash flow of Royal Dutch for the stated time periods in all material respects; that PwC conducted its audits of Shell Transport in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of operations, and cash flow of Shell Transport for the stated time periods in all material respects; and that KPMG and PwC conducted their audits of the Companies in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of operations, and cash flow of the Companies for the stated time periods in all material respects – were materially false and misleading when made for the reasons given in ¶ 313 and the paragraphs cited therein.

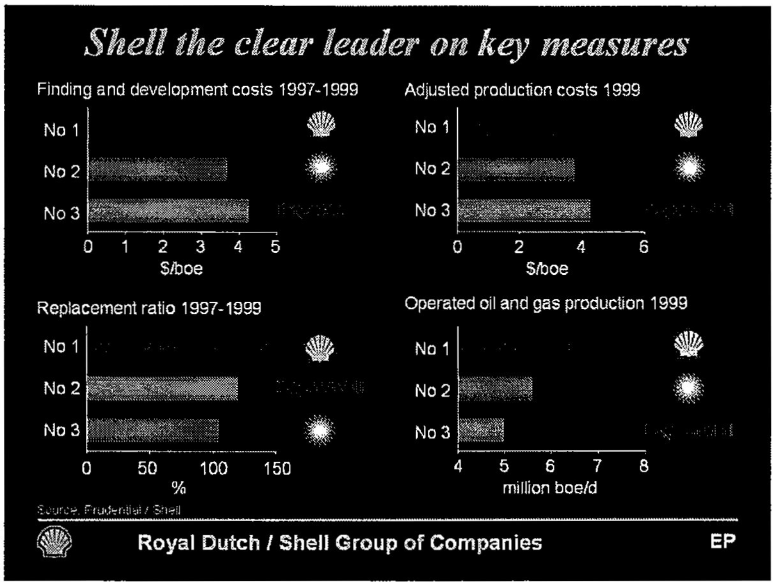
350. On April 12, 2000, several of the Companies' top executives, including Watts, participated in a presentation to analysts entitled "Improving Performance and Maximising Value in Uncertain Times." In the presentation, which was repeated in Houston the next day, the Companies touted their production replacement ratio, claiming it averaged 150% between 1997 and 1999, and they depicted it as far exceeding its competitors, as follows:



351. As Defendants knew or were reckless in not knowing, the information set forth in the previous paragraph, concerning production replacement ratios, was materially false and misleading when made for the reasons given in ¶ 302 and the paragraphs cited therein.

<u>Statements Made in Fourth-Quarter 2000</u>

352. On December 18, 2000, many of the Companies' top executives, including Defendants Moody-Stuart, Watts, and Skinner, made a presentation to investors and the financial community. During the presentation, the Companies represented themselves to be "the key [industry] leader on key measures," including hydrocarbon replacement ratios:



353. As Defendants knew or were reckless in not knowing, the information set forth in the previous paragraph, concerning production replacement ratios, was materially false and misleading when made for the reasons given in ¶ 302 and the paragraphs cited therein.

Statements Made in First-Quarter 2001

354. On or about February 21, 2001, Royal Dutch filed a Form 6-K with the SEC (the "Feb. 21, 2001 6-K"). The Feb. 21, 2001 6-K reported that "The proved hydrocarbon reserves replacement ratio for 2000 was 105%, before the effects of acquisitions and divestments. Including the effects of these activities, the replacement ratio was 69%."

355. The statement in the previous paragraph, concerning proved hydrocarbon reserves replacement ratios, was materially false and misleading when made for the reasons given in ¶ 302 and the paragraphs cited therein.

356. Certain of the Companies' financial metrics are directly tied to their reported proved hydrocarbon reserves. Thus, when Defendants made the foregoing materially false and

misleading statements concerning reserve replacement ratios, they also, as a consequence, made false and misleading financial statements. In the Feb. 21, 2001 6-K , Defendants reported that Depreciation, Depletion and Amortisation for 2000 was $7.885 billion, an understatement of approximately $132 million, with a corresponding overstatement of reported pre-tax net income. Defendants reported year-end cash flow provided by operating activities at $18.359 billion, which was overstated by the same $132 million, ignoring adjustments unrelated to reserves. Exploration costs were reported to be $755 million, which was understated by $81 million, resulting in a further overstatement of reported pre-tax net income of $7 million. Thus, the annual net income Defendants reported for 2000, $12.719 billion, was overstated by a total of $139 million ($132 million plus $7 million), ignoring adjustments unrelated to reserves.

357. In or about March 2001, Royal Dutch issued its "Annual Report and Accounts 2000" (the "2000 RD Annual Report"), and Shell Transport issued its "Annual Report and Accounts 2000" (the "2000 ST Annual Report" and, together with the 2000 RD Annual Report, the "2000 Annual Reports"). Defendant van der Veer signed the 2000 RD Annual Report on March 14, 2001, and Defendant Moody-Stuart signed the 2000 ST Annual Report on March 15, 2001.

358. The 2000 Annual Reports set forth numerous materially false or misleading statements concerning proved hydrocarbon reserves. For example, the 2000 Annual Reports give the following information concerning proved hydrocarbon reserves replacement ratios:

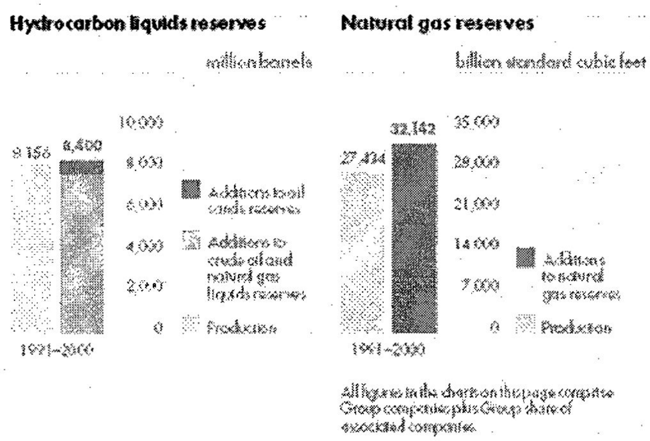
> Reserves
>
> The proved hydrocarbon reserves replacement ratio for 2000 was 105% (before the effects of a significant divestment and acquisition programme). Therefore production during the year of 1.4 billion barrels of oil equivalent was more than replaced. Including the net effect of divestments and acquisitions, the replacement ratio was 69%.

The three-year rolling average proved hydrocarbon reserves replacement ratio (including oil sands and portfolio activities) stands at 117%.

The three-year rolling average oil and natural gas proved reserves replacement ratio (excluding oil sands) stands at 102%.

The additions to proved reserves arose mainly from discoveries and extensions in the USA and West Africa, improved recovery in Oman and Canada and revisions in existing fields in Oman and Venezuela, offset by the divestment of the Altura interest in the USA.

359. The 2000 Annual Reports graphically depict the Companies' hydrocarbon liquids and natural gas reserve information as follows:



360. In a section entitled "Supplementary information – oil and gas," the 2000 Annual Reports provide the following additional information about the Companies' reserves:

Proved reserves are the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are those reserves which can be expected to be recovered through existing wells with existing equipment and operating methods. ***The reserves reported exclude volumes attributable to oil and gas discoveries which are not at present considered proved. Such reserves will be included when technical, fiscal and other conditions allow them to be economically developed and produced.*** [Emphasis added.]

361. As Defendants knew or were reckless in not knowing, the statements in the previous three paragraphs – concerning proved hydrocarbon reserves replacement ratios, the conclusion that actual production was "more than replaced," the reasons given for additions to proved reserves, the graphical depiction of oil and gas reserves, and the exclusion from reported reserves of volumes attributable to discoveries "which are not at present considered proved" – were materially false and misleading when made for the reasons given in ¶ 302 and the paragraphs cited therein.

362. Certain of the Companies' financial metrics are directly tied to their reported proved hydrocarbon reserves. Thus, when Defendants made the foregoing materially false and misleading statements concerning those reserves (and related metrics, such as reserve replacement ratios), they also, as a consequence, made false and misleading financial statements. In the 2000 Annual Reports, Defendants reported that Depreciation, Depletion and Amortisation for 2000 was $7.885 billion, an understatement of approximately $132 million, with a corresponding overstatement of reported pre-tax net income. Defendants reported year-end cash flow provided by operating activities to be $18.359 billion, which was overstated by the same $132 million, ignoring adjustments unrelated to reserves. Exploration costs were reported to be $755 million, which was understated by $81 million, resulting in a further overstatement of reported pre-tax net income of $7 million. Thus, the annual net income Defendants reported for 2000, $12.719 billion, was overstated by a total of $139 million ($132 million plus $7 million), ignoring adjustments unrelated to reserves.

363. The 2000 Annual Reports also contain information about the Companies' corporate-governance and internal-control efforts. Both van der Veer, in his Message from the President, and Moody-Stuart, in his message from the Chairman, underscored the Companies'

purported commitment to "transparency": "We are committed to transparency, and to developing and integrating our reporting on how Shell companies fulfil their responsibilities."

364. Similarly, the 2000 RD Annual Report states that "The Supervisory Board and Board of Management of Royal Dutch Petroleum Company (Royal Dutch) remain committed to upholding the highest standards of integrity and transparency in their governance of the Company."

365. Under the heading "Other matters," the 2000 Annual Reports provide the following information, inter alia, concerning the Companies' internal controls:

> Risk management and internal control
>
> The Group's approach to internal control is based on the underlying principle of line management's accountability for risk and control management. The Group's risk and internal control policy explicitly states that the Group has a risk-based approach to internal control and that management in the Group is responsible for implementing, operating and monitoring the system of internal control, which is designed to provide reasonable but not absolute assurance of achieving business objectives.
>
> ***Consistent with this policy, a number of existing processes were strengthened and formalised in 2000.*** . . .
>
> ***[R]eview and reporting processes were enhanced to bring risk management into greater focus and to enable Conference (meetings between the members of the Supervisory Board and the Board of Management of Royal Dutch and the Directors of Shell Transport) to regularly review the risk and control management system and facilitate their full annual review of the system's effectiveness.***
>
> * * *
>
> Each quarter, risk profiles which highlight the perceived impact and likelihood of significant risks are ***reviewed and discussed by the Committee of Managing Directors (CMD) and Conference***. Each risk profile is supported by a summary of key controls and monitoring mechanisms. . . .

* * *

> The Group's approach to internal control also includes a number of general and specific risk management processes and policies. Within the essential framework provided by the *Statement of General Business Principles*, ***the Group's primary control mechanisms are self-appraisal processes in combination with strict accountability for results***. These mechanisms are underpinned by controls including mandatory policies and defined procedures, guidelines and standards which relate to particular types of risk, structured investment decision processes, timely and effective reporting systems, and performance appraisal.
>
> * * *
>
> A procedure for identification and reporting of business control incidents continues to enable management and the Group Audit Committee to monitor incidents that have caused a potential loss as a result of breakdown in controls and ***to ensure appropriate follow-up actions have been taken***. Lessons learned are captured and shared as a means of improving the Group's overall control framework.
>
> * * *
>
> In addition, ***internal audit plays a critical role in the objective assessment of business processes and the provision of assurance***. Audits and reviews of Group operations are carried out by internal audit to provide the Group Audit Committee with ***independent assessments*** regarding the effectiveness of risk and control management.
>
> Taken together, ***these processes and practices provide confirmation to the Group Holding Companies that relevant policies are adopted and procedures implemented with respect to risk and control management***. [Emphasis added.]

366. As Defendants knew or were reckless in not knowing, the statements in the previous three paragraphs – concerning the Companies' purported commitment to transparency, Royal Dutch's commitment to upholding the highest standards of integrity and transparency, and the existence of strengthened, effective, and independent internal controls – were materially false and misleading when made for the reasons given in ¶ 309 and the paragraphs cited therein.

367. The 2000 RD Annual Report attaches KPMG's "Report of the Auditors" concerning Royal Dutch's annual accounts for 2000. The KPMG Report, which is dated March 14, 2001, states:

> We have audited the Annual Accounts for the year 2000 of Royal Dutch Petroleum Company. These Accounts are the responsibility of the Company's management. Our responsibility is to express an opinion on these Accounts based on our audit.
>
> We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual accounts. ***We believe that our audit provides a reasonable basis for our opinion.***
>
> ***In our opinion, these Accounts – of which the Financial Statements of the Royal Dutch/Shell Group of Companies and the Notes thereto on pages 37 to 57 form part – give a true and fair view of the financial position of the Company at December 31, 2000, and of the results and the cash flows for the year then ended*** in accordance with accounting principles generally accepted in the Netherlands and comply with the legal requirements in the Netherlands regarding annual accounts. [Emphasis added.]

368. Similarly, the 2000 ST Annual Report attaches PwC's "Report of the independent Auditors" concerning Shell Transport's financial statements for 2000. The PwC Report, which is dated March 15, 2001, states, inter alia: "In our opinion, the Financial Statements give a true and fair view of the state of the Company's affairs at December 31, 2000 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985."

369. The 2000 Annual Reports also attach KPMG and PwC's "Report of the independent Auditors" for Royal Dutch and Shell Transport relating to specified financial statements. This Report, which is dated March 14, 2001, states in relevant part:

> We have audited the Financial Statements appearing on pages 37 to 57 of the Royal Dutch/Shell Group of Companies for the years 2000, 1999 and 1998. The preparation of Financial Statements is the responsibility of management. Our responsibility is to express an opinion on Financial Statements based on our audits.
>
> ***We conducted our audits in accordance with generally accepted auditing standards***. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatement.
>
> An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management in the preparation of Financial Statements, as well as evaluating the overall Financial Statement presentation. ***We believe that our audits provide a reasonable basis for our opinion.***
>
> ***In our opinion, the Financial Statements referred to above present fairly, in all material respects, the financial position of the Royal Dutch/Shell Group of Companies at December 31, 2000 and 1999 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000*** in accordance with generally accepted accounting principles in the Netherlands and the United States. [Emphasis added.]

370. As KPMG and PwC knew or were reckless in not knowing, the statements in the previous three paragraphs – that the financial statements in question give a true and fair view of the financial position, results, and cash flow of Royal Dutch for the stated time period, that the financial statements in question give a true and fair view of the state of Shell Transport's affairs for the stated time period, that KPMG and PwC conducted their audits of the Companies in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of operations, and cash flow of the Companies for the stated time periods in all

material respects – were materially false and misleading when made for the reasons given in ¶ 313 and the paragraphs cited therein.

371. On or about March 22, 2001, Shell Transport filed a Form 6-K with the SEC (the "Mar. 22, 2001 6-K"). The Mar. 22, 2001 6-K presented the Companies' results for fourth-quarter and full-year 2000, set forth the same information described above in connection with the Feb. 21, 2001 6-K, and was materially false and misleading when made for the same reasons.

Statements Made in Second-Quarter 2001

372. On April 12, 2001, the Companies filed with the SEC their Annual Report on Form 20-F for the year ended December 31, 2000 (the "2000 20-F"), signed by Defendant Jeroen van der Veer for Royal Dutch, and by Defendant Mark Moody-Stuart for Shell Transport. Under the headings "Description of Activities/Exploration and Production," the 2000 20-F gives the following summary information for proved developed and undeveloped reserves (at year end) for 1998, 1999, and 2000:

PROVED DEVELOPED AND UNDEVELOPED RESERVES (at December 31)			
			million barrels
	2000	1999	1998
Crude oil and natural gas liquids			
Group companies	8,670	8,509	8,779
Group share of associated companies	1,081	1,266	1,252
	9,751	9,775	10,031
			thousand million standard cubic feet
Natural gas			
Group companies	50,842	52,847	54,333
Group share of associated companies	5,441	5,694	6,129
	56,283	58,541	60,462

373. Under the heading "Exploration and Production," the 2000 20-F gives the

following information concerning proved hydrocarbon reserves replacement ratios:

> Reserves
>
> The proved hydrocarbon reserves replacement ratio for 2000 was 105% (before the effects of a significant divestment and acquisition programme). Therefore production during the year of 1.4 billion barrels of oil equivalent was more than replaced. Including the net effect of divestments and acquisitions, the replacement ratio was 69%.
>
> The three-year rolling average proved hydrocarbon reserves replacement ratio (including oil sands and portfolio activities) stands at 117%.
>
> The three-year rolling average oil and natural gas proved reserves replacement ratio (excluding oil sands) stands at 102%.
>
> The additions to proved reserves arose mainly from discoveries and extensions in the USA and West Africa, improved recovery in Oman and Canada and revisions in existing fields in Oman and Venezuela, offset by the divestment of the Altura interest in the USA.

In this same section, the 2000 20-F repeats verbatim the materially false and misleading language from the 1999 20-F concerning replacement ratios quoted in paragraph 340, above.

374. In a section entitled "Supplementary Information – Oil and Gas," the 2000 20-F provides the following additional information about the Companies' reserves:

> Proved reserves are the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are those reserves which can be expected to be recovered through existing wells with existing equipment and operating methods. ***The reserves reported exclude volumes attributable to oil and gas discoveries which are not at present considered proved. Such reserves will be included when technical, fiscal and other conditions allow them to be economically developed and produced.*** [Emphasis added.]

375. As Defendants knew or were reckless in not knowing, the statements in the

previous three paragraphs – concerning the figures for proved developed and undeveloped reserves (at year end), proved hydrocarbon reserves replacement ratios, the conclusion that actual production was "more than replaced," the reasons given for additions to proved reserves, and the exclusion from reported reserves of volumes attributable to discoveries "which are not at present considered proved" – were materially false and misleading when made for the reasons given in ¶ 302 and the paragraphs cited therein.

376. Certain of the Companies' financial metrics are directly tied to their reported proved hydrocarbon reserves. Thus, when Defendants made the foregoing materially false and misleading statements concerning those reserves (and related metrics, such as reserve replacement ratios), they also, as a consequence, made false and misleading financial statements. In the 2000 20-F, Defendants reported that Depreciation, Depletion and Amortisation for 2000 was $7.885 billion, an understatement of approximately $132 million, with a corresponding overstatement of reported pre-tax net income. Defendants reported year-end cash flow provided by operating activities to be $18.359 billion, which was overstated by the same $132 million, ignoring adjustments unrelated to reserves. Exploration costs were reported to be $755 million, which was understated by $81 million, resulting in a further overstatement of reported pre-tax net income of $7 million. Thus, the annual net income Defendants reported for 2000, $12.719 billion, was overstated by a total of $139 million ($132 million plus $7 million), ignoring adjustments unrelated to reserves.

377. Under the heading "Other Matters," the 2000 20-F also provides the following information, inter alia, concerning the Companies' internal controls:

> Risk management and internal control
>
> The Group's approach to internal control is based on the underlying principle of line management's accountability for risk and control

management. The Group's risk and internal control policy explicitly states that the Group has a risk-based approach to internal control and that management in the Group is responsible for implementing, operating and monitoring the system of internal control, which is designed to provide reasonable but not absolute assurance of achieving business objectives.

Consistent with the policy, a number of existing processes were strengthened and formalised in 2000. . . .

[R]eview and reporting processes were enhanced [to] bring risk management into greater focus and to enable Conference (meetings between the members of the Supervisory Board and the Board of Management of Royal Dutch and the Directors of Shell Transport) to regularly review the risk and control management system and facilitate their full annual review of the system's effectiveness.

* * *

Each quarter, risk profiles which highlight the perceived impact and likelihood of significant risks are ***reviewed and discussed by the Committee of Managing Directors (CMD) and Conference.*** Each risk profile is supported by a summary of key controls and monitoring mechanisms. . . .

* * *

The Group's approach to internal control also includes a number of general and specific risk management processes and policies. Within the essential framework provided by the *Statement of General Business Principles*, ***the Group's primary control mechanisms are self-appraisal processes in combination with strict accountability for results.*** These mechanisms are underpinned by controls including mandatory policies and defined procedures, guidelines and standards which relate to particular types of risk, structured investment decision processes, timely and effective reporting systems, and performance appraisal.

* * *

A procedure for identification and reporting of business control incidents continues to enable management and the Group Audit Committee to monitor incidents that have caused a potential loss as a result of breakdown in controls and ***to ensure appropriate follow-up actions have been taken.*** Lessons learned are captured and shared as a means of improving the Group's overall control framework.

* * *

In addition, ***internal audit plays a critical role in the objective assessment of business processes and the provision of assurance***. Audits and reviews of Group operations are carried out by internal audit to provide the Group Audit Committee with ***independent assessments*** regarding the effectiveness of risk and control management.

Taken together, ***these processes and practices provide confirmation to the Group Holding Companies that relevant policies are adopted and procedures implemented with respect to risk and control management***. [Emphasis added.]

378. As Defendants knew or were reckless in not knowing, the statements in the previous paragraph concerning the existence of strengthened, effective, and independent internal controls were materially false and misleading when made for the reasons given in ¶ 309 and the paragraphs cited therein.

379. The 2000 20-F attaches KPMG's "Report of Independent Accountants" for Royal Dutch relating to specified financial statements. The KPMG Report, which is dated March 14, 2001, states in relevant part:

> We have audited the Financial Statements of Royal Dutch Petroleum Company for the years 2000, 1999 and 1998 appearing on pages R2 to R5. The preparation of these Financial Statements is the responsibility of the Board of Management. Our responsibility is to express an opinion on the Financial Statements based on our audits.
>
> ***We conducted our audits in accordance with auditing standards generally accepted in the United States***. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of

> Management in the preparation of the Financial Statements, as well as evaluating the overall Financial Statement presentation. ***We believe that our audits provide a reasonable basis for our opinion.***
>
> ***In our opinion, the Financial Statements referred to above present fairly, in all material respects, the financial position of Royal Dutch Petroleum Company at December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000*** in accordance with the accounting policies described on page R3. [Emphasis added.]

380. Similarly, the 2000 20-F attaches PwC's "Report of Independent Accountants" for Shell Transport relating to specified financial statements. The PwC Report, which is dated March 15, 2001, states in relevant part:

> We have audited the Financial Statements of The "Shell" Transport and Trading Company, Public Limited Company for the years 2000, 1999 and 1998 appearing on pages S2 to S8. The preparation of the Financial Statements is the responsibility of the Company's Directors. Our responsibility is to express an opinion on those Financial Statements based on our audits.
>
> ***We conducted our audits in accordance with auditing standards generally accepted in the United States.*** Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Directors in the preparation of the Financial Statements, as well as evaluating the overall Financial Statement presentation. ***We believe that our audits provide a reasonable basis for our opinion.***
>
> ***In our opinion, the Financial Statements referred to above present fairly, in all material respects, the financial position of The "Shell" Transport and Trading Company, Public Limited Company at December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2000*** in conformity with the accounting principles described in Note 1 on page S4. [Emphasis added.]

381. The 2000 20-F also attaches KPMG and PwC's "Report of Independent

Accountants" for Royal Dutch and Shell Transport relating to specified financial statements. This Report, which is dated March 14, 2001, states in relevant part:

> We have audited the Financial Statements appearing on pages G2 to G30 of the Royal Dutch/Shell Group of Companies for the years 2000, 1999 and 1998. The preparation of Financial Statements is the responsibility of management. Our responsibility is to express an opinion on Financial Statements based on our audits.
>
> ***We conducted our audits in accordance with auditing standards generally accepted in the United States***. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management in the preparation of the Financial Statements, as well as evaluating the overall Financial Statement presentation. ***We believe that our audits provide a reasonable basis for our opinion***.
>
> ***In our opinion, the Financial Statements referred to above present fairly, in all material respects, the financial position of the Royal Dutch/Shell Group of Companies at December 31, 2000 and 1999 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000*** in accordance with generally accepted accounting principles in the Netherlands and the United States. [Emphasis added.]

382. As KPMG and PwC knew or were reckless in not knowing, the statements in the previous three paragraphs – that KPMG conducted its audits of Royal Dutch in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of operations, and cash flow of Royal Dutch for the stated time periods in all material respects; that PwC conducted its audits of Shell Transport in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of operations, and cash flow of Shell Transport for the stated time periods in all material respects; and that KPMG and PwC conducted their audits of the Companies in accordance with GAAS, and that the financial

statements in question fairly present the financial position, results of operations, and cash flow of the Companies for the stated time periods in all material respects – were materially false and misleading when made for the reasons given in ¶ 313 and the paragraphs cited therein.

<u>Statements Made in First-Quarter 2002</u>

383. On a February 7, 2002 conference call with analysts and investors, addressing the Companies' fourth-quarter and full-year 2001 results, a representative of the Companies from Investor Relations stated the following concerning Nigeria: "Huge growth program in Nigeria: expect to more than double production in Nigeria over next five years."

384. As Defendants knew or were reckless in not knowing, the statements quoted in the previous paragraph, concerning the Companies' "huge" growth program in Nigeria, and their expectation of doubling production in Nigeria over the following five years, were materially false and misleading when made because of the plethora of problems the Companies were encountering in Nigeria, including construction problems, infrastructure issues, problems complying with government mandates, lack of adequate government funding, and ethnic unrest. <u>See</u> ¶¶ 206-46.

385. On February 8, 2002, Defendant Watts spoke with Bloomberg's Guy Collins about the Companies' fourth-quarter earnings and outlook. The following exchange occurred:

> COLLINS: I want to ask you about Enron and any parallels there. Do you have off balance sheet liabilities? Do you have trigger mechanisms in place, that make you vulnerable to changes in the share price or credit ratings?
>
> WATTS: Shell is very different from Enron. We were criticized for that some time ago and I'm glad ***we have a absolutely rock-solid way we do our business. And, if you read our annual report, you read our footnotes and all the details, everything is in there. It's all completely transparent, as far as Shell is concerned.*** [Emphasis added.]

386. As Watts knew or was reckless in not knowing, the statements quoted in the

previous paragraph, concerning the Companies' "absolutely rock-solid way" of doing business, and the complete transparency of their annual report, were materially false and misleading when made for the reasons given in ¶ 309 and the paragraphs cited therein.

387. In February 2002, Royal Dutch filed a Form 6-K with the SEC, signed by Defendant van de Vijver on February 13, 2002 (the "Feb. 13, 2002 6-K"). The Feb. 13, 2002 6-K reported that "The proved hydrocarbon reserves replacement ratio for 2001 was 74%. Proved reserve additions were 1 billion barrels of oil equivalent (boe)."

388. As Defendants knew or were reckless in not knowing, the statements in the previous paragraph, concerning the proved hydrocarbon reserves replacement ratio for 2001, and the amount of proved reserve additions, were materially false and misleading when made for the reasons given in ¶ 302 and the paragraphs cited therein.

389. Certain of the Companies' financial metrics are directly tied to their reported proved hydrocarbon reserves. Thus, when Defendants made the foregoing materially false and misleading statements concerning the Companies' reserve replacement ratio, they also, as a consequence, made false and misleading financial statements. In the Feb. 13, 2002 6-K, Defendants reported that Depreciation, Depletion and Amortisation for 2001 was $6.117 billion, an understatement of approximately $84 million, with a corresponding overstatement of reported pre-tax net income. Defendants reported year-end cash flow provided by operating activities to be $16.933 billion, which was overstated by the same $84 million, ignoring adjustments unrelated to reserves. Exploration costs were reported to be $882 million, which was understated by $28 million, resulting in a further overstatement of reported pre-tax net income of $7 million. Thus, the annual net income Defendants reported for 2001, $10.852 billion, was overstated by a total of $91 million ($84 million plus $7 million), ignoring adjustments unrelated to reserves.