

Shell World in view



Since my appointment as Chairman of the Committee of Managing Directors at the beginning of March, Shell has been severely tested by the issues and questions arising from the recategorisation of some of our hydrocarbon reserves. My colleagues and I are committed to ensuring that we learn the lessons from these significant difficulties and that we implement the measures that will ensure this cannot happen again.

These reserves issues are important and we are focusing our attention on dealing with them. However, at the same time, we have started to look at the future and are drawing on Shell's underlying strengths to help rebuild our reputation and to ensure that the best possible performance is delivered across all our business activities.

We can see some of those strengths in a range of world-class projects being developed across the world. The start of production from the Na Kika field in the Gulf of Mexico in record water depths marks a key strength of Shell: our ability to develop and implement technology that allows us to produce oil from ever more demanding environments.

Equally, our long experience in the Middle East and the relationships we have built up over many years have helped us to reach an historic agreement to explore for gas in the South Rub Al-Khali or Empty Quarter in Saudi Arabia.

Sakhalin, one of the world's largest projects, is 'on its way'. The construction of a new petrochemicals plant at Nanhai in China is Shell Chemicals' biggest investment yet and will open up new growth opportunities in the key Chinese market. Our staff and the progress they are making in these projects show the world that we continue to be a sound and professional company.

All these developments represent solid achievements that will help us to meet the considerable challenges ahead and to secure the future growth of our business.

A handwritten signature in black ink, appearing to read 'JvdV', written in a cursive, stylized script.

Jeroen van der Veer

Chairman of the Committee of Managing Directors

GOING FORWARD

Following his appointment as Chairman of the Committee of Managing Directors (CMD), Jeroen van der Veer spoke to *Shell World* about recent unprecedented events, first quarter results and his vision for the Group going forward.

The first quarter results for 2004 demonstrate a satisfying performance from the Group. Can you outline the key points and comment on how significant these results are to Shell?

Shell has recently faced some of the most challenging circumstances in its long history. Yet despite these challenges, our first quarter results showed an encouraging performance demonstrating that we still have strong businesses, leading technologies, an outstanding asset base and, most importantly, employees of great quality. Our net income for the period was US\$4.4 billion and we generated US\$9.5 billion in cash, including divestments of US\$1.7 billion. Our return on capital was 14 per cent over the last 12 months, and 20 per cent for the current quarter.

There were encouraging results across all the business areas. In the



Exploration and Production business we benefited from additional production from the Athabasca Oil Sands project in Canada, and from Brazil, Nigeria and the USA, underlining the value of these key assets. Gas & Power continued to strengthen its position in the key Liquefied Natural Gas (LNG) market and there were increases in Oil Products marketing margins in all regions. At the same time, Chemicals benefited from an improving climate and doubled earnings compared with last year.

I think these results demonstrate that we can and will recover from the present difficulties and emerge stronger. A key part of rebuilding our reputation will be delivering consistent improvement and strong competitive results over the long term and this first quarter performance is a real step forward in helping us to achieve that aim.

But clearly, Shell's reputation has been damaged by recent events. What else can be done to repair that reputation?

We have all been shocked and saddened by what has happened. The report to the Group Audit Committee has provided some very painful lessons and revealed serious flaws in our procedures for booking reserves. I profoundly regret those failures and fully understand that we have much to do to restore staff, shareholder and stakeholder confidence.

Clearly a vital part of that process is ensuring that these events cannot happen again. We have already begun to implement the Group Audit Committee's recommendations and the remainder will be put in place very shortly. We will need to reassure all of our stakeholders that we have sound values and that all our actions will be carried out with complete integrity. And we will do that by keeping those values in the forefront of our minds and by fostering a company culture that permits bad news to be delivered upwards.

At the same time, we must keep a focus on the business and ensure we deliver sustained strong financial performance, as we did in the first quarter.

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will be involved in contributing to the business line review and challenge processes.

In addition, there will be significant changes to processes at the management level. In future, all the executive directors will review and sign off the annual reserves report in a CMD meeting. Secondly, the CMD and the Group Audit Committee, that is the supervisory directors or the non-executive directors, will also be part of

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What specific actions have been taken to make sure the problems over the reserves do not happen again?

The Group Audit Committee made a range of recommendations to enhance the process and controls over the booking of reserves. All of these have been accepted and have either been implemented or are being implemented. These actions include the full alignment of Shell guidelines for reserves booking with the Securities and Exchange Commission (SEC) guidelines. A major programme of focused training for Exploration and Production staff is being put in place to ensure that those SEC rules, guidance and compliance requirements are fully understood. At the same time, we are increasing the number of staff who are dedicated to reserves management and, a key change will be that external experts



the process. They will be able to challenge the reserves review.

Reserves reporting will be included in our Group assurance processes and then it will become part of the Disclosure Control Review. A further change has been made so that those who book or audit reserves do not have reserves replacement as part of their scorecards for bonuses. We will review the implementation and results of these changes at Board level and remain committed to ensuring that we have the most stringent controls and checks in our reserve booking process.

Our reserves replacement ratio is now 60 per cent compared with 100 per cent plus for some of our competitors. What are you doing to improve this?

Following the reserves recategorisation, I would like to stress that the majority of the oil and gas is still there and that most of the reserves are expected to be recategorised as proved over time.

However, this does mean that if we take a five-year view on our reserves replacement, our ratio is 60 per cent. This is not an acceptable level and is a key issue we have already started to address. In order to do this we need to look at some of the background to our approach to exploration over a number of years. In the 1990s our organisation focused too much on the potential of mature fields and on optimising the value from them and did not pay enough attention to finding the larger prospects in new areas. Then, after 1998, we placed

more importance than our competitors on ensuring profitability in low oil price environments which led to a reduction in investment in the upstream and that affected our prospects for growth.

These issues are being addressed. We have increased our upstream capital investment programme and have switched investment into short-term payback projects in higher margin areas and increased our exploration programme for this year. This means capital expenditure for 2004 will now be US\$14.5 to US\$15 billion. And we now have some very strong asset positions like Athabasca, Sakhalin, Qatar, Kashagan and Ormen Lange, which are going to be major contributors to the Group in the future.



What changes do you envisage being made to the Group's structure?

We have to look very carefully at what the best structure is for the Group in the future. We are currently listening to shareholders' views and a working party has been set up to explore all the possibilities for improving governance and structure. We will give an update on its progress at the AGMs on 28 June and will announce a timetable for the Group to come to conclusions.

We have already made one important change with Lord Oxburgh taking on the roles of non-executive chairman of Shell Transport and Trading and non-executive chairman of Conference. It is also important to note that at the 2005 AGM on the Dutch side, we will, in any event, have to

deal with many governance issues because we have a new governance code coming in as a result of the recommendations of the Tabaksblat Committee.

Changes are not just being focused at the top of the company. The businesses and functions are working to implement globalisation plans and to standardise processes that will improve both controls and transparency. We have already changed the reporting system for business chief financial officers (CFO) so that they report to the Group CFO, which I believe will further strengthen our financial processes.

What is the latest position on the investigations and how long will they continue?

We will continue to cooperate fully

with the authorities until the various inquiries are complete, but we have to deal with the fact that it will be quite some time before all these are resolved.

These include the investigations being carried out by the U.S. Department of Justice and the Securities and Exchange Commission. We do not know how long that will take but on average an SEC enquiry takes about 18 months. The Autoriteit Financiële Markten (AFM) in the Netherlands, Euronext in Europe, and the Financial Services Authority (FSA) in the UK are also conducting inquiries into various aspects of the reserves recategorisation.

Will there be new appointments to the CMD?

The current number of Managing Directors is too low and new appointments need to be made.

What are your priorities now as Chairman of the CMD?

Clearly, we need to get the reserves issues behind us and focus on rebuilding the reputation of our Group. That is not going to be easy and will take some time.

Our first quarter results demonstrate to me that despite the difficulties of recent months, Shell continues to be a sound and profitable Group and that the changes we are making will ensure that this remains the case. So my message is that we need to roll up our sleeves and run our existing businesses as well as we can, delivering good business performance consistently and making sure we don't miss out on any new opportunities.

We also need to continue our focus on globalisation, simplification and standardisation. It also means working to create a company culture that reasserts our commitment to our business principles and ensuring that we show discipline, professionalism and teamwork in everything we do. In that way we will be able to demonstrate that we have learned the hard lessons of this painful period and emerge from this experience stronger. ■

