

EMAIL SENT BY ALFRED DONOVAN TO PRESIDENT PUTIN: 25 NOVEMBER 2005

From Alfred Donovan

25 November 2005

**President Vladimir Putin
President of Russia
Staraya Square
Moscow
103132 Russia**

Dear President Putin

Shell fails to deny \$26 billion overrun figure on Sakhalin2

I am writing to advise you that the serious concern you have expressed to Royal Dutch Shell management about their leadership of the Sakhalin2 project is well-founded.

A report in the Financial Times on 24 November revealed that the Chairman designate of Royal Dutch Shell Plc, Mr Jorma Ollila, due to take up his appointment next year, is hedging his bets by looking at alternative possibilities, having perhaps discovered the desperate mess which Shell is in.

I co-own and operate a website containing the world's largest collection of news reports and revelations about the Royal Dutch Shell Group. I am a long term Shell shareholder and have had business dealings (and more recently an adversarial relationship) with Shell stretching back many decades.

We have a considerable insight about what is going on at Shell having built up a trusting relationship with current and former Shell employees, including senior managers. As a result, we now receive a stream of Shell internal documents and confidential insider information. For example, we were recently able to publish a Shell internal email on the same day that it was sent by a Shell Chairman.

I would draw to your attention in particular to the following article written by one such Shell insider: -

ShellNews.net: Is Sakhalin Doomed: November 2005: [READ](#)

As you will probably be aware, there are conflicting reports about just how gigantic the cost overrun will be at Sakhalin2.

As recently as June 2005, the estimated cost was \$10 billion (USD). In July, Shell announced that estimated project costs had doubled to a staggering \$20 billion. As was stated in a July Daily Mail article: "If a national government were to admit an error on such a scale the finance minister would almost certainly pay with their job.": [Read the article](#)

The Observer newspaper published an article on Sunday 16 October 2005 (link below) reporting that the "escalating financial crisis at one of Shell's most crucial energy projects, already massively over budget, has taken a turn for the worse." It went on to say: "It is understood that the Sakhalin-2 gas and oil pipeline project, which originally had a budget of \$10 billion, could now cost \$22bn. The scheme will transport oil and gas from an island off the east coast of Russia."

The Observer: Shell's pipeline costs overflow to \$22bn: "The financial crisis has prompted Gazprom, the state-owned Russian energy giant, to delay rubber-stamping a deal that would see it take a 25 per cent stake in Sakhalin-2.": "Shell is desperately trying to secure bank loans to help finance Sakhalin-2, which it says will generate \$45bn worth of oil and liquefied natural gas.": Sunday 16 October 2005: [READ](#)

Information gained from a reliable insider source at Shell indicates that the cost will in fact be even higher than stated in the Observer article. It is our information that a new Sakhalin management team recently completed a technical review of the project and concluded that the final cost will be at least \$26bn. In correspondence which I had with Shell General Counsel, Richard Wiseman earlier this month, he did not take the opportunity to deny the \$26 billion figure which I put to him. It is important to note that Shell senior executives, Jeroen van der Veer and Malcolm Brinded were personally involved in the correspondence and like Mr Wiseman, did not deny the \$26 billion figure. Mr Wiseman sent them copies of his response to me. There were only four people involved in the high level correspondence which touched on the Sakhalin2 project: Wiseman, Van der Veer, Brinded and me.

Mr Van der Veer has already acknowledged in an interview with the Financial Times that Shell's reputation has already been severely damaged by the previous revised costs estimate. He was quoted as saying: "I fully realise it has an impact on our reputation - certainly for this project, and then of course I'm concerned it will carry over to other things that we do..."

The timing could not be worse for Shell which is desperate to secure a loan from the European Bank for Reconstruction and Development (the EBRD) to assist in funding Sakhalin-2. The sensitivity of the loan situation is heightened by the fact that campaigners are asking the EBRD to refuse to grant the loan because of concerns about the impact on the environment and in regard to the survival of the critically endangered Western Pacific grey whale.

Having closely followed developments, I obviously read with great interest the numerous reports of your remonstrations with Shell senior management during your recent state visit to Holland. I understand that Shell management is concerned that you may force Shell to pick up the multi-billion dollar tab for the extra costs.

The Sakhalin2 costs overrun must now rank as the biggest financial debacle in corporate history. It puts the honesty, competency and judgement of Shell senior management into question.

I have to say that none of the furore over Sakhalin2 comes as a great surprise to me. I have been warning for several years about the failings of Shell senior management. The following is an extract from my letter in March 1999 to Her Majesty, Queen Beatrix of the Netherlands, who you met on your state visit (the Dutch Royal family is the largest investor in Royal Dutch Shell): -

"Although it is highly obnoxious for a multi-national to act oppressively against small traders, as far as I know, such conduct is not illegal. It is however even more repugnant given the false image of ethical trading projected by the Statement of General Business Principles published by the Royal Dutch/Shell Group. Regretfully, in reality (based on our horrendous experience), there appears to be a culture of deception and cover-up deeply ingrained at the highest levels of Shell."

Unfortunately for Shell shareholders my analysis proved to be 100% accurate. Deception and cover-up at the highest levels of Shell were the key factors in the reserves scandal which has shocked the world and destroyed Shell's reputation.

Commonsense suggests that Shell should have got rid of anyone implicated in the reserves scandal. It is therefore disconcerting to say the least that 11 out of the 15 member Board of Directors of the unified company, Royal Dutch Shell Plc are tainted by what the incoming Chairman of the US Securities & Exchange Commission, Christopher Cox, has branded a fraud on a par with the Enron, WorldCom and Global Crossing scandals (FT article 7 October 2005).

Aad Jabobs, (non-executive Chairman of the Board of Directors, his deputy Lord Kerr (the senior independent Director), Jeroen van der Veer (CEO), Malcolm Brinded (Executive Director for Exploration and Production), Rob Routs (Executive Director, Oil

Products and Chemicals), plus non-executive directors, Maarten van den Bergh, Sir Peter Burt, Sir Peter Job, Wim Kok, Jonkheer Aarnout Loudon and Lawrence Ricciardi, are ALL tainted by the reserves fraud.

All are named Defendants in a US Class Action lawsuit brought by the UNITE National Retirement Fund and the Plumbers and Pipefitters National Pension Fund. The lawsuit names 27 directors and officers of Royal Dutch/Shell. The suit accuses Shell executives of breach of duties to shareholders, abuse of control, mismanagement, fraud and unjust enrichment. Shell has agreed to settle the lawsuit for \$9.2 million (USD). Although Shell officially denies any wrongdoing, the settlement amounts to a tacit admittance of misdeeds in return for a lesser penalty. Shell management has also agreed to changes in respect of corporate structure and governance, including business ethics.

Stanley Bernstein of Bernstein Liebhard & Lifshitz LLP, the lead US plaintiff lawyers bringing a separate class action case against Shell (for Pennsylvania State Retirement Funds) described the scandal on the BBC TV "Money Programme" in the following terms: "There are a lot of investors and many maybe more investors that were affected by this fraud than any other fraud in history".

Another classic example of the incompetence of the current Shell management is the debacle over the dotcom name for its new company: ROYAL DUTCH SHELL PLC. Shell management could have registered the domain name when no one else knew the name of their new company, but neglected to do so. It must have come as a huge shock when Shell discovered that their oldest adversary (I am 88 years old and have been involved in litigation with Shell for over a decade) had beaten them to their own domain name. More humiliation was to follow when Shell attempted to seize the domain name from me by issuing proceedings via the World Intellectual Property Organisation. After worldwide publicity, including a major article in the Wall Street Journal, I received a unanimous verdict in my favour from the WIPO in August. Mr Wiseman made clear in his email to me of 14 November Shell's sour grapes about losing the action.

We do have a satirical feature on our website focused on Jeroen van der Veer and the comments invented by us and attributed to him, based on what he might say about Shell critics if he were not constrained by other factors. One such webpage relates to invented comments directed at you and your recent alleged tirade against Shell executives. In this regard, I hope that you have a very good sense of humour. If not, please let me know and it will be deleted immediately. I should add that Mr Richard Wiseman, stated in his email to me on 14 November that the relevant webpage should be removed urgently, but I am unimpressed by threats from Shell. I will however happily remove it as a courtesy to you if so requested.

It is important to note that the manifestations of ineptitude and misjudgement at Sakhalin2 are not isolated events. Massive cost overruns and delays are an almost universal feature of Shell projects around the globe. That fact alone should tell you something about the breathtaking incompetence of Shell management.

With this letter I have now done all I can reasonably do to warn the Russian Government.

Yours sincerely
Alfred Donovan

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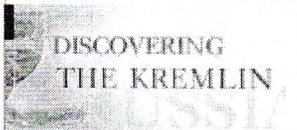
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