Unknown

From: Brass, Lorin LL SIEP-EPB
Sent: 10 July 2001 06:24
To: Gardy, Dominique D SIEP-EPF; Bell, John J SIEP-EPB-P; Van De Vijver, Walter SI-MGDWV
Cc: Thorkildsen, Alf A SIEP-EPF
Subject: RE: vol growth

All, I would just emphasise a couple of the points that Walter has made below.

There are disappointments in the short term, (UK, etc.), which lead to a lower starting point for the plan in 2002.

The base plan itself is essentially the same as last year...within fractions of a %.

And the rest of the growth last year came from options. Nearly 40 that we discounted.

SO what's different? Yes, the base seems to not be solid. That's a real issue. AND,

We have learned that the options have been much more difficult to deliver for many reasons that are somewhat beyond our control (but that needs to be fully challenged). For instance, the Saudi deal did land, as expected, as of mid year 2001, but the deal was dramatically different that what was believed last year. Many of these MRH situations are like that. Guaranteeing their delivery is not on....

That's way last year we risked nearly 40 of them into the plan...believing surely with such a quantity, we would get our fair share. That's not happening (yet) and we have been very transparent with CMD on that account....most recently during strategy discussions in April. And many times as we presented acquisition targets throughout the year.

Having said all that, we have to do all we can to bring the production forward, but at the same time be very truthful with the market.

Good luck today.

-----Original Message-----
From: Gardy, Dominique D SIEP-EPF
Sent: 09 July 2001 21:56
To: Bell, John J SIEP-EPB-P; Brass, Lorin LL SIEP-EPB
Subject: FW: vol growth

the second one...

we will have a nice discussion tomorrow!

-----Original Message-----
From: VanDeVijver, Walter W. On Behalf Of VanDeVijver, Walter W.
Sent: 09 July 2001 22:36
To: Hodge, Stephen M.G.; Henry, Simon S.; Thorkildsen, Alf A.
Cc: Coopman, Frank F.; Harrop, Michael M.; Boynton, Judith G.; Gardy, D.; VanDeVijver, Walter W. /777772
Subject: RE: vol growth

Steve,

This obviously needs a lot of debate and deep soul searching and pressure in the organisation.
The input from your discussions with analysts will be most helpful in this respect.
There is no way that I am trying to start a new page and want to forget

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Gardy

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about the past promises.
At the same time 1)we have not delivered in 2000/2001 and the first roll-up of numbers for 2002-2006 look very discouraging and 2) if the market would really believe our 5 % growth number I guess our P/E would be higher.
I am not known to be soft and rest assured that everything possible will be done but:

- last year's plan did include volumes of unrealised growth options
- our base decline is higher than was predicted (see UK etc)
- our opportunity portfolio is weak
- production being highly dependent on Nigeria
- damage would be far more severe if we had not discounted some of the growth volumes in the externally quoted numbers.

Thank you,

Walter

-----Original Message-----
From: Hodge, Stephen MG SI-FN
Sent: 09 July 2001 19:10
To: Henry, Simon S SI-FI; Thorkildsen, Alf A SIEP-EPF
Cc: Coopman, Frank F SI-FC; Harrop, Michael M SI-FI; Boynton, Judith G SI-FN; Gardy, Dominique D SIEP-EPF; Van de Vijver, Walter W SEPCO
Subject: RE: vol growth

I support everything that Simon writes on this and would add that the EP's systemic inability to realise that what they have said before is as important as what they say now is profoundly depressing. This behaviour - which includes not just this latest event but also most recently the cost promise saga and the attempt to shift from $14 to $16 oil without a scintilla of recognition of the need to explain what has changed that makes all our previous statements about $14 invalid - is simply not how business is conducted in 2001

The world out there is NOT a bureaucracy where last years budget is history and this years budget is all that matters; the world out there is full of people who want to believe what we tell them, who have confidence that we mean what we say, but who remember what we said last year and the year before and the year before that, but who are frightened of being misled by management

In short 2% not 5% production growth is a disaster unless there are good reasons for it, and the market will want to know whose head is going to roll for what they will see as blatant deception. Look at what has happened to marconi if you want to see the mood of fear and loathing that grips the markets today for management's they think have lost their grip

The contrast with BP could not be more stark. They move their production targets from 7% to 5.5% - 7% and are very severely punished. Now all the signs are that they are pulling out every stop to deliver on 5.%% and maybe 7%. We, on the other hand propose simply to declare our previous targets which were solemnly adopted and published- allegedly with safety factors in built - inoperative. I despair

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-----Original Message-----
From: Henry, Simon S SI-FI
Sent: Monday, July 09, 2001 5:45 PM
To: Thorkildsen, Alf A SIEP-EPF
Cc: Coopman, Frank F SI-FC; Harrop, Michael M SI-FI; Hodge, Stephen MG SI-FN; Boynton, Judith G SI-FN; Gardy, Dominique D SIEP-EPF; Van de Vijver, Walter W SEPCO
Subject: FW: vol growth

Alf, re the 2% growth projection in the EP cost promise paper and the implied misunderstanding that the 5% always included acquisition growth and strategic options. The market very clearly believes that 5% growth is from identified projects. Although it may accept an amount of growth from small acquisitions eg Fletcher, because we have finessed it this way, the message we have given is that the 5% growth is compatible with the $12 bln Group capex of which $8 bln or so is EP. We have also stated to the outside world that the $12 bln does not include acquisitions, except small niche plays, although we have tried to leave some vagueness in this. I am aware that some of the $8bln is in fact reserved for acquisitions / strategic options, but am not clear if you are now suggesting the $8bln is not enough to give 5%.

The reason the market believes this to be true is the attached extracts from the EP speech in Dec 2000, which in itself was only reinforcing the earlier similar message.

So there seem to be only 2 choices
- 5% organic growth will be delivered within the $12bln ceiling: ie no change to message
- if EP confirm only 2% organic growth, then the external message must be 5% including acquisitions, but this is still compatible with $12bln.

The external consequences of backing away publicly from the 5% / $12 bln linkage are not good. I am obliged to mention this point tomorrow in CMD as the 2% figure was in the CMD paper, but I cannot comment on the underlying details other than to reinforce the fact that this is potential dynamite for management credibility and the share price.

Grateful if you can ensure Walter and Dominique are well briefed and in this loop before CMD, Simon

-----Original Message-----
From: Harrop, Michael M SI-FI
Sent: 09 July 2001 12:11
To: Henry, Simon S SI-FI
Subject: vol growth

Simon

couldn't see any questions in the NY transcript that directly relate; these are PWs words, the first para from the volume growth slide; the second from his EP summary. I would certainly interpret these as meaning that its organic growth.

I'll try and see what was said n London

Mike

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Let me show you what the volume picture will look like. I would like to reconfirm that Shell plans to increase its production by an average of 5 percent per year for the period 2000 to 2005, the same annual growth rate we projected last year. Note these figures are as usual at $14 a barrel Brent, so there could be adjustment if prices are significantly different in the future due to PSC effects. Let me remind you that this 5 percent growth rate is based on volumes from a very diverse production portfolio spread all over the globe, both onshore and offshore, from deep and shallow waters-in short, a risk profile that is globally spread and pretty low. As we have shown, this 5 percent growth target is largely supported by firm growth projects now in the development phase.

Normalized ROACE is above 15 percent-in fact, it is over 16 percent. We are well on our way to deliver the 2001 cost promise improvements, and spending is well under control. Our portfolio is very deep, wide and diversified-and, we believe, unrivaled. On various key measures we are leading the pack of the super-majors and majors, and we are determined to maintain that lead. We are building on our leadership position in Asia-Pacific. Volumes are expected to grow on average by 5 percent per year over the next five years, and we are confident we can deliver this target based on identified projects and our large portfolio of opportunities. In short, this is proven performance from a global portfolio, creating profitable growth.

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From: Van De Vijver, Walter SI-MGDWV
Sent: 01 August 2001 22:12
To: Hodge, Stephen MG SI-FN; Henry, Simon S SI-FI
Cc: Gardy, Dominique D SIEP-EPF; Watts, Phil B SI-MGDPW; Harrop, Michael M SI-FI; Van der Veer, Jeroen J SI-MGDJV; Boynton, Judith G SI-FN
Subject: RE: Production Growth

Steve,

I agreed the revised text earlier today and certainly do not want to deviate from it.

The draft presentation for September is obviously going to focus on our technical competence in a very positive way (there are still a lot of good stories to tell)
There are fairly logical explanations around the higher field declines,ranging from specific field stories (Rabi in Gabon,Yibal in Oman,Pelican in the UK,Schiehallion in UK) to operational problems (Dunlin in UK,Kittiwake in UK,debottlenecking/upgrades slippage) but more importantly due to optimism in forecasting.The latter should also be seen against the background of "coming out of the hole " following the overall pain of severances,cost cutting and investment squeezes in 1999/early 2000.For the first half of 2000 e.g.Expro was ahead of target (something that had not happened for 5 years) and that was the overall prevailing "hype" going into last's years plan. And on top of that came the shock with Shearwater at the end of last year.
During my visit to Aberdeen a week before last,I learned a lot about the "state of Expro".
This is not a "blame story" nor an attempt to be clever with the benefit of hindsight.

The facts are staring us now in the face and we need to deal with it professionally (utilizing the expertise of you et al) and with the sense of reality that does not create a real credibility problem in 2002. Hence my earlier message to give a very high level view of the currently projected gaps (not just production
but also value erosion). Technical excellence (for which we still have an "edge" on EM/BP in my opinion with some of tools/integration technology skills)
can however not compensate for some of the false optimism.
As you will appreciate developing projects in established OU's is a different challenge from developing entries/real production in the MRH's.
I would also hope that the market appreciates that we will also use capital discipline (and hence may experience slippage or exits) to get things done in the various MRH's (Saudi,China,Caspian,Iran,etc).
I remain confident and optimistic that EP will continue to do great things for the Group ,including growing production!
I look forward getting further guidance for the September analyst presentation as it matures during August.

Thanks,
Walter

-----Original Message-----
From: Hodge, Stephen MG SI-FN
Sent: 01 August 2001 21:40
To: Van De Vijver, Walter SI-MGDWV; Henry, Simon S SI-FI
Cc: Gardy, Dominique D SIEP-EPF; Watts, Phil B SI-MGDPW; Harrop, Michael M SI-FI; Jeroen Van der Veer; Judith Boynton
Subject: RE: Production Growth

Thanks

This reply copied to Jeroen, as it deals with what we say tomorrow about this issue

I summarise your reasons for the changed forecasts as follows:

The reasons are

(1) higher field declines
(2) Saudi, Bangestan. Kuwait, Libya, Zapo, Nigeria etc going slower
(3) 'Over optimism' in the UK
(4) GISCO

The speech now says

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"but the economic outlook is uncertain and this is affecting medium term demand growth for gas which could delay some of our projects. Also somewhat perversely the current high oil prices which are making the upstream performance so profitable are affecting the rate at which new investments are materialising"

This is now set in stone, and we should not deviate one iota from it, even in answer to questions. The only thing we should add in answer to questions is that we have a major analyst presentation on EP scheduled for 18/19th September and we will provide a full update projection at that time. We will give the market the full story then, but not before and not in dribs and drabs.

I am thinking now about how you have to break the detail of this news in September, assuming that there is indeed a firestorm of hostile comment after tomorrow (as, unfortunately, we expect)

I think In September you could weave a story around (2). it would not be a pretty one. but there is chance of getting away with it without disastrous collateral damage; this is essentially the story we are trailing tomorrow. You could also perhaps use GISCO; again not pretty but 'one of those things'.

We are not going to use (1) tomorrow. On the face of it - used as a general explanation - it calls into question the fundamental technical competence of the EP organisation. Variations in reservoir performance are a fact of life in the oil industry and a shortfall in relation to a specific field -as indeed we did have in the past with Brent- it is bad but not disastrous. Everyone knows these things happen. But to use overall decline as an explanation to the extent used in your message below is going to cause really serious collateral damage. Before we use it we need answers on which fields are declining faster than we expected, why are there no offsetting increases, and why should we have any more confidence in these numbers than the previous ones, which came with full weight and authority of the EP organisation.

And there are worse ways still in which the use of this explanation could be taken by some in the market; in short I believe that we need to very great care before we use the unexpected field decline story except in relation to perhaps one or two key fields

'Over- optimism in the UK' I have some difficulty with. How is this different from the field decline story and over optimism in relation to Saudi etc etc. Is there some difference in quality of this error?

In short I feel that we don't have anywhere near a clear explanation yet of what has gone wrong except to the extent that we can see that some major projects are going slower; so that we should not say more than this

Fundamentally if you are to retain credibility, I think you have to explain what has gone wrong almost of a field by field and project by project basis and in so doing demonstrate complete mastery of the issue. Conversely the worst thing of all for credibility is to fall short on promises and project that you don't quite know why it has happened or what you are going to do about it. And please don't let the people who have got us into this mess be under any illusion that there is an 'easy' answer here of taking a bath in Q3 '01 and then regaining credibility by substantially overperforming in '02 and '03. This is what the market thinks we did in 1997/8 and certainly they won't let us do it twice in four years. Credibility once lost takes years to regain. If you position EP as technically incompetent - as the widespread field decline story does, unless everyone else uses it - you can produce over the next few years the best reserve replacement ratios and new projects that you like and you will get little credit for them - because the credit we get for them rests on the markets assessment of EP technical competence/. You will blight the relative TSR of the Group and everyone's score card for years to come

What this comes down too is a changed assessment of probabilities. The market will understand changing the POS of the big projects, in response to the environment, and if played carefully will still give us some credit for our growth aspirations, especially if we classify our portfolio by POS, and come with a range estimate for the final outcome. What they will not understand a general downgrade of technical judgements (as indeed I cannot either)

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-----Original Message-----
From: Van De Vijver, Walter SI-MGDWV
Sent: Wednesday, August 01, 2001 9:12 AM

To: Henry, Simon S SI-FI; Hodge, Stephen MG SI-FN
Cc: Gardy, Dominique D SIEP-EPF; Watts, Phil B SI-MGDPW
Subject: Production Growth
Importance: High

Simon/Steve,

So the following are the facts with the knowledge that we have today based on actuals and the draft new business plan:

1) 2002 we are going to be way off from last years expectation (375 Mboe/d drop) and hence with have only some 1 % growth
compared to 2001. Drop is some 200 Mbo/d (oil) through higher field declines and about 75 Mbo/d from over-optimism in the
UK (which we will never recover). Drop in gas is gain over-optimism in UK (some 30 Mboe/d) .field declines and about 90 Mboe/d assumed from Saudi (which will just not happen).
2) growth in oil (from new 2002 baseline) will be 3 % going forward and growth in gas (from new baseline) will be some 1-2 %.
3) aside from reduced growth rates there is real value erosion (more investment).
4) oil growth rate reduction is due to higher filed declines,slippage in Nigeria compared to last year's assumptions,and slippage.
in some big ticket items (Bangestan,Kuwait,Libya,etc)
5) gas growth rate reduction is due to Saudi (last year's plan had it growing to some 160 Mboe/d (some 900 MMscf/d)) and
general slippage in big ticket items (growth in NA gas,Libya,Zapo in Russia,China) plus the earlier disappearance/reduction
of Oman GISCO volumes.
6) obviously our track record on growth over the last five years and the underlying over-optimism is something to take seriously
7) most of the growth is now projected to occur after 2003,with a dip in 2005 (GISCO) and a peak in 2006!

Obviously internally I am not giving up on growth targets but there is a need to "cool" expectations particularly given the shortterm issues that are hitting us. Do not forget that the quoted growth rates above do include some real big projects that are
still far from FID (Sakhalin,Kashagan,Brasil DW,Nigeria UDW,Angola Block 18 ,GOM new (as yet undiscovered hubs),Egypt
NEMED).
So "blaming"" it on field declines and slippage on growth in emerging markets is the least we should do in order to downgrade
expectations.

Happy to discuss further,
Regards,

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EP CEO and Group Managing Director

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