Transcript created by WordWave

Event:	**FSA Interview with Sir Philip Watts**
Date:	24 June 2004
Interviewers:	Samantha Griffin David Blunt Michael Prange Zulfiquar Ramzan
Interviewee:	Sir Philip Watts
Also Present:	Martyn Hopper Jenny Stainsby Joseph Goldstein Richard Morvillo Adriaen Morse Lista Cannon Jonathan Tuttle

SAMANTHA GRIFFIN: This is an interview with Sir Philip Watts. Today is 24 June 2004 and this interview is being tape-recorded. The time is 10.12am and we are at the offices of the Financial Services Authority at Canary Wharf. My name is Samantha Griffin and I am an investigator with the FSA. I am now going to ask each person to identify themselves for the purpose of voice recognition.

SIR PHILIP WATTS: I am Sir Philip Watts.

MARTYN HOPPER: Martyn Hopper.

DAVID BLUNT: David Blunt.

MICHAEL PRANGE: Michael Prange.

ZULFIQUAR RAMZAN: Zulfiquar Ramzan.

JENNY STAINSBY: Jenny Stainsby.

LISTA CANNON: Lista Cannon.

JONATHAN TUTTLE: Jonathan Tuttle.

ADRIAEN MORSE: Adriaen Morse.

RICHARD MORVILLO: Richard Morvillo.

JOSEPH GOLDSTEIN: Joseph Goldstein.

SAMANTHA GRIFFIN: Thank you. You have agreed to attend this interview. You are not under arrest and are free to leave any time. The interview is being conducted under caution. That is to say you do not have to say anything but it may harm your defence if you do not mention when questioned something you later rely on in Court. Anything you do say may be given in evidence. Do you understand?

SIR PHILIP WATTS: Yes.

SAMANTHA GRIFFIN: Thank you.

MARTYN HOPPER: At that point I would just like to record the fact that we would object to the transmission to or use by the US authorities of the transcript of this interview on the grounds that it's not being conducted in accordance with the US Constitution.

DAVID BLUNT: Well, this interview is being conducted for the purposes of the FSA's investigation and any subsequent proceedings under English law, and with the protection of the caution that you've just heard. Should answers that are given in this interview be passed by the FSA to authorities in any other jurisdiction, it would be for the Courts in that jurisdiction to determine the use to which answers given under this caution may be used.

SAMANTHA GRIFFIN: Okay. You're entitled to consult a copy of the Codes of Practice issued under the Police and Criminal Evidence Act. There's a copy

there. You're entitled to consult with your solicitor in private and the interview can be stopped at any time in order for you to do that. There are lawyers present representing The Shell Transport and Trading Company. We understand that they are here as observers at your request and the FSA is prepared to accede to that request. If you do not wish them to be present, please say so and they will leave. If you feel that your answers to questions will be affected or constrained in any way by their presence, please say so and they will leave. Do you wish them to be present?

SIR PHILIP WATTS: Yes.

SAMANTHA GRIFFIN: Thank you. If you change your mind at any time, please say so immediately.

SIR PHILIP WATTS: Thank you.

SAMANTHA GRIFFIN: Prior to the start of the interview I provided you with a notice to person being interviewed in accordance with the Codes of Practice issued under the Police and Criminal Evidence Act 1984. Can you confirm that you have read, understood and signed this document?

SIR PHILIP WATTS: Yes.

SAMANTHA GRIFFIN: Okay, thanks. Can you also confirm that we provided you with a bundle of documents on 22 June 2004 labelled tabs 1 to 13 and in addition, this morning, we've also provided you a press – an RNS announcement dated 9 January 2004 to add to your bundle?

SIR PHILIP WATTS: Yes.

SAMANTHA GRIFFIN: The reason for those documents is that we may wish to refer to them during the course of the interview, just to assist you.
Okay, firstly, I'd just like to get some background from you. Could you please give us a brief description of your career at Shell prior to becoming a Chief Executive Officer in 1997?

SIR PHILIP WATTS: I joined Shell in 1969 as a Seismologist. After basic training, worked in Indonesia, London, Holland; was Exploration Manager in Norway, Exploration Director of Shell UK, then had five years in Holland looking after the E&P business in Europe and also Head of Economics and Planning. In 1991, I became the Chief Executive for Shell in Nigeria and then came back to Holland to be the Regional Coordinator for Europe covering all of Shell's businesses. In the new organisation that was set up on 1 January 1996, I became ... Company Director responsible for Planning, Environment and External Affairs and then on 1 July 1997, became a Managing Director of Shell for ST&T and a Group Managing Director with specific responsibility for E&P as the Non-Executive Chairman of the Business Committee for E&P. As I recollect that history, I've just forgotten one point, that I had some time out of E&P earlier in my career as Division Head for Malaysia, Brunei and Singapore. That was in the early 1980s.

SAMANTHA GRIFFIN: Thank you, and you became Chief Executive Officer of EP in 1997, is that right?

SIR PHILIP WATTS: Not strictly because we had a new organisation that had been set up where each of the businesses had what were called Business Committees and I became ... the Non-Executive Chairman of the Business Committee, but effectively head of the E&P business.

SAMANTHA GRIFFIN: Thank you. And what was your job description at that time?

SIR PHILIP WATTS: From ...?

SAMANTHA GRIFFIN: 1997 when you became the head of EP?

SIR PHILIP WATTS: The Chairman of the CMD has the responsibility for allocating portfolios and there are normally five or six members. My portfolio, which was, I guess, the basic job description, was that I was, in business terms, Chairman of the – Non-Executive Chairman of the Business Committee of the E&P business. I also had a regional Managing Director's responsibility for Latin America and Africa.

SAMANTHA GRIFFIN: Okay, and how did you see your role and what were your, sort of, aims and objectives in your position?

SIR PHILIP WATTS: Well, let me deal with the smaller part of the portfolio - get that out of the way - and then deal with the real substance.

SAMANTHA GRIFFIN: Mm hmm.

SIR PHILIP WATTS: For Latin America and Africa, this was a regional oversight role, a coordinating role, making sure that the different businesses in those countries were working adequately together. But that was a smaller part of my job.
The main part of the job was being responsible for the E&P business, effectively worldwide. Formulating the strategy for the business, getting support for that from CMD and from the Conference of the Boards, then making plans that had targets specified and the like. Carrying that – getting that agreed, carrying it through and having it appraised, but then there were also all the other aspects of the job. For instance, human resources - having the necessary people to do the job worldwide. This was a big global business which I ran with seven or eight other members of the Business Committee who reported to me.
I could go into a lot more detail but ... I hope that's sufficient at the moment.

SAMANTHA GRIFFIN: No, that's fine, thank you. Perhaps you could just briefly explain the structure of EP and how that fitted into the Group - the Shell Group - as a whole, at the time of your appointment in 1997?

SIR PHILIP WATTS: Yes. May I start the other way and just describe the Group and how EP fitted into that?

SAMANTHA GRIFFIN: Yeah, sure.

SIR PHILIP WATTS: Because I think it'll be easier to understand.

SAMANTHA GRIFFIN: Mm hmm.

SIR PHILIP WATTS: We have two parent companies - a Dutch one and a British one - and two holding companies. These holding companies are the vehicles that hold the corporate entities all around the world. There then is a Conference of those Boards - where the Boards meet together to review the plans – it used to be once a month and now eight times a year. Under that, there is what is called the Committee of Managing Directors and this is comprised of Managing Directors from the British side and the Dutch side. There are normally more from the Dutch side than the British side. That reflects the 60%/40% holdings in the Group. This Committee of Managing Directors, there would be five or six under a Chairman and, as you've just asked me, when I first joined CMD, I was responsible for the Exploration and Production part of the portfolio.

SAMANTHA GRIFFIN: Okay. And when you said that the CMD was made up of the Managing Directors from the Dutch and British side, is that the Executive Directors of the listed entities in the UK and in Holland?

SIR PHILIP WATTS: Yes.

SAMANTHA GRIFFIN: And 'Conference' that you spoke about, is that all Directors, including Non-Executive Directors?

SIR PHILIP WATTS: Yes.

SAMANTHA GRIFFIN: Okay, thank you. And what Boards and Committees did you sit on at the time, in 1997?

SIR PHILIP WATTS: Well, of course, I was on the Committee of Managing Directors and I was a member of Conference. I was an Executive Managing Director of Shell Transport and Trading and I was also on the Boards of both of the holding companies, both in the UK and the Netherlands.

SAMANTHA GRIFFIN: And were you on any other committees of ...?

SIR PHILIP WATTS: For 1997, I don't recollect at the moment whether I was on any particular committees and I'm sure there were some other minor boards but frankly they don't come to mind at the moment.

SAMANTHA GRIFFIN: Okay, that's fine.

MARTYN HOPPER: Are you asking at a Group level still?

SAMANTHA GRIFFIN: Group and also at EP level.

SIR PHILIP WATTS: I've been describing the ones at Group level in my response there. At ... EP level ... no, I don't think ... these were simply business activities that I was looking after and I don't recollect any particular boards when I was on that.

SAMANTHA GRIFFIN: Okay, thank you. And could you explain how the Boards of the listed entities were ultimately reported to? What the reporting line was that fed up into each of the 40/60 holding companies?

SIR PHILIP WATTS: Let me take an example to illustrate the point. If there was a major Exploration and Production investment proposal, very often they were many hundreds of millions of dollars or even billions of dollars, but if it was more than $100 million at this time ... the business – the E&P business - would generate the proposal. There would be an investment proposal prepared. This would pass the EP Business Committee and then I, as the Managing Director responsible for that business, would bring a proposal to the Committee of Managing Directors. For this sort of substance, there would be a presentation. It may or may not be supported. There may be modifications asked for but let's take the example where one is ultimately considered sound by the Committee of Managing Directors. That would then go to the Conference of both Boards. The monthly meeting that I described. That would be in their papers. I would sponsor that item at Conference. There would be a presentation, sometimes longer or shorter, and then there would be a debate at the Conference.
At the end of that debate, the Chairman would look to both Boards and ask whether there were objections to this proposal and if there weren't, he would deem it as having received general support.
Now, then, depending on the country that this proposal related to, the holding company for that country might be the Dutch holding company or the British holding company and there would be, after Conference, a Board meeting of the holding companies where the Board of the holding company would actually take the decision to make the investment.
But you can see how the process is designed so that both Boards are fully aware of everything that's happening and then the choice of holding company will be for the balance of the Group, for whatever political or economic or fiscal factors are involved and then the decision would be taken. Sorry, that's rather a long labyrinth but that's – I've chosen that as the example.

SAMANTHA GRIFFIN: Okay, that's fine. So, at Conference there'd be discussion of the matter but no decision would be taken until the second Board meeting, just of the individual company?

SIR PHILIP WATTS: That's right.

SAMANTHA GRIFFIN: Okay, thank you. Talking now about your role as head of EP. In the time you were there from 1997, did it change much throughout that period?

SIR PHILIP WATTS: Until 2001?

SAMANTHA GRIFFIN: Yes, until you moved from that role, yes.

SIR PHILIP WATTS: It was period of actually quite intense change.

SAMANTHA GRIFFIN: Sorry, could you elaborate on that for me?

SIR PHILIP WATTS: I arrived in the middle of 1997. We had a new organisation; a Business Committee. This had come out of the organisational change instituted in January 1996. During 1998 -- and I should say that this was a period of expansion, oil prices were relatively high, it was an enthusiastic period, but during 1998 there was a dramatic fall of the oil prices through the second half of the year, such that we were sitting momentarily at $11 per barrel Brent or so at the end of the year.

This made difficulties for the Group as a whole in 1998. The ongoing -- the immediate performance - and it made the process of planning for the future at a significantly lower oil price than had previously been assumed, to my recollection at $18 a barrel, that it called into question not just the funding and extent of the programme of Exploration and Production, but because E&P is such a large part of the Group, it called into question the investment programme of the whole Group. And this led to a quite dramatic, traumatic period in the latter part of 1998 when it was decided that there needed to be ... a bottoms-up review of our investment programme starting with a clean sheet. I can illustrate that by saying that the plan for expenditure in 1998 was $17 billion and the actual plan for 1999 was $10 billion. This has a dramatic impact on an organisation.

Now, this not only – wasn't just a matter of the Group's expenditure plans ... You can't make that sort of reduction without getting to grips with structural issues within the Group and for that reason, for example, it was decided to sell 40% of our Chemicals business. It was recognised that in the US - in our E&P and Gas and Power business and in other places around the world - there needed to be major write-downs. There was a $4 billion write-down at the end of 1998.

Now, that all sounds rather negative but while we were going through this process under the leadership of Mark Moody-Stuart, we decided we needed to also take the opportunity to make the case for change in the Group as well. And it may sound organisationally trivial but it's not. We decided to change from the Business Committees that had been introduced to Chief Executive Officers to emphasise personal accountability. We decided that we needed to fully globalise all of our businesses. The US had previously, for most of its businesses, operated very independently and there was a decision taken that we would globalise, not only Chemicals which had just been done, but also E&P and Gas and Power.

During 1999 there were rationalisation programmes, retrenchments, selling 40% of Chemicals. There was a retrenching programme in E&P and also in the Oil Products business.

Sorry, this has been a rather long answer but things then calmed down somewhat thereafter. There was still change going on but it was happening during actually a time of reasonable oil prices and, towards the end of the period, quite high oil prices, but I hope that gives you a sense of the tough dynamic that was going on during this period in all the businesses of Shell; not just E&P.

SAMANTHA GRIFFIN: Okay, so your role, you were Non-Executive Chairman of EP. You then changed –

SIR PHILIP WATTS: In the first instance.

SAMANTHA GRIFFIN: Yes. And when did that change?

SIR PHILIP WATTS: That change took place in January 1999.

SAMANTHA GRIFFIN: And at that point you became a Chief Executive Officer of EP?

SIR PHILIP WATTS: Yes. And --

SAMANTHA GRIFFIN: And -- sorry.

SIR PHILIP WATTS: Sorry, I was going to add for clarification, and also the globalisation, the incorporation of the US completely. There had always been coordination but this now was a total global business. That took place on, I believe, 1 April 1999.

SAMANTHA GRIFFIN: So, your role as Chief Executive Officer, that would have increased -- did that increase on 1 April? When you say the globalisation, was everyone suddenly reporting in to EP as one Executive Committee?

SIR PHILIP WATTS: Yes. And it reduced a lot of the ambiguity. I'd previously had to submit a total plan for the whole world but now it was being coordinated in one place rather than adding bits together.

SAMANTHA GRIFFIN: Okay, so how did your role change in that period?

SIR PHILIP WATTS: I think it changed in organisational terms from, as I said, a Non-Executive Chairman but actually the head of E&P, to clarity about accountability and an executive line. The ambiguity about the US was removed and it allowed a much more -- I would call it a much more disciplined approach to pulling together the group's strategy for Exploration and Production and the plans and their implementation.

SAMANTHA GRIFFIN: Okay. You spoke about more clarity for accountability in that. Can you just maybe expand a bit on that?

SIR PHILIP WATTS: The idea had been, in 1996, of the new organisation, that the members of the Business Committees - the Regional Business Directors of the Far East or Middle East or Europe or whatever - should have -- or we would push that accountability deeper into the organisation. That was felt to be a good idea at the time. I personally had had my reservations because it really did lead to quite a bit of confusion as to who was doing what and where the balance of expenditure should be and frankly I found it a not sufficiently cohesive management team for the global business because we were trying to institute global standards but then you had -- we were generating some, what I would call in a sense, fiefdoms around the world in the different regions.

SAMANTHA GRIFFIN: Okay, thank you. Just moving on from there, you then became Chairman of CMD. How did that change come about and when?

SIR PHILIP WATTS: I became Chairman on 1 July 2001. I'm afraid you'll have to ask others how it came about because that's a matter for the Remuneration and Succession Committee but they would -- as traditionally happens, they would have discussions during the

previous year as they got towards the end of the year - the new year, 2001 - they made their choice and I was asked to do the job. Have I made myself clear about the Remuneration and Succession Committee? Excuse me ...

SAMANTHA GRIFFIN: No, please, do expand if you ...

SIR PHILIP WATTS: This is a committee comprised of three members from the Royal Dutch Board and three members from the Shell Transport and Trading Board. And they're the ones that ... every year, of course, they're looking after remuneration, but the key decisions for them are when a new Managing Director is proposed by CMD, that's a proposal from below, from CMD to REMCO, as it's called.
As far as the appointment of the new Chairman, this is a matter for REMCO itself in consultation with the other Non-Executive Directors, and of course, they take advice of the current Chairman of CMD.

SAMANTHA GRIFFIN: Okay. And what was your role as Chairman of CMD?

SIR PHILIP WATTS: This is ... What it's not, is a traditional Chief Executive Officer. That's the simple part of the explanation. When I was appointed, in fact, there was a discussion about the role and it was captured in minutes of the Conference for the avoidance of any doubt, and that is that the Chairman of CMD is the *primus inter pares*. He ... doesn't have chief executive powers and that's, in a sense, the statement from above. The way that is put into place is that it's made clear that every member of CMD has the right to veto any major decisions, whether they're in his own area of responsibility or other people's areas. So, it actually does have teeth. It's very, very, very rarely used but each Managing Director has the capacity to call "Time out" and say, "I just can't agree with this".
Now, when this was explained – I did know about it, but when it was formally brought to me as part of acceptance of the job, I said, "Well, I'm happy to live with that but there's only one condition as far as I'm concerned. If there ever was an issue like that, that I then felt strongly was in the best interests of the Group to proceed even though there was somebody else objecting to it, I reserve the right to bring it to Conference, to both Boards, and say, 'Well, we've got this proposal. This Managing Director is proposing it. These two are objecting to it. I feel it's of sufficient importance that it should be brought before the whole Conference'".
Actually, it doesn't come to that but they're the terms under which I took the job and was the way that I operated.

SAMANTHA GRIFFIN: Okay, and did you have any instances when you had major objections at CMD level and ...?

SIR PHILIP WATTS: Well, it never became as, in a sense, in my time, as sharp as that. But I'll give one example. The Sakhalin Project for Eastern Russia. This is a $10 billion project, $5 billion Shell share. This is a massive investment. And another one would be the East-West pipeline in China which was $2 billion or $3 billion Shell share. And naturally on something where it's politically sensitive, you worry about the future of the economy, such a large investment. There would be different views around the CMD table. And I would ... head off people

needing, frankly, to play the "red card" as it was called, by saying, "Look, this is a really tough one. Why don't we take it to Conference and say, 'This is something that we're struggling with' and get their views at an early stage?" and ask them whether they supported the sort of criteria that we were setting out. I hope that --

SAMANTHA GRIFFIN: No, that's good, thank you. So, on what other boards and committees did you sit on when you were Chair of CMD?

SIR PHILIP WATTS: Do you mean external boards?

SAMANTHA GRIFFIN: No, I mean within the Shell Group.

SIR PHILIP WATTS: I've mentioned the holding companies. The other Board I sat on within the Shell Group was the Shell Oil Company in the United States and I joined that Board when I became Chairman of CMD and it had its own committees that I sat on.
I don't recollect any other boards at the moment internally.

SAMANTHA GRIFFIN: Okay. And you explained to us before when you were head of EP how the reporting lines worked through up to the Boards and to CMD and to Conference. Were there any changes to that whilst you were head of -- Chair of CMD?

SIR PHILIP WATTS: The reporting lines ...?

SAMANTHA GRIFFIN: Upwards. You gave us an example of how decisions would be taken throughout the company.

SIR PHILIP WATTS: No, that had been a time-honoured tradition that I followed.

SAMANTHA GRIFFIN: Mm hmm. And did you make any other changes or any changes as Chairman of CMD?

SIR PHILIP WATTS: In what sense? As far as governance?

SAMANTHA GRIFFIN: As far as governance is concerned, yes. Just the role that you were doing.

SIR PHILIP WATTS: There was one ... more may come to mind, but one very important thing that comes to mind - was that, in the past, it had not been traditional for members, Managing Directors, to be the CEOs of businesses. My predecessor had already made myself the Chief Executive of E&P and I was a member of CMD, and similarly, with Paul Skinner for Oil Products.
During my time, I also continued the progression of having the Chief Executive of Gas and Power, Malcolm Brinded, was a Managing Director, and then Jeroen Van der Veer, who had had Chemicals in his portfolio, then became the Chief Executive of Chemicals. So, it meant that sitting around the table, instead of this old-style Shell "not chief executive of anything", we had around the table what was more like a traditional management team where you could look at the CEOs of the different businesses.
But the other change I made was that we should have somebody on CMD who was actually not just the finance director having finance in

their portfolio, but actually be the CFO of the Group, and that was Judy Boynton. She was a new recruit; sat on CMD as her predecessor, Steve Hodge, had done for a year or so. She joined and was part of CMD and then she was made a Group Managing Director and MD of ST&T and she was the CFO. I think that was perhaps the most important change in the nature of CMD during my time.

SAMANTHA GRIFFIN: So, prior to Judy Boynton joining, who would have had responsibility for finance at CMD level?

SIR PHILIP WATTS: An individual who was called the Director of Finance who had finance in his – as it was since time immemorial – portfolio and then he would – that, for instance, when I joined CMD was Maarten van den Bergh. He would have three members reporting - Treasurer, Controller and Taxation - who were not members of CMD, but he wasn't actually called the CFO of Shell, and in fact, would also be responsible for another business in Shell. His role was looking after Gas and Power. My predecessor's intention, which I completed, was to make it crystal clear at CMD who was doing what and we achieved that.

SAMANTHA GRIFFIN: So, again, it's going back to the, sort of, more clarity of accountability?

SIR PHILIP WATTS: Yes.

SAMANTHA GRIFFIN: Okay. Have you guys got any questions?

MICHAEL PRANGE: Just one thing, you may have already told us but can you just clarify. The EP Executive Committee, how that worked? I think you've explained CMD in detail. How that Committee works, i.e. was it anyone could "red card" and how you interacted?

SIR PHILIP WATTS: That was ... and I'm describing the Executive Committee now under the CEO. That was what you asked, was it?

MICHAEL PRANGE: Yeah, the sort of, below EP level. And you were on that in 1997?

SIR PHILIP WATTS: Well, I joined first as Non-Executive Chairman and then became the CEO in the second part. Are you referring to both periods or ...?

MICHAEL PRANGE: Yeah, I just want to know what, say, how that works and what your role on that was.

SIR PHILIP WATTS: Well, let's just describe who sits round the table in the first instance, then you'll see who's in the room. We would have Regional Business Directors ... for North America and Europe, Middle East and Africa and Latin America, the Far East and Australasia. There would be typically four Regional Business Directors and they were responsible for their regions and could be anything from 5 to 15 countries where Shell had operations.
There would then be a ... somebody responsible for technology. Then I strengthened the position of – there would be somebody, sorry, responsible for business strategy and I strengthened the role of the finance person and brought the finance person to the Committee.

And then during my time, strengthened the role of HR, human resources, and brought the Personnel Director to the Committee. It didn't quite start like that but that's how it gradually evolved over time. I ... ran it like a, frankly, and more progressively, like a traditional management team. We had at least monthly meetings and for one reason or another, there would typically be meetings every fortnight on one subject or another. Am I answering your ...?

MICHAEL PRANGE: Yes.

SIR PHILIP WATTS: – question at the moment?

MICHAEL PRANGE: You certainly are.

SIR PHILIP WATTS: Yeah?

MICHAEL PRANGE: Yeah. And in terms of these monthly meetings every fortnight, when you report up to CMD with issues, you – how often is that – you may have answered me already, but is that quarterly or an ad hoc process?

SIR PHILIP WATTS: Actually both.

MICHAEL PRANGE: Right.

SIR PHILIP WATTS: It was ad hoc because I would go to CMD every one or two weeks and there'd be items coming forward - specific items, investment proposals or whatever they were - or then under 'any other business' or when we're having lunch together, we would tell each other what's topical or what's the hot news because you have to keep each other informed because any of us may be door-stepped anywhere in the world and you don't want your colleagues to be unaware of things that are happening. So, there's that process for CMD.
Then your other point about the quarterly report, that was very important. Actually, there's one in between. There was a monthly report of monthly results to see how we were doing against our key parameters. Not in the same detail as the ones that came quarterly because we report quarterly, so the quarterly one was a very formal process with each of the business CEOs bringing not just their results but their scorecards. We have a system of balance scorecards for each of the businesses. That would be brought so you have this weekly ad hoc, monthly ...

(buzzer on tape sounds)

– and then the formal quarterly process.

MICHAEL PRANGE: That's fine. I think that's probably a good time to stop. That's the end of the first tape of the interview with Sir Philip Watts on 24 June 2004.

SAMANTHA GRIFFIN: And it's 10.55am.

MICHAEL PRANGE: Thank you.

TAPE 2

SAMANTHA GRIFFIN: It's 11.02am and this is the start of tape 2 of the interview with Sir Philip Watts. Could I remind you that you are still under caution and could I ask you to confirm that while the tape has been switched off we haven't asked you any questions relating to the investigation?

SIR PHILIP WATTS: That's correct.

SAMANTHA GRIFFIN: Thank you. Mike?

MICHAEL PRANGE: Before the end of the last tape I think Sir Philip was explaining about the EP Executive Committee. One other thing that I hope you could clarify for me, please? I think you mentioned BusCom initially, which we believe was the original EP ExCom. I mean, I don't know if that's the case. Can you just explain if they were the same and the transition between those two bodies or committees?

SIR PHILIP WATTS: They were not the same as defined in the organisation set-up. Under the Business Committee - and, of course, it had been running for 18 months before I joined - there was more independence of the Regional Business Directors and not surprisingly, being different individuals, they would have different points of interest and emphasis that they preferred. I don't want to describe it as not functioning or not cohesive, but it was just a looser arrangement.
As Non-Executive Chairman, I think it would be fair to say that I was more hands-on than my predecessor. The change to the Executive Committee made things much clearer. The reporting lines were clear; it was an executive chairman. That change coincided with the institution of new global processes. For instance, we introduced new reporting procedures from around the world. You need a common global data set on which to then make truly global decisions that are based on data and facts rather than individuals competing by telling a better story than the other one, and that was when we introduced global ranking of projects, global capital allocation, a system of value assurance reviews which gave you a measure of the maturity of a project and its readiness for funding.
These were quite fundamental changes that were taking place. You're not just changing the name on the ship; you're changing the engines as well. And, of course, you needed that if you're seriously reducing your capital expenditure. The choice has become so much more difficult.
So, I would say that over – going back to your earlier question, the changes over this four years were quite significant in the sense of a much more disciplined approach to the running of a truly global business.

ZULFIQUAR RAMZAN: So, four years being 1997 to 2001?

SIR PHILIP WATTS: Pardon?

ZULFIQUAR RAMZAN: Four years being 1997 to 2001?

SIR PHILIP WATTS: That's correct.

MICHAEL PRANGE: One committee we haven't mentioned that maybe you could try and explain how it fitted into the scheme of things is the Group Audit Committee.

SIR PHILIP WATTS: Yes.

MICHAEL PRANGE: Can you explain how that fitted into the system as at 1997 and if and when that changed in any way?

SIR PHILIP WATTS: I don't think there were any significant changes over the period we're talking about, from when I was running E&P to when I was Chairman, but let me -- would you like me to describe how it operated? That was your question?

MICHAEL PRANGE: Yes, please.

SIR PHILIP WATTS: Once again, three members of ST&T, three members of Royal Dutch comprised the Group Audit Committee. It has a secretary, who is traditionally the company secretary of one of the parents. In all my time, I only recollect Jyoti Munsiff being the secretary of this Committee.

They would meet the day before Conference. Having done their work, overnight the minutes of their meeting would be prepared and the following morning the Chairman - he was always second item on the agenda for their quarterly meeting - would do the previous minutes and then he would actually literally read out the four or five-page minutes. That would be read out by the Chairman.

The work of the Group Audit Committee was to oversee the programme of Group Audit in the first instance, so Group Audit would bring forward a plan for the year and they would monitor its performance and out of that would have a sense of the health of the controls around the world. They would also review business control incidents, so significant things that were felt by Group Audit and the finance function or the business to be outwith the routine, would be brought as special items. Of course, quarterly, they reviewed the quarterly results and the stock exchange announcements and the press releases.

I continued the approach of my predecessor, which is recognised best practice, that I did not attend the Group Audit Committee. Only if they asked me to come or I asked to be there; and the times they asked me to come, I went and when I asked to be there, they said yes. But it's important that the chief -- the Chairman is not in the room when you're discussing those -- I think, discussing those sort of issues.

I did make a change progressively during my time as Chairman - that I had sat as a member of CMD and found that things would go to the Group Audit Committee that for one reason or another as the Chief Executive of a major business, it had somehow escaped being brought to my attention. Life is like that in a big rambunctious organisation. So, what I did was I said, "Any stuff that's going to go to the Group Audit Committee, it should be all made up and it should go, but after it's gone, it should be put in the CMD papers". Because the stuff went the previous week to the Group Audit Committee and after it had gone, CMD would get copies of the stuff that they were looking at. And my reason for doing it that way was to avoid any implication

that we were somehow -- had a process that vetted what went to the Group Audit Committee.

MICHAEL PRANGE: You spoke before about incidents out of the routine that were passed to the Group Audit Committee. Can you explain who could bring issues to their attention, how that worked, at what sort of level, etc? Just trying to establish, say there was an out-of-routine incident - for example, EP or whatever - how did that process be passed on to Group Audit Committee?

SIR PHILIP WATTS: That would be something that they were minded to ask for, the Group Audit Committee. They might sit on another board and have observed an incident and, of course, that's what non-executive directors bring to another board, some awareness of problems, and they would have said, "Do we have that issue in Shell?" and they would ask to see something. Or you'd get a seriously under-performing piece of the business that they were not entirely satisfied with the routine explanations from management, so they'd ask for a look at that. So, they would have things.
Occasionally the management would feel that something has arisen, but that was normally through what I would call the business control incident process because management had a duty to – down the organisation, all over the world, if you had a business control incident, it needed to be reported and there was an obligation to do so. So, you have this upward system that should catch things from the management perspective, but then they had this downward oversight that they could ask for whatever they wanted to ask for.

MICHAEL PRANGE: So, in terms of the upward from business control, you're talking about as it progresses up the organisation? I mean, who would look at it before it was passed on as an issue to Group Audit Committee? I'm just trying to explain how far up the line it goes and who looks at the issues. I mean, is it something, for example, for ExCom?

SIR PHILIP WATTS: Well, this would be gathered by Group Internal Audit. First it would be gathered in the finance functions of the different businesses and the finance organisations all around the world. They were the custodian of this process. But Group Internal Audit's present all around the world and they're present in the centre, so they're the ones who would put the package together of things that would be considered. And if they wanted to give something to the Group Audit Committee, that was their business.

MICHAEL PRANGE: Right.

SIR PHILIP WATTS: Now, that didn't mean that as things came up – because the intention is that this is a learning process, so some of the business control incidents would be brought to the attention of the Executive – well, first of all in the country, then it might be brought to the attention of the Executive Committee, it might even be brought to the attention of CMD. But that was, in a sense, in addition to a process that was working.

MICHAEL PRANGE: Sure. Does anyone else want to ...?

SAMANTHA GRIFFIN: No. Move on.

DAVID BLUNT: I've just got a -- I just want to go back for a moment to Business Committee and ExCom. You explained that you inherited Business Committee.

SIR PHILIP WATTS: Yes.

DAVID BLUNT: And that you changed that to become ExCom. When was that?

SIR PHILIP WATTS: January 1999.

DAVID BLUNT: Right. And was the value assurance --

SIR PHILIP WATTS: May I add something? I mean, it's not something I did unilaterally. I mean, that was something that was discussed with CMD actually quite extensively in the latter part of 1998 and then it was agreed that we would go that route. And it had to be checked with the Boards also, because they'd agreed to the previous organisation and they now -- we now had to go through due process with Conference and the Boards.

DAVID BLUNT: And was that change linked with the introduction of the value assurance reviews?

SIR PHILIP WATTS: No. I mean, that kind of thing was -- the value assurance review approach was happening around the same time, but it was not linked to the nature of the organisation.

MARTYN HOPPER: Did you want Phil to deal with the relationship with the external auditors and the Group Audit Committee?

SAMANTHA GRIFFIN: That is something we're going to come on to, actually.

MICHAEL PRANGE: So, I think we're going to try and move on and get this process explained in reserve to reserve reporting, that's sort of the next topic. We've got an overview and we'll probably address those issues in relation to reporting. But if you want to explain that relationship now, feel free. There is no specific order.

SIR PHILIP WATTS: Thank you. I think it would be important to mention that as a general process as opposed to a specific item.
The Group external auditors, of course, were present at all Group Audit Committee meetings, and there were two: KPMG and PricewaterhouseCoopers. And their firms would be employed all over the world in the different Operating Units. Their work annually culminated in the production of their annual review and that happened in...traditionally in March.
That would come in the first instance to a rather formal meeting at CMD and I chaired a couple of those meetings where they bring their report and it's turned over page by page for any questions or comments. And then, at the end of that process, you look for omissions, you ask if there are any omissions that people are aware of in that process. So, that would come via CMD.

It would then go to the next – to the Group Audit Committee, be reviewed there, and the results of that would be shared with the Conference as I described on the following day. And, of course, the Group external auditors were involved with every set of quarterly results in that due process.
I've restricted my answer to the general activities of the external auditors there.

ZULFIQUAR RAMZAN: So, I mean, just to confirm, the control of information would go from the external auditors to the CMD and then to the group auditors – then the Group Audit Committee?

SIR PHILIP WATTS: With respect, not at all.

ZULFIQUAR RAMZAN: Right.

SIR PHILIP WATTS: This is their information. They brought it to CMD to ask if this was a – in CMD's view, a fair reflection of the state of affairs. We could say what we wanted, but ultimately it was their document that they brought to the Group Audit Committee. And actually it's as simple as that.

MICHAEL PRANGE: If there's anything else you want to add to the process, feel free. I mean, you sort of said that you've limited it.

SIR PHILIP WATTS: I can't think of anything just at the moment.

ZULFIQUAR RAMZAN: So, were there any instances where you disagreed with their view and you aired your disagreement at CMD level? 'Their' being KPMG or PwC?

SIR PHILIP WATTS: In all – in all my time as a CMD member and then as Chairman, I don't recollect any what I would call argument about it, but I do remember questions as to what they precisely meant, just for clarification. And that was – that was for me a very important part of the process, that management needed to understand what was there, and as Chairman you want to be sure that, if the whole CMD is exercising its collective responsibility, I mean, if you're going to have this power of veto, you need enough information to go with it, that you can take an overview of the total Group. So, that was very important, that we went through this process at CMD. Everybody shared the same information and all took responsibility for it. And if there were points that were not understood or were not clear, then that was up to the auditors to take those comments on board and ultimately submit what they felt was their advice to the Group Audit Committee.

MICHAEL PRANGE: Okay. We're going to try and go on to the subject of reserve reporting now, and I'd like you to, if you can, explain your understanding of the systems, procedures and controls that were in place relating to the proved reserve reporting disclosures. And if you could, we'd like you to start off as at 1997 and again try and explain if it changed in any way. I mean, this is a very wide question.

SIR PHILIP WATTS: It's an extremely wide question.

MICHAEL PRANGE: I realise that. I mean --

SIR PHILIP WATTS: Will you forgive a reasonably long answer?

MICHAEL PRANGE: Of course.

SIR PHILIP WATTS: Yeah?

MICHAEL PRANGE: Yeah.

SIR PHILIP WATTS: Because it is very important to -- because it gets to the nature of the Group; being a global organisation, this is a big organisation.
Now, let me first start as to what the ground rules are. You have the SEC rules from 1978 and then you have the Shell Guidelines, which are written in a form that's understandable to Shell organisations all over the world using Shell terminology and whatever, the language that they're familiar with and trying to avoid any ambiguity in the process. So, we have the Shell Guidelines; they're updated pretty much annually and have been in existence for many years. So, they're the ground rules.
Now, if I start at the bottom of the data collection exercise, we have 45 countries, say, approximately, ranging from big to small. Each one of these will have anything from 1 field to 100 fields. The people locally do the evaluation of their field and their evaluation of the total reserves and the proven reserves, developed and undeveloped. Annually they submit their -- make their submissions normally in January to the head office and these are collected by the -- it's a long name: the Group Hydrocarbon Resources Co-ordinator.

MICHAEL PRANGE: Is that each country or each region?

SIR PHILIP WATTS: During my time it was done on a -- on a country basis, but of course in the centre, they'd be added up on a regional basis. Now, the Group Hydrocarbon Resources Co-ordinator would add them up, challenge them, prepare the totals by late January, and he'd come up with the new figure, the Reserves Replacement Ratio for the year, what he'd accepted, what he'd rejected, etc. I described it as a person, but of course he'd have a few people and he could draw on other resources to help him.
Meanwhile, while this annual process was going on, there was, on the side, an independent Group Reserves Auditor. This was an individual, and his role was to visit different Operating Units each year, probably eight to ten of them, and he would make an audit of how things were being done in that country. There'd be plenty of notice that he was coming and they'd get ready for him because his role was to make sure that the audit trail for whatever number they had -- and they -- he traditionally checked the result at the end of the previous year because then you've got a hard number that's supposed to be auditable, so he would go back and have a look at those numbers and he would produce his report.
That report, when made, would be delivered to the key members in the head office, members of the Business Committee and then the Executive Committee, also to the external auditors and also to the regional business people within which that country sat. If you look at these reports, there's probably ten or even a dozen names of people

that get that report. He would then work during January with -- and produce his report for the year.
So, you've got the Group Hydrocarbon Resource Co-ordinator, he's the man internally making the numbers, and then you've got the independent check of that by the Group Reserves Auditor. I'm sorry, this is a long answer but it's quite a process, and I'm about to describe the third leg, which is the external auditors.

ZULFIQUAR RAMZAN: I've just got one question on the Group Reserves Auditor.

SIR PHILIP WATTS: Yes?

ZULFIQUAR RAMZAN: You mentioned audit trail. Can you -- would that be -- I mean, this is my understanding. Would that be an audit trail on the field level? I mean, can you explain that (inaudible) or that audit trail?

SIR PHILIP WATTS: He would go out to a country and look at the audit trail. It wouldn't be his role to check absolutely every field, but he would -- to my recollection - I'm not a reservoir engineer myself - but he would look at a number of fields, look at the data they'd prepared, make random spot checks and whatever, but then would look at the country in aggregate also, in total. I hope I've answered your question.

ZULFIQUAR RAMZAN: Yeah, yeah. Right, okay, so he'd go back on a field level basis and then work upwards from there?

SIR PHILIP WATTS: Yeah.

ZULFIQUAR RAMZAN: Yeah. Okay.

SIR PHILIP WATTS: But if the country had 100 fields, he didn't -- he didn't -- I mean, this was the role of the independent auditor, the reserves auditor.
I was going to come to the third leg, which is the external auditor. They did their job in two ways. KPMG and PwC have their own representatives in the different countries, the firms, auditing the books of each of the countries. In addition to doing the financial stuff, they would also take a look at the reserves auditing process concentrating on the major and medium-sized countries.
But then, critically, in this annual process, they would have their own check of the process that was going on at the end of the year. Following, I believe it's SAS 52, a term of art that I know now but wouldn't have identified the letters and numbers at that stage, but I knew that there was a process going on and observed -- when I was running EP, observed that they produced reports. And then when those three things were all in place, it culminated in members of the BusCom or then members of the Executive Committee signing a letter of representation to the external auditors that things had been done in compliance with the rules.
Now, that was important. I should mention - and I observed it myself and knew it was taking place or was aware that it was taking place normally, when I was Chairman - this last process also involved the Group Controller and Group Reporting, because they had to reassure themselves that that had all been done properly because that would find its way into the annual reports and into the 20-F as supplementary information.

Excuse me, that's been a very long answer, but that's the process that I observed at different times.

MICHAEL PRANGE: And that was as at 1997, what you've just described to me now? That system was in place in 1997 as far as you're aware?

SIR PHILIP WATTS: Yes.

MICHAEL PRANGE: Okay, no, I was just checking it -- because over a long period of time -

SIR PHILIP WATTS: It was there before 1997.

MICHAEL PRANGE: Yeah, that's the sort of position, yeah.
You spoke briefly about the challenge to the numbers, and I think you said the Group Hydrocarbon Resource Co-ordinator was probably the first challenge to potential numbers that were being reported. Can you just explain in a little bit more detail what you meant by that and what his resources were in order to do that?

SIR PHILIP WATTS: Yes, he did the challenge but it wasn't quite the first challenge because there would be a challenge first of all in the Operating Units, the different -- the different countries. So, that was the first check. These then came into the centre and there was a challenge by the Hydrocarbon Resources Co-ordinator. There was him and I think it would be a few people, I don't remember the actual number that would be in his part of the organisation, but if he had any issues, not just in January - and I'm recollecting my own time as CEO of EP -- as head of EP rather than when I'm Chairman, I can't speak for that - he had the ability to call on other resources in our -- what was a very large technical group because our technical headquarters, Technical Research and Services Group, was in -- just outside The Hague. He could call for reservoir engineering, petroleum engineering support from that group if he wanted to, for instance, look at a particular country, a particular issue or the like.

MARTYN HOPPER: Before you -- can I just -- were you talking there about the Co-ordinator?

MICHAEL PRANGE: Yes, that's the question I asked, yeah.

SIR PHILIP WATTS: That was the question.

MICHAEL PRANGE: And again, I was going to move on. The next question is about the resources of the auditor or the Group Reserves Auditor.

SIR PHILIP WATTS: The Group Reserves Auditor was a single person.

MICHAEL PRANGE: Did he have any -- I mean, you mentioned that the Group Hydrocarbon Reserves Co-ordinator could call upon other resources within the Shell Group, technical, etc. Could the Group Reserves Auditor call on anyone else other than himself?

SIR PHILIP WATTS: For doing his job -- for instance, if he visited an Operating Unit - and I can only talk actually for the one I know when I've known him come - he comes to do his audit and the Operating Unit has to produce

whatever resources are necessary for him to be able to do his job properly. And if a country didn't, such that he couldn't do his job, his sanction was that they got an unsatisfactory audit.

MICHAEL PRANGE: Okay, that's fine. You also mentioned the two ground rules, the SEC 1978 rules and the Shell Guidelines. Can you explain to me who is responsible within the system to ensure that the Shell Guidelines were in line with the SEC rules? Because I think you also mentioned that the Shell Guidelines were annually updated, so can you explain who is responsible for ensuring that on an ongoing basis?

SIR PHILIP WATTS: In my time, my recollection, that was the role of the Group Hydrocarbon Resources Co-ordinator, and he would do that under the supervision of a BusCom/ExCom Director and he would do it in consultation with the expertise around the world, taking comments such as where people had had difficulties coming up with proposals that would – not checked with everybody but sufficient soundboard around the world.

SAMANTHA GRIFFIN: Do you want me to ...?

MICHAEL PRANGE: No, I just wondered if anyone had got any further questions on that (overspeaking).

ZULFIQUAR RAMZAN: Just going back a bit, this Group Hydrocarbon Resource Co-ordinator, who did he or she report to? I mean, what was the line of reporting there?

SIR PHILIP WATTS: To a BusCom or ExCom director.

ZULFIQUAR RAMZAN: To BusCom/ExCom. Right, okay.

SIR PHILIP WATTS: To a director. That was in my time. That's my understanding.

SAMANTHA GRIFFIN: Can I just take you sort of right back down to sort of the Operating Unit level? The very first thing was that you said that at that level they work out their own proved reserves for reporting upwards through the Group. As I understand it, the sort of figure for proved reserves is dependent on much more than what's just in the ground. You're talking about financial decisions, investment decisions, marketing decisions. Are they all made still at that Operating Unit level?

SIR PHILIP WATTS: They would have the Shell Guidelines and they would review their fields in the light of those and they would make their judgement on the different factors involved, as you (inaudible). It's not just the sub-surface but also the state of technical and commercial matters.

SAMANTHA GRIFFIN: Okay. So, if you've got, say, a very, very large field where you would need a senior sign-off for, say, an investment programme, how would that figure down with, you know, the calculation of reserves and the approval of the financing or anything for that?

SIR PHILIP WATTS: You're talking at a country level now?

SAMANTHA GRIFFIN: Well, you've got a country level. I'm just wondering if the authority, I suppose, at the country level is enough if there's such a -- if there's a major investment decision that needs to be made? Is it made down at the bottom or, you know, is it -- when it is escalated up and how does that reflect what you can call proved and what you can't call proved?

SIR PHILIP WATTS: Local management will be aware of the total view and they will be submitting their returns, but that's where the -- you know, the control process of the Group Hydrocarbon Resources Co-ordinator comes into play, that you look at all of these things, check with the Group Reserves Auditor's view of things, and eventually the conclusion for each country, for each region and for the world eventually is brought to the Executive Committee.

SAMANTHA GRIFFIN: Okay, so the proved reserves at Operating Unit level --

(buzzer on tape sounds)

-- are done on the basis of a number of assumptions? Those assumptions are passed up through to the Group Hydrocarbon Resource Co-ordinator and effectively up to the ExCom where, should there need to be a decision on that sort of thing, it would be made there, is that right?

SIR PHILIP WATTS: That's where the ultimate view is taken and that forms the basis of one or two members of the BusCom or ExCom signing a letter of representation.

SAMANTHA GRIFFIN: Right, okay. Thank you. Are we done? This is the end of tape 2 of the interview with Sir Philip Watts. It's 11.45am.

TAPE 3

SAMANTHA GRIFFIN: It's 12.00pm and this is tape 3 of our interview with Sir Philip Watts. Could I again remind you that you're still under caution and could I also ask you to confirm that we haven't asked you any questions related to this matter while the tape's been switched off?

SIR PHILIP WATTS: That's correct.

SAMANTHA GRIFFIN: Okay. Thank you. I think just before we finished the last tape I was asking you about proved reserves at Operating Unit level. What I was trying to understand is this. If there's a decision that, such as a sort of multi-million dollar budget that's needed in order for a reserve to become proved, where would that decision be made?

SIR PHILIP WATTS: The decision for the investment is made in the centre.

SAMANTHA GRIFFIN: Right, and in the centre you mean CMD –

SIR PHILIP WATTS: At –

SAMANTHA GRIFFIN: – Conference?

SIR PHILIP WATTS: That's right, in -- in the head offices.

SAMANTHA GRIFFIN: Okay.

SIR PHILIP WATTS: It's at that level.

SAMANTHA GRIFFIN: Mm hmm.

SIR PHILIP WATTS: In the corporate hierarchy. That's where the investment decision is actually made.

SAMANTHA GRIFFIN: Right.

SIR PHILIP WATTS: What was the other part?

SAMANTHA GRIFFIN: What I'm trying to find out sort of it's almost like it's a circle. You've – you've got your Operating Units making decisions on whether or not something's a proven reserve, but yet that proven reserve may well be dependent on a decision made up at CMD. So, you've got these people trying report proven reserves up through the relevant places up to CMD, but yet before it becomes a proven reserve there's got to be a decision at CMD. So, I was just wondering how it worked, if you see what I mean.

SIR PHILIP WATTS: Well, it's part of that challenge process that I described with the Group Hydrocarbon Resources Co-ordinator; that an Operating Unit will propose any changes to proven reserves that it has and a judgement will be made in the centre whether their proposal is realistic and proper because, in the end, the report for the year and the agreement of the individual countries is encapsulated in the – the report of the Group Hydrocarbon Resources Co-ordinator and

checked by -- the external auditors that we're following that process properly. In a sense it's an iterative process --

SAMANTHA GRIFFIN: Yeah.

SIR PHILIP WATTS: -- which comes together in one document that is checked at the ExCom. The submissions are checked with the external auditors and the group auditors etc.

SAMANTHA GRIFFIN: Okay. Well, perhaps if you could just explain how -- how, say, a capital expenditure decision would be ma -- would be taken, how it would be proposed from sort of the Operating Unit level up?

SIR PHILIP WATTS: An Operating Unit will have a project it wants to do.

SAMANTHA GRIFFIN: Mm hmm.

SIR PHILIP WATTS: The first check is -- is it part of the plan or existing plan or additional to the plan - that they will make that proposal to the offices in the Headquarters offices. That will be reviewed by the Regional Business Director, will then be brought to the EP ExCom, brought to the CEO and -- and if it's up to a certain amount it goes only to CMD. It it's more than a certain amount it goes to the -- to the Conference and then to the appropriate Boards.

SAMANTHA GRIFFIN: Okay. So, the process starts at the Operating Unit. They -- they put together the proposal, a document or --

SIR PHILIP WATTS: Yes.

SAMANTHA GRIFFIN: And that would go to the Regional Co-ordinator --

SIR PHILIP WATTS: Regional Business Director.

SAMANTHA GRIFFIN: And the Regional Business Director's based in Head Office at The Hague?

SIR PHILIP WATTS: Yes.

SAMANTHA GRIFFIN: Or wherever.

SIR PHILIP WATTS: He may live in Dubai or Singapore nowadays, but he's part of --

SAMANTHA GRIFFIN: Yeah.

SIR PHILIP WATTS: -- the Executive Committee.

SAMANTHA GRIFFIN: Yeah. Okay, and then that would first -- in the first instance go to the Executive Committee of EP?

SIR PHILIP WATTS: Yes.

SAMANTHA GRIFFIN: And then through the CEO of EP?

SIR PHILIP WATTS: Yes.

SAMANTHA GRIFFIN: To ExCom, the Group ExCom.

SIR PHILIP WATTS: Yes.

SAMANTHA GRIFFIN: Okay.

SIR PHILIP WATTS: The -- the -- sorry, to the CMD.

SAMANTHA GRIFFIN: Sorry, yeah. Then to the CMD. Sorry, I'm getting myself confused now.

MICHAEL PRANGE: I think we've touched upon two areas: the actual reserve reporting process and then I think you mention -- mentioned the auditor would look at the figures, sort of, for the previous year. What were the, sort of, existing processes in relation to reviewing existing proved reserves on a continuing basis, i.e. two, three years booked in advance or previously booked? I'm just wondering. You see, you've got the -- a year and then current and then, say, three years previously booked. Is there -- was there a process ongoing to review those?

SIR PHILIP WATTS: That -- this was an annual process in the Operating Units. Then checked by the Group Reserves Auditor on a three or four year rolling basis and then, as far as external audit was concerned, they would have a look locally on an annual basis and also on an annual basis they would check the aggregation. I think they're the period this is. But of course, the majority - the vast majority of the work was done in the local Operating Units with the technicians, reservoir engineers etc that would - that would do that work.

ZULFIQUAR RAMZAN: So, Operating Units would propose a plan to the Regional Business Director up to ExCom and perhaps the CMD, Conference. Would -- and is this a year end reporting line or intra-year reporting line as and when projects evolve?

SIR PHILIP WATTS: We're now talking investment proposals --

ZULFIQUAR RAMZAN: Yes, yes.

SIR PHILIP WATTS: -- as opposed to reserves? I'm just checking the question.

ZULFIQUAR RAMZAN: Mm hmm.

SIR PHILIP WATTS: Investment proposals can come at -- individual ones can come at any time of the year. But, in addition to that, each Operating Unit would have an investment programme for the following year and this would be submitted in the middle of the -- middle of the year. They'd all be aggregated and that would -- for all of the businesses - would make the EP Plan, which would then be approved for the following year and then individual Operating Units would be informed, "Yes, all of your plan's been approved" or "Part of it's been approved" or "We want you to have more" or -- or whatever. That was the process.

ZULFIQUAR RAMZAN: And in instances when plans weren't approved, what was the -- what were the reporting lines then? I mean was it treated as you were saying, going from Conference or CMD back down to the Operating Unit?

SIR PHILIP WATTS: Well, this was, once the -- you have the aggregation upwards.

ZULFIQUAR RAMZAN: Mm.

SIR PHILIP WATTS: Then the Group has a -- an approved plan, each business has an approved plan, then it's a matter of then taking each element for each country of the Business Plan and then the Regional Business Director concerned would inform the Operating Unit, "Yes, your plan is approved" or, "It's approved with the exception of these items" or the like.

MICHAEL PRANGE: Going back to reserves now again. I think I asked before about how existing proved reserves were reviewed to ensure continuity over a long period. So, I guess that ultimately leads to the question of potentially de-booking of reserves. Can you explain again how that -- what process was in place in relation to that possible outcome?

SIR PHILIP WATTS: Well, it would be part of the same process annually that the Operating Unit would review its fields anyway itself. In the light of any advice that it's got either from the Group Reserves Auditor or from the Regional Business Directors concerned and they would make their review and the same rules applied. The booking or --

MICHAEL PRANGE: It fell through the --

SIR PHILIP WATTS: If the consequence was de-booking there were pluses and minuses.

MICHAEL PRANGE: But ultimately, it'd be signed off through the same process as the booking, i.e. up through to ExCom?

SIR PHILIP WATTS: It -- it's all part of the same --

MICHAEL PRANGE: Yeah.

SIR PHILIP WATTS: -- the same process.

MICHAEL PRANGE: And within ExCom was there -- I mean ExCom signs it off. Is there any individual there that's ultimately responsible for bookings or an expert in reserves or something like that? I'm just wondering how that worked.

SIR PHILIP WATTS: Well, around the ExCom table you would have the whole spectrum of -- of people and I'm certainly not a -- a reservoir engineer. So, you -- it would range from any -- sort of from people who had a background in that sort of business to those that were aware of what was going on. The Ex -- there was one ExCom member responsible for sponsoring this item and it would be the ExCom member within which the Group Hydrocarbon Resources Co-ordinator was sitting. And then, as we know, then either one or two of the ExCom members

signed off. Most recently the ExCom member responsible for that part of the business and those people, along with the CFO.

MICHAEL PRANGE: I'm going to move on unless anyone's got any further questions. Yes.

ZULFIQUAR RAMZAN: So, we were talking about reserve reporting and the way it kind of moves up the chain up to perhaps CMD level and investment decision and the way they – they kind of move up as well. I mean this is to the best of my knowledge, surely there's – there's overlap there in terms of reporting and investment decisions in relation to the SEC guidelines, in the respect that certain key investment decisions need to be in place once a field can be deemed proven. How – how -- how – how? So, what I'm saying is where in your mind is the overlap between this investment cycle and the reserves you're putting as you've explained?

SIR PHILIP WATTS: The – there is a – a linkage, of course, and if I go back to the time that I was in charge of E&P, the key issue – those kind of issues should be captured in the Shell Guidelines to make sure that we satisfy the SEC rules and it's in those Shell Guidelines that you capture investment linkages and any other aspects of it all.

ZULFIQUAR RAMZAN: Okay.

SAMANTHA GRIFFIN: Yeah, I was just – sorry to keep going on about this point. It's just something we're – we're slightly confused about. I think what we're saying is you've got your Shell Guidelines, you've got your Operating Units looking at your Shell Guidelines and saying, "Right, have we -- do we meet this criteria? Do we meet this criteria?" making those decisions at that level, effectively ticking to what's proven. But if you got to a situation where you said, "Oh, no, we haven't got that investment decision" or, "We haven't got that decision" and we think we're probably putting it all in at the same time. If that occurred around the time that the reporting was supposed to be happening, is it something that would be done separately. You'd have to then – it wouldn't be proven. It would have to then be – the relevant criteria would have to be applied for up the way through to CMD, that approval received, and then when that approval received then it's – it's proven if you see what I mean. Sort of the cycle of it?

SIR PHILIP WATTS: I – I think the anchor point for – for those decisions is the Shell Guidelines where they're helping the Operating Units to follow those Guidelines to satisfy the SEC rules and they have to make their submission in accordance with the Guidelines.

SAMANTHA GRIFFIN: Right.

SIR PHILIP WATTS: The – the challenge process is have they done that? Hmm?

SAMANTHA GRIFFIN: Yeah.

SIR PHILIP WATTS: And any of these other questions ought to be captured in the Shell Guidelines – any other aspects ought to be captured in the Shell Guidelines. That's the process that's going on annually and, of course, then that's – part of that process is that it's done internally by

the Group Hydrocarbon Resources Co-ordinator. It's checked against the Group Reserves Auditor and then checked by the external auditors that the Shell Guidelines are satisfying the SEC rules. That was the process that was in place year in, year out.

ZULFIQUAR RAMZAN: So, the Shell Guidelines are for, I guess, internal investment use as well as external SEC compliance?

SIR PHILIP WATTS: No, sorry. These Shell Guidelines are all about reserves.

ZULFIQUAR RAMZAN: Mm.

SIR PHILIP WATTS: They are not investment guidelines.

ZULFIQUAR RAMZAN: Mm hmm.

SIR PHILIP WATTS: That's a whole other -- the approval processes for investments, there's a whole set of other rules issued by the Finance Department to achieve the process that we talked about earlier of investment decisions, at different levels depending on the authority -- the size of the authority that's required.

DAVID BLUNT: I've just got one question about the role of the external auditors. I wondered if -- you said that the external auditors took a look at the reserves auditing process and they did that at a local level. Just coming to the nuts and bolts of it - what do you understand the external auditors' role actually to encompass in the reserves reporting process?

SIR PHILIP WATTS: What the external auditors don't do is count the barrels. Their job is to look locally and in the centre as to whether the proper processes are being followed. That's in - on the one side and then also to check the SEC rules against the Shell Guidelines and then to report accordingly to the Group Controller in Group Reporting and, if necessary, to the Group Audit Committee and the Boards ultimately. Have I been clear?

DAVID BLUNT: Yes, that's very clear. The check that they do of the SEC rules against the Shell Guidelines, how does that relate to the work of the Group Hydrocarbon Resources Co-ordinator in his role of checking the Guidelines?

SIR PHILIP WATTS: Well, he's the one who does the actual update annually - virtually annually. I can't for sure say that it was done every year, but that was typical. He did the work along with this distributed organisation that I described and then they did their annual review which incorporated a look at that aspect.

DAVID BLUNT: A review of the Guidelines?

SIR PHILIP WATTS: To check that the Guidelines were in line with the SEC rules.

DAVID BLUNT: Right.

SIR PHILIP WATTS: And would deliver numbers that satisfied the rules.

SAMANTHA GRIFFIN: When it comes to the review that the external auditors do, at what sort of level or, you know, time in the process of preparing reserves figures does it go to the Group Audit Commit -- sorry, to the external auditors? You'd be operating up to Group Hydrocarbon Resources Co-ordinator. Is it that point that it goes up or has it gone through the other checks of -- of CMD or ExCom before they look at it or do they look at it lower down the chain if you see what I mean?

SIR PHILIP WATTS: CMD wouldn't be involved in checking that and ExCom would occasionally have some exposure to that but it was more done at the operational level with the ExCom Director concerned. The extent to which the external auditors got involved in the process as it was being done or later or whatever I don't recollect.

SAMANTHA GRIFFIN: Right.

SIR PHILIP WATTS: I just know that the culmination of the annual process was that they were supposed to have done that check.

SAMANTHA GRIFFIN: Okay. So, you don't know at what point, sort of, effectively the pack was sent to the auditors to look at. After -- what level of review within the Company was done before the auditors would see any numbers?

SIR PHILIP WATTS: Sorry. I thought you were talking about the Guidelines themselves when you asked me that question.

SAMANTHA GRIFFIN: No, no. Sorry. I was actually talking about the reserves figures. Sorry. Shall we start again? When you're talking about the auditors' review -- annual review, they look at, as a global thing, what your reserves numbers are?

SIR PHILIP WATTS: Yes.

SAMANTHA GRIFFIN: And, at what point of the review has the Company got to before those figures are sent out to the auditors?

SIR PHILIP WATTS: I should make a distinction between the Group external auditors --

SAMANTHA GRIFFIN: Yes, okay.

SIR PHILIP WATTS: -- and the external auditors that were engaged in -- within the EP business on the matter of reserves.

SAMANTHA GRIFFIN: Mm hmm.

SIR PHILIP WATTS: The ones that were involved in reserves would have an awareness throughout the year - over the years - of what was going on in relation to reserves because, for instance, they were copied on the Group Reserves Auditor's reports. So, any -- they'd have their finger on the pulse of eight or ten Operating Units every -- every year. They also had their finger on the pulse as, in different countries around the world, the annual submissions were being made. But then the pack of stuff that culminates like any annual audit would comes in the latter

part of January, culminating in early February for the total sign off of the reserves position. Have I –

SAMANTHA GRIFFIN: Yes, and so the pack of things that would come out at the end was after all of your processes internally? Just the total sign off point?

SIR PHILIP WATTS: They were intimately involved in the preparation of the pack.

SAMANTHA GRIFFIN: Yeah, I understand that, yeah. Okay.

SIR PHILIP WATTS: Because they would have meetings with the – the reserves meetings that take place, they would be part of that and be an integral part of the process.

SAMANTHA GRIFFIN: Mm hmm. Okay.

SIR PHILIP WATTS: They weren't just delivered with a - a pack - *fait accompli*.

SAMANTHA GRIFFIN: This is what I'm trying to get at, yes.

SIR PHILIP WATTS: Not at all.

SAMANTHA GRIFFIN: Right.

SIR PHILIP WATTS: They had their finger on the pulse throughout the year.

SAMANTHA GRIFFIN: Yeah, okay.

SIR PHILIP WATTS: And then were intimately involved in those last weeks of January, early February.

SAMANTHA GRIFFIN: Okay, thank you. That was what I was trying to get to.

MICHAEL PRANGE: Can we move on now to the – the Value Creation Team? Can you just explain how it developed and your involvement and what happened? I mean, I think ultimately it resulted in a – an update of the Shell Guidelines, so can you just give us a brief overview from start to end of that process? Again, a very wide, open question.

SIR PHILIP WATTS: I'll try to make it a brief overview. When the Shell Group was reorganised in 1996, one of the processes that was instituted was the idea of Value Creation Teams, where you'd have a particular issue that CMD felt needed to be addressed and you'd collect people from - - high flying people from - all around the world under the sponsorship of a CMD member and they would do an exercise.
This, for example, led to the new approach of Shell with regard to CO_2, the establishment of a new Shell Hydrogen business, and there were other things too. I just make the point that this was a Shell Group process that was established.
It was then decided that it would be a good thing to use this approach, rather than on a Group issue, use them on business issues. So, this we discussed in the EP BusCom, as it was at the time, and of course, there are - 20 ideas come up. Four or five are chosen. For example, one was on drilling. Half the – our money

goes on drilling. If you can improve performance there, it's worth a fortune.
One was on longstanding environmental issues worth some really focused [inaudible]. One of them was on project management and another was on reserves. And we did those and they were done in parallel with each other. The conclusions were drawn and it led to some changes.
The idea of these teams is to propose changes. It comes to the Executive Committee, a view is taken and they are either accepted or they're not and then it goes into operational mode, done by the business rather than by a special team. I think that's the background to it.

MICHAEL PRANGE: And you can give me a brief overview of what they suggested in relation to reserves or what was suggested?

SIR PHILIP WATTS: The Value Creation Team for reserves had a number of recommendations with regard to global networking, knowledge sharing, more general things. But the specific item that came up, which was in -- had in fact been identified - and was one of the reasons for having the Valuation Creation Team in the first place - was an observation that the way Shell was doing its work, it was felt that we were underestimating the proven reserves in mature fields in mature provinces.
And we had good reason for that because we were in joint venture partnerships with other major oil and gas companies where we don't normally share that sort of information, but you could deduce that we had significant differences, for instance, here in the North Sea.
Now, that was observed and the recommendation of the team was that we needed to modify the Shell Guidelines to bring us more in line with industry practice and also what was allowed under the SEC rules.

MICHAEL PRANGE: When that was put to ExCom was it universally agreed? I mean, was there any discussions about the recommendation that you can recall specifically?

SIR PHILIP WATTS: I don't specifically remember the discussion except the conclusion and that was that it was agreed that we would go that route, but we also agreed a couple of other things. One, we said we wanted to change the Guidelines and we'd do that as part of the annual process, but secondly, there was a concern that it be implemented properly; and that's why we decided that, as well as the usual discussions that took place with Operating Units about this proposed change to get their advice and use them as a sounding board, we said we would also -- this approach we would check with Group Audit. And that was an intentional decision because ultimately that's where the numbers end up. We decided to have a Group Audit review.
And then the second thing that was asked for was that the -- when the instruction was given to Operating Units to change the Guidelines, just to make sure it was done properly, they got a letter of instruction that said, "If you - when you submit your results in January, tell us how much was due to the new Guidelines and split it out from the other stuff - not just the barrels, but also the financial impact". And in

fact, both of those things happened - one in the Autumn and then the other culminated in a Note to the ExCom in February time.

MICHAEL PRANGE: So, overall, how would you say – would you say the process went smoothly, the implementation? Was there any resistance?

SIR PHILIP WATTS: I don't recollect any resistance but you use the word 'slowly' –

MICHAEL PRANGE: 'Smoothly'.

SIR PHILIP WATTS: These things that – sorry?

MICHAEL PRANGE: I said, "Did it go smoothly?"

SIR PHILIP WATTS: Oh, smoothly. Excuse me. These things don't happen overnight and in fact it was over the next couple of years that this was steadily implemented.

MICHAEL PRANGE: Were there any extra resources required for, obviously, the change in the guidance? I mean, it just seems to be like more than the normal changes if there were any. It seems to be quite an event. Were there any more resources (inaudible) for the Group Hydrocarbon Resources Co-ordinator, who is responsible for ensuring you're in line – the Shell Guidelines with the SEC rules? Was there any extra assistance in, sort of, that process on this occasion?

SIR PHILIP WATTS: I, at the moment, don't recollect and I would need to check in the documents around that time to verify that that was the case.

MICHAEL PRANGE: So, you don't know whether it was or wasn't?

SIR PHILIP WATTS: At this point, I don't recollect. I'm not sure.

MICHAEL PRANGE: Does anyone else have any questions on that?
Moving on now to another event that probably reflected on the reserves reporting... was in 2001 - publication on the SEC website of SEC guidance on reserve reporting.. I think it was 2001, was it?

SIR PHILIP WATTS: Sorry, I didn't hear your question because I was just preoccupied with the previous question. I hadn't –

MICHAEL PRANGE: I'll repeat it. Just moving onto another event that probably impacted on the reserve reporting within Shell and that was - correct me if I am wrong - but I believe in 2001 there was a publication of – on the SEC website of SEC guidance on reserve reporting. Can you recall that and whether that had any effects on the systems and controls we've discussed?

SIR PHILIP WATTS: I can't recall it and, of course, I was in the process of a handover situation, changing to a new job in the months that followed that.

MICHAEL PRANGE: Sure. One other thing, again - I believe there was a Reserves Committee set up in 2003. Is that the case? Again, you may or may not know. I'm just –

SIR PHILIP WATTS: I am aware of it because it was -- its setting up and the follow through of the recommendations of the Group Reserves Auditor was brought to the attention of CMD and the Group Audit Committee, so I was aware of it because of that process.

MICHAEL PRANGE: I was just going to ask you how the Reserves Committee fitted into the structure that we've been discussing so far.

SIR PHILIP WATTS: I think it was a more formal process that was instituted to give enhanced attention to that issue -- to that -- especially the end of year process and that was one of the recommendations of the Group Reserves Auditor.

MICHAEL PRANGE: And sorry, they made the recommendation to, and it was approved by CMD, was it, that decision to have a Reserves Committee? I'm just wondering how the recommendation -- what it went through before it was accepted.

SIR PHILIP WATTS: As I say, my recollection is that that was a matter of decision by the EP Executive Committee and it was brought to the attention of CMD and the Group Audit Committee.

MICHAEL PRANGE: Is there anything you specifically recall about any of those discussions? Again, a very open question as to, you know, were there any discussions? Was it universally accepted - anything that you just recall about the recommendation?

SIR PHILIP WATTS: No, I don't have any particular recall except that it had been recommended by the Group Reserves Auditor, the EP Executive Committee had endorsed it and it was moving ahead, which was an action point that came out of the previous report.

MICHAEL PRANGE: Does anyone else have any questions?
I think that would be a reasonable time to stop because we're going to move on to the key performance indicators and performance questions. So, I think it'd be a good idea to break now even though there's another seven minutes on the tape and maybe start again after lunch if that's okay.

SIR PHILIP WATTS: Okay. Thank you.

SAMANTHA GRIFFIN: Okay. It's 12.35pm. This is the end of tape 3 of the interview with Sir Philip Watts.

TAPE 4

SAMANTHA GRIFFIN: It's 1.34pm. This is the start of tape 4 of our interview with Sir Philip Watts. Can I again remind you that you still are under caution and ask you to confirm that we have not asked you any questions about the matter whilst the tapes were switched off?

SIR PHILIP WATTS: That's correct.

SAMANTHA GRIFFIN: Thank you. Zulfi, I think it's up to you.

ZULFIQUAR RAMZAN: Yeah.

MARTYN HOPPER: Did you give the time?

SAMANTHA GRIFFIN: I did.

MARTYN HOPPER: Oh, did you?

SAMANTHA GRIFFIN: Yes.

SIR PHILIP WATTS: 1.34pm.

ZULFIQUAR RAMZAN: Can you please tell me about the key performance indicators of the Shell Group from 1997 to 2004?

SIR PHILIP WATTS: Key performance of the Shell Group, that's the totality of Shell ... particular emphasis throughout the period has been given to ROACE, Return On Average Capital Employed. Also, the amount of cash is very important and these relate directly to our ability to generate the necessary net income and cash to achieve our dividend commitment, which is to meet or beat inflation in the two countries of our parent companies. If I put it at its most straightforward, at the Group level, it's all about the generation of net income, ROACE, the generation of the cash to keep our dividend commitments.

ZULFIQUAR RAMZAN: And were there any – I mean you're talking about financial performance indicators now. Were there any non-financial indicators that were important?

SIR PHILIP WATTS: Yes, but they tend to be at the different business levels because by the time you're at Group level - I've described the key indicators - you have to go into each of the businesses to see the key performance indicators that are useful for that particular business, whether it's Exploration and Production, Gas and Power, Chemicals or Oil Products downstream business.

ZULFIQUAR RAMZAN: So talking on the Exploration and Production business unit level, what were the indicators there that are important?

SIR PHILIP WATTS: Well, once again, you have the financial indicators - net income, ROACE, cash - but then you have what we would call operational key performance indicators.

ZULFIQUAR RAMZAN: Carry on....with the operational key performance indicators.

SIR PHILIP WATTS: Fine, thank you. Production is a key performance indicator. Cost, very often a unit cost of production, reserves replacement, and then there's a whole suite of key performance indicators, which in Shell we started to put under the heading of "sustainable development". They relate, for example, to health and safety of performance for our employees. Then, for instance, environmental measures like CO_2 production, oil spills - which is a characteristic of our business - and then, finally, a key performance indicator would be what we would call strategic milestones and these are major developments achieved, licences acquired, etc, etc. As I talk about this, I've forgotten one, and that relates to exploration performance and that's normally in terms of a finding cost, the cost to find a barrel oil equivalent in exploration.

ZULFIQUAR RAMZAN: Is that the F&D cost of finding and --

SIR PHILIP WATTS: Well, not quite. F&D cost is a combination of finding and development costs. We prefer to talk in terms of a finding cost and a development cost. We feel that gives a better picture.

ZULFIQUAR RAMZAN: Then, talking about these key performance indicators, particularly within EP, did they change over the period of 1997 to 2004, with a different emphasis?

SIR PHILIP WATTS: Yes, but I would say that was a gradual change. You'll have deduced that, as I've been describing these different elements, I've actually been describing what we know in Shell as the balanced scorecard, which is a mixture of financial, operational, sustainable development and strategic measures.
Now, I was ... even before I went into E&P, as you know, I was the Planning, Environment and External Affairs Director. Part of the planning process there was the introduction of this balanced scorecard approach for Shell as a whole and also for each of the businesses. And I was involved then in general terms. I was then involved in E&P and then subsequently involved as Chairman. There was a gradual progression in the development of that scorecard that I just described, which is in a sense at its most recent. But it's been there for a few years now.

ZULFIQUAR RAMZAN: This scorecard -- what's the objective of this scorecard?

SIR PHILIP WATTS: The objective is to have agreed targets for the coming year and it becomes the basis on which the performance of the business is measured, particularly on a quarterly basis. And then, for the full year, there's a full appraisal. Part of -- at that point, it's used in decisions for the bonus payments for the different businesses and at Group level, but it's not just a bonus vehicle. It's also -- the intention is it should be a learning process for the business and for the Group, lessons learned as to why you do better or worse than the targets that are set for these different elements.

ZULFIQUAR RAMZAN: And you touched on reserves. We talked about the reserves figure as being a KPI within EP. Where would that stand in the scorecard?

SIR PHILIP WATTS: First of all, in the scorecard you have about - it depends on the business - 50% or 60% is related to financial measures. I'm talking about the more recent scorecard now because it has evolved over time. Then, in these operational measures - production, reserves replacement, costs - they're probably about another 20%. And then, the rest is given to the other - sustainable development and the strategic milestones.
Now, over the whole time of EP, from probably 1996 until 2002 I think, reserves was about 5% or 6% of the total scorecard.

SAMANTHA GRIFFIN: On the matter of the bonus you referred to, you said it was bonus payments for companies or individuals.

SIR PHILIP WATTS: This is bonus payments for individuals, different sets of individuals, whether it's at group level or at business level. Ultimately, out there in the Operating Units, it would relate to a particular country.

SAMANTHA GRIFFIN: Okay, thank you. And the reserves 5% to 6% of the scorecard, as you said. Does that accurately reflect the importance management would put on reserves?

SIR PHILIP WATTS: Yes, I think it does. And you can imagine there was a lot of debate about this. The fact that it's on the scorecard is of itself important because that guarantees it gets regular attention and it's on the EP scorecard, not at Group level. So, the fact that it's on the EP scorecard means that it gets attention at EP, but also it's seen by CMD and also by Conference as part of the process of the quarterly and annual reviews.

ZULFIQUAR RAMZAN: We talked earlier about objective setting in relation to the balance scorecard. Could you take us through -- the -- how the targets were set in relation to the reserve figure within the scorecard?

SIR PHILIP WATTS: Well, I think there are two aspects to that. One is the architecture of the scorecard itself, where you decide it's on the list and it's one of the operational measures and then you give it 5% or 6%. And other -- production and other things get different numbers, so first we have to decide the scorecard architecture.
Then, you have to fill in the numbers, of course, for the plan -- in the planning process for the following year, and that's a process that takes place, actually, between May and December from the first broad guidance to each business as to how much capital will be allocated to Exploration and Production, for example. And they might be told you've got 7.5 billion for capex and 1 billion for exploration. They then use that number to go out to the Operating Units and say, "Send in all your submissions". These are all added -- all these apparently reasonable proposals are added up and of course, in the first instance, you get an unreasonable solution because everybody wants too much or whatever.
Then, you go through an iterative process and, by the time you get to about November, the thing is being firmed up and it's firmed up for each country, firmed up for the total business, and then you fill in what's in the scorecard. And the scorecard ranges from the target number, from below to outstanding. So, for each of these

financial/operational/other measures, it's populated with those numbers and the targets - your question - is in that range that's given.

ZULFIQUAR RAMZAN: So, just confirming then, the targets are very much a bottom-up process. They're taken from the Operating Unit level.

SIR PHILIP WATTS: They all come up from below. Then, it's ... decisions are taken, what the global plan will be. In that process, the Operating Units rework all their numbers and stuff and produce what are their numbers - it's an iterative process - and then, by November, it's agreed by CMD to go to the Boards in December for the final approval. That's the scorecard - the scorecard at Group level, the scorecard at business level, the cascaded scorecards to all the Operating Units - that's the scorecards we all live with for the next year.

ZULFIQUAR RAMZAN: I mean, you said, from 1996 to 2002, 5% to 6% of the total scorecard was given in relation to the reserves figure. How was that 5% to 6% -- how did you come to a 5% to 6% in relation to that reserves figure? What was the logic there?

SIR PHILIP WATTS: In the overall scorecard architecture, as I said, some 50% or 60%, because of a Group decision, would be on financial numbers - net income, cash, ROACE - and there would be a competitive element in that, so that it wasn't just absolute numbers but how you're doing relative to your competitors. But already, more than half of the scorecard's taken up with the financial numbers.
You then go down below and, frankly, there's not much room for more than 5% or 10% of anything by the time you get down in the bottom half of the chart. Then, the argument is: should it be on the chart or not because you can't have everything on the chart. You have to be selective about which measures you're going to use. And it was decided that production gets this, reserves replacement gets that, health and safety ... it's very difficult to make those judgements as to the relative bias, but that's how the process works.
And the different businesses have the same choices to make, but in a different business, using different measures.

ZULFIQUAR RAMZAN: Right, moving on to actual performance now, can you give us an overview of - this is an open question - can you give an overview of how Shell performed from 1997 to 2003, in terms of how it financially performed, on an annual basis?

SIR PHILIP WATTS: This will stretch my recall.

ZULFIQUAR RAMZAN: Yeah, to the best of your –

SIR PHILIP WATTS: But, to the best of my knowledge, I will tell you the peaks and troughs as we ... and I'm dealing with the Shell Group –

ZULFIQUAR RAMZAN: Yes.

SIR PHILIP WATTS: – now, in the first instance, yes?

ZULFIQUAR RAMZAN: Yes.

SIR PHILIP WATTS: Thank you. 1997: a pretty good year. Relatively favourable circumstances for an integrated oil and gas petrochemicals business because some are up and some are down. We are looking at an integrated company now. A pretty good year.
1998: an extremely disappointing year, with a - as I described earlier - heavy investment programme, firing on all cylinders and overtaken by a marked collapse in the oil price in the second half of the year. Wake-up call.
At the end of 1998, we announced - Mark Moody-Stuart announced - I was a member of CMD looking after E&P at the time - announced, frankly, some quite harsh measures that we absolutely had to take. But we set out a three-year programme called the 'Roadmap', for 1998, 1999 and -- sorry, 1999, 2000 and 2001. The overall targets -- the emphases there were portfolio management, for example selling 40% of Chemicals, cost reduction, where we initially announced something like $2.5 billion of cost takeout, which was steadily increased to $5 billion and achieved over the three-year period.
And what happened over those three years? There was a steady improvement in the underlying business, but fortuitously, it was accompanied by an increase in the oil prices. So, having been a bit shocked, having made the case for change, if anything, we were then subsequently a bit helped by the business environment and I think it was a record performance in 2000. We pretty much achieved all of our targets by 2001. Sorry, this is a number of years and so, it take a little while to go through it all.
2002: business climate more difficult. Not a bad year, but not a vintage year.
2003: pretty much an equal record, I think, with the previous best year, which was in 2000, if I recollect. So, overall, the Group has, in this period, apart from a couple of years, done pretty well.
I should mention more, whereas we were shedding businesses in 1999, petrochemicals and some other businesses, in 2002, we were making major acquisitions to the tune of something like $15 billion or $16 billion. Major purchases.

ZULFIQUAR RAMZAN: Superimposed on that, could you tell me the performance of the E&P business unit, in particular?

SIR PHILIP WATTS: Yes. Excuse me if I just reflect and order my thoughts, as I prepare.

[pause]

The -- of course, the overall performance of the EP business is a strong function of the oil and gas prices. And so, the first comment is that 1998 was a poor year and others were better to varying degrees. But you have to look through that external stuff and see how the underlying business has been doing.
My judgement is, overall, over that time, it has been a challenging business environment for the acquisition of opportunities and whatever the business has done -- done pretty well.
And I think there are two measures of that. One is the ongoing day-to-day performance that brings in the cash today and the earnings. The other extreme, from today to the longer term, is the establishment of new strategic positions for the future. I don't know

whether this is too much, whether I can just give a few minutes of explanation of what I mean by that?

ZULFIQUAR RAMZAN: Yeah.

SIR PHILIP WATTS: Thank you. Today, we enjoy our long-established heartlands in the deep water in the US, Nigeria, Brunei, Oman, the North Sea, Northern Holland, whatever. But, of course, these were all found and established many years ago and they take a very -- if they're big and strategic, they get to maturity and it's a long time before they die. This is what underpins a long-lived oil and gas company and what has been achieved over this last few years are - and they're quite long lead times and will be there for many years - are these new strategic positions, which are, for instance, the Athabasca oil sands, the deep water position off Nigeria, Sakhalin Island in Russia, Salym in Russia, the new Qatar gas to liquid scheme, and I could go on. But they're things that last for 20, 30, 40 years, so I would characterise our performance - with difficulties and ups and downs - but as actually making a lot of money today, but also establishing the positions that ensure the longevity of the E&P business of Shell. And I would believe also Shell in total for many years to come.

ZULFIQUAR RAMZAN: For you, what were the defining the highs and lows in that period, the 1997 to 2003, in relation to E&P?

SIR PHILIP WATTS: The defining highs and lows?

ZULFIQUAR RAMZAN: Yeah.

SIR PHILIP WATTS: The misery of the end of 1998 and the necessary changes that had to be made would be the low. And the highs would be the establishment of these new, long-term positions.

ZULFIQUAR RAMZAN: How did the proved reserve figure evolve over this period? I guess I'm drilling down now from --

SIR PHILIP WATTS: Thank you.

ZULFIQUAR RAMZAN: -- Exploration down to the reserves figure itself.

SIR PHILIP WATTS: Yes.

ZULFIQUAR RAMZAN: How did this evolve from 1997 to 2003?

SIR PHILIP WATTS: May I go a little earlier than that to give the context?

ZULFIQUAR RAMZAN: Sure.

SIR PHILIP WATTS: Thank you. We had, in the late -- sorry, the early 1990s what I think what was referred to as a lean period, as far as reserves replacement was concerned, less than 100%. There was then actually, with the new organisation, a new focus and emphasis on reserves and you see, in 1996, a reserves replacement of more than 200%. 1997 and 1998 also were very good years, more than 150%. I don't recollect the precise figure. 1999, I think, not bad.

But then, we came into a lean period in the last years. I don't think anybody was surprised by that because they saw the outlook and the way that was interpreted was the need for not only organic growth of reserves, but also acquisitions for replenishing our reserves position. I think that would be the cycle that we've had over the last 10 years or so, 10 or 12 years.

ZULFIQUAR RAMZAN: And why -- from your point of view, why was there this lean period, as you put it, of low reserve replacement?

SIR PHILIP WATTS: Earlier?

ZULFIQUAR RAMZAN: Earlier, being 1999 going forward.

SIR PHILIP WATTS: Oh, I think it's just the nature of the portfolio, that reserves had been identified in the existing portfolio, they'd been brought into the proven reserves and then, as you work the portfolio more, if they're not there in the existing portfolio or if you have to mature the stuff that's in the existing portfolio, but there was a recognition that we also needed to look outside of the portfolio, not necessarily only through acquisitions, but also by gaining access to major resource holders like Saudi Arabia or Qatar, which was - you have probably have read - was recently achieved.

ZULFIQUAR RAMZAN: So what -- I guess what management initiatives were in place as to ... you know, replenish this ratio back to historical levels?

SIR PHILIP WATTS: The management initiatives, as far as replenishing your reserves, in the first instance are in your existing portfolio, through exploration. Secondly, appraising discoveries, existing discoveries, and then also doing more work on your existing fields. That's the organic stuff. Then, you want to gain access to new positions and that can either be through green field exploration, acquiring more acreage around the world, going that route but, more and more, it's been through trying to acquire positions and where the resources have actually already been discovered. And the prime example, I guess, for Shell would be access to Qatar, which is the largest gas field in the world, has been discovered 40 years ago. You don't have to find it; you just have to get a contract and the necessary terms to gain a position, which we did recently.
Then, the other management initiative would be what I would call more unconventional resources and there, Shell has had a major effort and in fact major success with the Athabasca oil sands projects, which are actually mining reserves that we've been very successful introducing new technology into that area and have very large scope there in the future. That's the spectrum of initiatives that there are.

ZULFIQUAR RAMZAN: And you said that more work on existing fields. Can you expand on that? In organic, kind of, development. Can you expand on that?

SIR PHILIP WATTS: Yes. I'm just trying to think about a good example. A good example would be the application of new technology to an existing field. We actually have fields in the Shell portfolio that have been producing for 100 years, like in Seria in Brunei. Most are younger than that, fortunately.

But if you, for instance, have an older field to which you apply 3D seismic technology, this gives a quality of subsurface definition very often dramatically better to what you've had in the past and then you can recalibrate all of your wells to the different compartments, the different fault blocks of the field, identify where you've missed a compartment. There might be another compartment on the edge of the field or whatever. Invariably, almost invariably, the use of 3D seismic technology enhances the -- not just the reserves, but also the ability to produce them efficiently.
Another area would be, in the technological sense, tertiary recovery using plans to have water flood or gas flood of a reservoir to enhance the recovery efficiency of the reservoir in the (inaudible). They would be just two examples of how you can enhance the ultimate recovery of a field.

ZULFIQUAR RAMZAN: Have you any questions?

MICHAEL PRANGE: Can I just go back to the point you made about the reserve replacement declining after 1999? I think you had lean years in 2001 and 2002. I can't remember what you said. I think you said you were not surprised about that. Can you just confirm? Was it expected or unexpected? If we say from 1999 to 2000 --

SIR PHILIP WATTS: We were not surprised with the poorer outlook because, in fact, that had been identified through the annual process that I described. That was one of the comments of the Group Reserves Auditor, that there had been some relatively easy bookings because of the change of the 1998 Guidelines that I referred to before, but that the outlook was more difficult. This was what led to the identification of the need for more portfolio management, particularly acquisitions, one of which was done in the form of the Enterprise purchase.

MICHAEL PRANGE: Thank you.

SAMANTHA GRIFFIN: I just have one question. We're talking about reserves replacement and actually talking about finding -- adding new reserves but also the function of that re your production. How in the period did production actually change?

SIR PHILIP WATTS: You'll forgive me if I -- without the charts in front of me, I just can't be precise. But, in the most general terms, we had a period of - if you take out acquisitions and divestments - of production growth. We've had a bit of a plateau for a couple of years and that, we announced earlier this year, will continue this year, at least.
Then, when those new projects that I described, which are now mostly approved, then there'll be a resumption of growth. That's the overall position for the last years.

SAMANTHA GRIFFIN: So, in some ways, is there a tension between production and reserve replacement targets?

SIR PHILIP WATTS: You have to be a little careful about making too strict a link because production is what happens now. Reserves, you need to find in their first form, in a form that we would call scope for recovery. You know, when you make an exploration discovery, you think it might be this

big. It's not very well defined and it comes into what we call scope for recovery within Shell. You then have to do all kinds of appraisal. Eventually, you need sufficient definition of it that it goes into proven but, of course, when it first goes into proven, it's proven undeveloped. It's only when it's proven developed that it affects your production today.
So, you need to replenish your reserves, but that's all about maintaining the longevity of your business. What affects your production today is the stuff that you found and have subsequently developed and are now producing. I hope I've made myself clear on that.

SAMANTHA GRIFFIN: Yes, yes, that's very clear.

SIR PHILIP WATTS: Thank you.

SAMANTHA GRIFFIN: Right, I think it's probably worth stopping the tape at that point. It's 2.15pm and the end of tape 4 of our interview with Sir Philip Watts.

TAPE 5

SAMANTHA GRIFFIN: It's 2.35pm and this is the start of tape 5 of our interview with Sir Philip Watts. Once again I remind you, you're still under caution. I'll ask you to confirm that whilst the tape's been switched off we haven't asked you any questions relating to the matter under investigation?

SIR PHILIP WATTS: That's correct.

SAMANTHA GRIFFIN: Okay, thank you. Have you finished on the last section?

MICHAEL PRANGE: We have.

SAMANTHA GRIFFIN: Right, okay. We're going to move on to now pretty much the announcements that were made by Shell, both in January and April. I'd like, if I may, to start with some background to that. In April the announcements referred to four specific areas: Gorgon in Australia, Oman, Nigeria and Brunei, all of which required reserves to be de-booked. I was just wondering if perhaps you could tell us your recollection of the original bookings of each of those?

SIR PHILIP WATTS: That is a very large question and there's a big distinction between original booking of a field like Gorgon and original bookings for a country as big and complicated as Nigeria.

SAMANTHA GRIFFIN: Perhaps you could give me an overview?

SIR PHILIP WATTS: Of my recollection of how things have gone over the last years?

SAMANTHA GRIFFIN: Yes.

SIR PHILIP WATTS: Okay. Perhaps if we start with Nigeria?

SAMANTHA GRIFFIN: Okay.

SIR PHILIP WATTS: Is that okay?

SAMANTHA GRIFFIN: Mm hmm.

SIR PHILIP WATTS: Nigeria is of course a huge province - and I'm talking about the oil fields of Shell - covering something like 30,000 square kilometres of the delta, more than 100 fields. It also extends into the shallow offshore, where we now have a major producing field; the EA field. That's also been supplemented by the deep water area, which is Bonga. Of course work started there in the late 1930s and the first field started in production, I think, in 1959 or 1960.
But I'll come much more up-to-date than that, where -- it's difficult to work out how to tell a reasonably brief ... give a brief overview in such a complicated area. I simply recollect that when I arrived as Chief Executive in Nigeria we actually started a major 3D seismic programme - along the lines that I just previously described - with the intention of covering all of our fields to get them up to a very modern subsurface evaluation. That gave the basis of, then, increased bookings. And while I was there we had an absolutely thorough

review, which yielded a 'Satisfactory' audit. Like all of the mature provinces of Shell, the reserves were impacted by the change of the 1998 Guidelines, and properly so.
There then arose a question mark about Nigeria and it related to the right to licence extensions. I must say that for myself this was never a cause of too much anxiety, because before I went to Nigeria I was involved in the purchase - for $1 billion - of 10% of the government's share of this venture, whereby our share increased from 20% to 30%. Part of that deal was the licence extension that was imminent in 1989, with a right ... with the extension for 30 years. That gave an extension to 2019 for the vast majority of the licenses.
When this issue of licence extension arose, I wanted it checked that I had for myself an example of how it had been extended. And actually while I lived and worked in Nigeria I looked after the bureaucracy to do that.
That brings me to more recent times, when we had the results. By now I'd been Chairman of CMD for a couple of years and we had the result of the audit that was done in 2003 - which, as you know, was an 'Unsatisfactory' audit - which, when verified, became one of those catalytic events that led to the reduction in proven reserves because of lack of project maturity. I've tried to give a broad sweep of what was going on in Nigeria.

SAMANTHA GRIFFIN: Could I just ask - just to put more of a timeline on it for me - when were you first CEO in Nigeria?

SIR PHILIP WATTS: April 1991.

SAMANTHA GRIFFIN: Okay. And then you said after a few events that the reserves were impacted by a change in 1998 Guidelines, quite correctly. And then the question mark arose around Nigeria, relating to rights to licence extensions; when did that question mark arise?

SIR PHILIP WATTS: It first, and this is the best of my recollection and I'm not sure on the timing - but I recollect a mention in the Group Reserves Auditor's Report while I was still CEO of EP. And then it came ... the issue came to my knowledge again when I was Chairman of CMD, in early 2002 I think.

SAMANTHA GRIFFIN: Okay. I think it might be helpful if you could perhaps give us a similar overview background on the other areas that I mentioned? And then, Mike, you're going to ask some more specific questions, if that would be okay?

MICHAEL PRANGE: Okay.

SAMANTHA GRIFFIN: Do you think?

MICHAEL PRANGE: Yeah, I think that would be a very good idea. I mean, after that we'll probably just go through some of the documents in front of you. But it's helpful, to us anyway, if you can provide an overview. And then you can tell us what you want to tell us as well - do you see what I mean? - as opposed to just the actual questions.

SIR PHILIP WATTS: Okay. Oman?

SAMANTHA GRIFFIN: Mm hmm.

SIR PHILIP WATTS: Because that will be a similar style, I think. I'm less familiar with Oman and only got more involved when I, as Chairman, in the last 18 months-2 years, stepped in to lead the concession renegotiation. Because there you have a licence expiry issue in 2012 and of course you don't wait until the last minute before working on the renewal. Oman enjoyed steadily rising production, with a slight hiccough occasionally, for the last 25 years or so. It's not an easy geological province, but it's not like other Middle Eastern countries with great big fields. This is lots of more complicated, often smaller fields. It enjoyed steady production growth.
I'll just deal with the last few years, because the previous history isn't really relevant. Oman also increased its proven reserves, I think, in the year 2000. And that was based on the Group Reserves Auditor's Report from 1999, which was actually a 'Good' audit report. There's three levels - Good, Satisfactory and Unsatisfactory. Most are Satisfactory; you occasionally get an Unsatisfactory, where people ring bells; you occasionally get a Good. And the reserves were increased according to the 1998 Guidelines for mature provinces. With the wisdom of hindsight, now knowing that it was just the wrong timing, because in 2001 and then continuing into 2002 we started to experience production declines. I'm reasonably familiar with this. The Chairman of CMD wouldn't normally know this, but I've had to face the Sultan of Oman and in the last year get properly briefed on what I, you know, needed to apologise about and explain. There was a production decline.
Whereas in previous years if you got an issue like that, you brought more rigs, drove more wells and drilled your way out of difficulties, this time it didn't happen, something more fundamental was happening, and this precipitated major operational reviews. They occurred during 2003 and culminated in an 'Unsatisfactory' audit in late 2003, and it led to a reduction in proven reserves that was then announced.

SAMANTHA GRIFFIN: You mentioned that it was a much more significant event than just an ordinary production decline; could you explain that a little more?

SIR PHILIP WATTS: Well, these are – I'm not a reservoir engineer and I'm repeating explanations given to me by people in Oman and also by the EP business. But I know that these are difficult fields - carbonates, prone to surprises as you're drilling - so this is not plain vanilla stuff. And as I said, for some years if you got into difficulties in a field, you simply hired some more rigs when you'd had a disappointment, drilled more wells, got to understand the subsurface that much better and normally things came right.
In Oman there were a number of fields that entered a difficult period and this response just didn't work. And the reason was, I'm informed, was that the fields were reaching a level of maturity where you needed to make the change from one way of development to the next. That needed to be underpinned by different techniques, like waterflood, and that much more work was required to do the necessary studies so that you could plan the programme. And that's

why ... the reason for the de-booking was the lack of project maturity; that necessary technical work hadn't been worked through. It'll get done - and it is being done now - and will be done over the next couple of years. And those ... a proportion of those reserves that were de-booked will be rebooked as the maturity is sorted out. Have I ...?

SAMANTHA GRIFFIN: Yes, thank you.

SIR PHILIP WATTS: Thank you.

SAMANTHA GRIFFIN: Okay?

MICHAEL PRANGE: I think the other two were Brunei and Gorgon. Is it possible to get an overview, as you have, with those two issues as well?

SIR PHILIP WATTS: I have real difficulties with Brunei and I'm afraid I can't give you an explanation like I've just given. I happened to know the Nigeria story because I worked in Nigeria. I happened to know the Oman story because I've been involved in it. The Brunei one was a real surprise for me.

[pause]

MICHAEL PRANGE: So, can you just -- why was it a real surprise?

SIR PHILIP WATTS: We had, during the last -- from about the middle of 2002 - and the last time I looked at the document at CMD was in July 2003 was a report from EP and it had what they called their Reserves Exposure Catalogue. The number in there ... Brunei was on the list and it was at 20 million barrels proven, and there was a note about how it was being handled. I can't remember without referring to the document what it said. But just the -- you look at it and the number 20, I remember.
Now, when we came into Project Rockford one of the things I was insistent that we did - as well as these two 'Unsatisfactory' audits that came up and some of the others which had been identified which we'd needed to handle - we said we also need to check on the rest of the portfolio around the world to make sure that if there's anything else, you know, we'd do it once and do it right. If we're correcting a mistake we need to do it properly. And the resultant figure - I can't remember it precisely - but I think it was something between 300 million and 400 million barrels. As I say, I can't remember it precisely, but it had gone up by a great amount. And forgive me; in the hurly-burly of all these last months I can't recollect the reason that was given for that increase, but it was a real surprise.

ZULFIQUDR RAMZAN: Sorry, what increase are you relating to?

SIR PHILIP WATTS: It went from 20 to a number between 300 and 400 - I can't remember the precise number - as a result of doing a global check later in December that we didn't leave anywhere untreated.

SAMANTHA GRIFFIN: Okay. Perhaps we can move to Gorgon?

SIR PHILIP WATTS: Yes. Gorgon was booked for the year 1997, just as I arrived in EP, or back into EP. I actually have no recollection of its booking.

[pause]

SIR PHILIP WATTS: I've subsequently realised that, at that time, the letter of representation wasn't signed by the Chairman of the Business Committee, but actually by one of the Executive Committee. It was ... sat on the books for years. I have no particular recollection of discussions about Gorgon. It might have been discussed. It would take the documents of those years to remind me. And then of course it came up when I was Chairman of CMD, as one of the items on the list of exposures in February 2002. That was when it came into focus again. And it was on the list that came to CMD of potential exposures and it was eventually part of the de-booking of the 3.9 billion.

SAMANTHA GRIFFIN: You talked about the letter of representation signed by not the Chairman of the Business Committee, but one of the Executive Committee. Could you just explain, you know, the Executive Committee of ...?

SIR PHILIP WATTS: The Executive Committee of E&P.

SAMANTHA GRIFFIN: Of E&P?

SIR PHILIP WATTS: Yeah.

SAMANTHA GRIFFIN: And the significance of it not being signed by the Chairman?

SIR PHILIP WATTS: Well, I was trying to reflect a possibility of why I hadn't particularly noticed it that year; being new in the position but also not having signed the letter. But the fact of the matter is I just now don't remember the booking at that time.

SAMANTHA GRIFFIN: Okay. But it was correctly signed by a member of that Committee?

SIR PHILIP WATTS: Oh, yes, that was my understanding. There was no inference that it was not properly done in any way. It was just that that's how I understand the procedures were at the time.

MICHAEL PRANGE: Thanks very much.

ZULFIQUDR RAMZAN: Sorry, I've just got a question. You said it was ... it came to CMD in February 2002; can you tell me how it came about coming to CMD then?

SIR PHILIP WATTS: Yes. In CMD in February 2002 we received a Note for Information ...

MICHAEL PRANGE: Sorry to interrupt, but it might help. We were going to go through these documents, so as you're talking about it anyway we might as well refer to tab 3, because I think that that's probably the document you're talking about. So, just for the tape, that's tab 3. On the top it says,

"Note for Information, 19 February 2002 CMD, 11 February 2002"

I'll give you a minute to look at that.

SIR PHILIP WATTS: Thank you.

[pause]

SIR PHILIP WATTS: Thank you.

MICHAEL PRANGE: So, I was going to ask when you first became aware that there were potential issues in relation to reserve bookings, and this appears to be a point in time where the exposures, on page 2, are mentioned. So, if you go to the bottom of page 2?

SIR PHILIP WATTS: Yes.

MICHAEL PRANGE: Is this the first time? Or is there any time before this that you became aware of these exposures?

SIR PHILIP WATTS: I don't recollect things before this time.

MICHAEL PRANGE: The only other document that we've got in the pack that relates to ... well, not exactly the same but a similar issue, is -- sorry, if you just turn to tab 2?

SIR PHILIP WATTS: Yes.

MICHAEL PRANG: Again, for the tape, it says,

"Reserves Presentation. Most Confidential. 4th February 2002"

Obviously the timeframe's very close; it's a matter of seven days. But if you turn to page V00010200?

SIR PHILIP WATTS: V ...?

MICHAEL PRANGE: Sorry, they're there.

SIR PHILIP WATTS: What's the title of that page?

MICHAEL PRANGE: New Fields: Guidelines currently too lenient.

SIR PHILIP WATTS: Yes.

MICHAEL PRANGE: Again, that seems to be basically the same issue that they're referring to there. I'm just trying to --

SIR PHILIP WATTS: Apparently .....

MARTYN HOPPER: Can we establish whether Phil actually saw that document?

MICHAEL PRANGE: That's what I was going to go to. I mean, I wanted to start at the beginning and then go to the February one next. So, if we just start at tab 2, if that's okay, and we'll ask a few questions about that.

SIR PHILIP WATTS: Thank you.

MICHAEL PRANGE: Then we'll go onto ... okay?

SIR PHILIP WATTS: Yeah.

MICHAEL PRANGE: I mean, do you recall seeing any of these pages contemporaneously? I mean, it appears to be a presentation.

SIR PHILIP WATTS: No. And I think that this is not, to my recollection, a presentation made at CMD.

MICHAEL PRANGE: Sure.

SIR PHILIP WATTS: I think this was a presentation for the EP ExCom, because as I look at the date and the contents of it ... I've seen presentations like this in my previous job as CEO of EP.

MICHAEL PRANGE: And you didn't see it at the time, to the best of your recollection?

SIR PHILIP WATTS: I didn't see it, as far as I know.

MICHAEL PRANGE: Sure, that's fine. That's all I wanted to know, if you didn't see it. We can move on now in chronological order to tab 3, which is dated 11 February, and is the Note for Information that you were talking about. Sorry to interrupt, but I just wanted to start at the beginning and ...

SIR PHILIP WATTS: Thank you.

MICHAEL PRANGE: Anyway, can you just first of all explain what the Note for Information is, who reads it and whether you read it? Can you talk us through this Note please?

SIR PHILIP WATTS: Yes. You asked me what the Note for Information is.

MICHAEL PRANGE: Yeah.

SIR PHILIP WATTS: Things come to the CMD. If it's a big investment proposal, a big policy issue or whatever, it comes as a Note and there'll be a presentation and there'll probably be half an hour, 45 minutes, an hour spent on it. If it's an item that a member of CMD wants to make sure that his colleagues haven't missed because he's about to take a significant decision, there's a major development, he puts it as a Note for Discussion. And then the Chairman, when he gets to that part of the agenda, says, "X, what did you want to say about this Note for Discussion?" And he'll say, "For the avoidance of doubt, on page 3 it says I'm going to do this. I'm not asking you to agree but I want you to know before I do it".
The third level is a Note for Information. And this is part of this collective responsibility, that this particular - in this case it's Walter van de Vijver - doesn't want anybody to do anything. He's just telling people, "Here's a note for your background information" and then if they want to ask a question, you can. That's the format. So, I think it's important to know the context in which the document comes.
And the second part of your question, sorry?

MICHAEL PRANGE: When is it read? Is it passed individually to all the CMD?

SIR PHILIP WATTS: All CMD papers are distributed on the Thursday or Friday of the previous week. They're very often read over the weekend. And it comes to CMD normally on Tuesday and then the agenda will be: going through the minutes; going through all the presentations; then right at the end we discuss the Notes for Discussion; and then we turn the Notes of Information and say, "Anybody want to say anything by exception?" That's the format. And this is a Note for Information.

MICHAEL PRANGE: Sure.

SIR PHILIP WATTS: And I remember it.

MICHAEL PRANGE: Right. So you do recall reading it prior to the relevant CMD meeting?

SIR PHILIP WATTS: Yes.

MICHAEL PRANGE: And can you tell me what your reaction was to it?

SIR PHILIP WATTS: Well, my reaction is: it's the end of the reserves reporting cycle. We've just announced, a few days before, our reserves replacement ratio, because that's traditionally part of the annual results presentation. Probably 5, 6, or 7 February as things go. Now, then I get this Note. As you see in the introduction, it says that here's the Group resources situation - cleared by external audit - and it was in part reported in the press release.
And then I get into the summary, and the main story of the paper is that van de Vijver is telling us he's got a challenge with reserves replacement. And he talks about the things that he's going to do in order to address that challenge.
Now, in the body of the text, there's a brief paragraph on exposures, the one you just referred to. He brings to our attention that there's been some clarifications from the SEC and there's some potential issues that they're working on. And it says it may expose some of our previous bookings.
And then in the second part it talks about the licence issues. It mentions Nigeria, Oman and Abu Dhabi. So, it's very much a holistic overview of the reserves issue, including a mention of exposures.

MICHAEL PRANGE: Was the exposures element a surprise to you when you read it?

SIR PHILIP WATTS: For me it was a statement of fact that apparently these clarifications had been made. There was an issue here that needed to be addressed ... it was. And I'm trying to recollect at the time whether I felt surprised or whatever. A lot of things come over your desk as the Chairman of CMD. What I do know is that when I saw this my reaction was, "Well, we'd better make sure that this is addressed". And what I didn't want to happen was that we'd be sitting here 12 months from now, having gone through the annual cycle, with a similar comment. And so my recollection is that we agreed that this would come back by the middle of the year or so. I think we talked of within six months, or ...

MICHAEL PRANGE: That's what I was going to ask. In the subsequent CMD discussion was this particular issue raised?

SIR PHILIP WATTS: I actually can't recollect the discussion. I can only recollect the outcome, which was an agreement that it would come back, which it did.

SAMANTHA GRIFFIN: An agreement by CMD?

SIR PHILIP WATTS: Pardon?

SAMANTHA GRIFFIN: An agreement by CMD that it would come back?

SIR PHILIP WATTS: This was a Note for CMD and that's my recollection. But I recollect the outcome and this was a CMD meeting, where it came on 19 February.

MICHAEL PRANGE: Is there anything you want to add that was discussed, or you recall at the time? Or shall we move on?

SIR PHILIP WATTS: No, I have nothing to add at the moment.

SAMANTHA GRIFFIN: Just before we move on, can we just talk about the size of the numbers that were in this exposure document? We're looking at 1,000 million on the SEC alignment and 1,300 million barrels of oil on the end of licence; were they considered significant, or ...?

SIR PHILIP WATTS: Well, if I take the end of licence ... I mean, this doesn't arrive in a vacuum. If I take the end of licence, Nigeria, the licence, I happen to know is 2019. If you've been through a negotiation like that you remember. Oman, I happen to know it's 2012, because it's amazing how many of our businesses the licence expires in 2012. It's 30 years before, you know, was obviously a time when licences were being re-negotiated and new terms were being made.

(buzzer sounds on tape)

SIR PHILIP WATTS: So, I'm not surprised that people are thinking in those terms; but these are licences that are expiring a long way from now. This is not the sort of thing you respond to with a knee-jerk reaction.
As far as the others are concerned: Gorgon ... Gorgon has been delayed by the Asian crisis. It's now picking up speed again. Ormen Lange I know very well because I used to be Exploration Manager in Norway and was involved with the negotiation for getting a share in a block, an operatorship, with the Minister and Prime Minister of Norway. And I know that's coming to fruition. Angola, I know that Angola Block 18 is due for its investment decision very shortly. Wadenzee I know is very small and it's wrapped up in that political stuff in Northern Holland.
So, frankly, I'm aware of this and think these matters will be discussed, they'll come back. And with regard to the numbers, that compares with something like 20 billion barrels oil equivalent of Shell's reserves. And I certainly don't feel the need to do anything right now, because this arrives right in the middle of the process where I know that E&P has finished its work, the letter of

representation has been made, the auditors have signed off, as it says in the memo. The thing is being incorporated - all of this, along with everything else - at Group Audit Committee level.

MICHAEL PRANGE: I'm probably going to have to stop you. I just don't want it to cut out without the end of the tape being mentioned, sorry. I've just noticed that we literally might be in the last few seconds.

SAMANTHA GRIFFIN: Yeah.

SIR PHILIP WATTS: Okay.

SAMANTHA GRIFFIN: Yeah. It's 3.10pm and this is the end of tape 5 of our interview with Sir Philip Watts.

TAPE 6

SAMANTHA GRIFFIN: It's 3.20pm, and it's the start of tape 6 of our interview with Sir Philip Watts. Can I just remind you again that you are still under caution and ask you to confirm that we haven't asked you any questions whilst the tape has been switched off relating to this matter?

SIR PHILIP WATTS: That's correct.

SAMANTHA GRIFFIN: Thank you. Michael? Where were we?

MICHAEL PRANGE: Sorry I rudely interrupted you, Sir Philip, at the end of the last tape, just to ensure that it fitted on the end. Do you want to just continue what you were saying and then we'll move on? You were basically explaining each one of the exposures, I think, that we were referring to in tab 3, and I think you'd gone up to Angola, you've done Gorgon and Ormen Lange, discussing those.

SIR PHILIP WATTS: I was simply saying that they were projects of which I was aware. I mentioned Ormen Lange. Angola was coming up for the investment decision and that Wadenzee was a -- was a political issue relating to a small amount of reserves in Northern Holland.

MICHAEL PRANGE: And again, just to confirm, after you'd received the Note for Information it was agreed that this issue - we're talking about the exposures issue - would be discussed at a later date?

SIR PHILIP WATTS: That's my recollection of the bottom-line of this document coming to CMD, and that's what in fact happened the following July.

SAMANTHA GRIFFIN: Okay. Just trying to put this document into -- into context - Note for Information prepared by Mr van de Vijver after the reserves audit's been done. In his position, is this an expected document? Was it an unusual document?

SIR PHILIP WATTS: I don't recollect seeing a document like this at this time of the year, but reserves replacement is an issue, as I previously referred to. This is -- these are -- this is a challenge, and he must have decided to send a Note, because the Note is here.

SAMANTHA GRIFFIN: Okay. And in -- and in such a document as this, sort of, the section on exposures. Again, is that something you would expect to -- to see, or ...?

SIR PHILIP WATTS: Ah, what -- what's in a document --

SAMANTHA GRIFFIN: Mm.

SIR PHILIP WATTS: -- and there's all kinds of documents come to CMD - is a matter for the sponsor and they decide what's in the document --

SAMANTHA GRIFFIN: Okay.

SIR PHILIP WATTS: -- not -- not the Chairman and not the others of us.

SAMANTHA GRIFFIN: Perhaps if I -- if I ask a separate question. As a group, CMD, would you expect to regularly be updated on potential exposures in relation to reserves?

SIR PHILIP WATTS: This is the - to my recollection - the first indication of potential exposure brought to CMD. Like any other subject that comes up, if it's something that you feel needs to be followed up, a request is made that CMD is briefed and that's what happened.

SAMANTHA GRIFFIN: Okay.

MICHAEL PRANGE: Okay. Ah, is there anything anyone else wants to say on this document?

DAVID BLUNT: Could I just ask, did you think it was appropriate for this material to be -- to be in a Note for Information rather than any other form?

SIR PHILIP WATTS: Ah, I don't recollect having any particular thoughts. I -- as Chairman of CMD, part of the job description is you have to read everything as Chairman. And so I didn't have any particular reaction.

DAVID BLUNT: And was there any discussion about this Note coming before it came to CMD?

SIR PHILIP WATTS: I don't remember anything of that sort.

MICHAEL PRANGE: Okay, we'll try and go through in chronological order and I think tab 4 is May, which is before July, so --

SIR PHILIP WATTS: Yes.

MICHAEL PRANGE: I'll give you a chance to look at that if you want to now. I'll just read out for the tape what it is. Tab 4 is an email from Phil Watts, dated the 28th --

SAMANTHA GRIFFIN: To.....To ...

MICHAEL PRANGE: Sorry?

DAVID BLUNT: From van de Vijver.

SAMANTHA GRIFFIN: You said 'from'.

MICHAEL PRANGE: Isn't the original from Phil Watts?

DAVID BLUNT: Sorry, you're right.

SAMANTHA GRIFFIN: Yeah, apologies.

MICHAEL PRANGE: Right. Sorry, I'll just --

SAMANTHA GRIFFIN: We'll let you carry on, Michael.

MICHAEL PRANGE: All right. Tab 4 is an email form Philip Watts sent on 28 May 2002 at 10.59 to van de Vijver, subject -- 'Reserves Replacement', and it also

contains a response to that email from Walter van de Vijver back to Philip Watts on 29 May 2002 at 07.49. I'll just read out the first email for the tape. It says,

"Walter, you will be bringing the issue to CMD shortly. I do hope this review will include consideration of all ways and means of achieving more than 100% in 2002 - to mix metaphors.... considering the whole spectrum of possibilities and leaving no stone unturned. Of course, it's the big FIDs that really make the difference. Also, I'm wondering what Enterprise does to reserves life, replacement ratio and finding and development costs"

First of all, do you recall writing this email?

SIR PHILIP WATTS: Yes.

MICHAEL PRANGE: And can you just explain to me what prompted you to write it?

SIR PHILIP WATTS: I can't recollect what prompted me. It might have been that I saw a scorecard on display for the first quarter, but I just can't remember specifically. But something triggered me to think, "Hey, we're due to have a review in the middle of the year" and I think about that and write off a message and say, "You're bringing the thing shortly. When you come can you, as well --" I mean, he will come with what he wants to come with, but I'm making it clear, as Chairman, a couple of my expectations of the meeting. You know, "How is the situation for reserves replacement in 2002 and by the way, what impact does the acquisition --" because we've just made the Enterprise acquisition in April, a bit earlier, and that's something over a billion barrels of reserves and I'm thinking, "Well, this is going to have -- looking at the total of organic and divestments and acquisitions, this is going to have a significant impact".

MICHAEL PRANGE: And just, in the first line, are you referring to the July meeting that we talked about before, when you say --

SIR PHILIP WATTS: That --

MICHAEL PRANGE: -- "You are bringing the issue to CMD shortly"?

SIR PHILIP WATTS: Yes, because I know it's coming.

MICHAEL PRANGE: Yeah, sure. Just confirming that. When you say you want -- "I do hope that this review will include consideration of all ways and means of achieving more than 100% in 2002" are you referring to organic or overall there, do you remember?

SIR PHILIP WATTS: No. I'm looking at the totality of things. All that list of activities that you can do on the organic side, plus acquisitions, etc.

MICHAEL PRANGE: And when you say, "Considering the whole spectrum of possibilities and leaving no stone unturned" did you have anything particular in mind when you said that?

SIR PHILIP WATTS: No except that -- what it says. I want him to look at all the possibilities.

MICHAEL PRANGE: And what were they? What did you believe they were at the time?

SIR PHILIP WATTS: Well, there's a whole range of possibilities?

MICHAEL PRANGE: Was there anything in particular .....?

SIR PHILIP WATTS: It's the whole spectrum of exploration, field studies acquisition of new positions etc, etc.

MICHAEL PRANGE: Did you have any latest estimates around that time of what the current reserve replacement was looking like in 2002?

SIR PHILIP WATTS: I don't recollect, but it would have been -- I don't know what the number is, but it would have been mentioned as part of the quarterly review because it's on one of the lines and they'd have had their latest estimate. And that may be what triggered me to, -- to ask about it.

MICHAEL PRANGE: Again at the time, did you think 100% was a -- a realistic target?

SIR PHILIP WATTS: Well, you'll see, in -- in his response I was asking a question that I thought I probably knew the answer to, because the impact of the acquisition would be very significant in -- in this year. And -- and that's how it turned out to be if -- if I recollect. The number for that year was 117% including the Enterprise acquisition.

MICHAEL PRANGE: Okay. Is there anything else you -- you want to mention to us about that email and the email that you sent?

SIR PHILIP WATTS: I don't think so.

DAVID BLUNT: Could I just ask you say, "It's the big FIDs that really make the difference" could you explain that to me?

SIR PHILIP WATTS: Yes. Ah, FID is, ah -- F-I-D is Final Investment Decision.

DAVID BLUNT: And why did they really make the difference?

SIR PHILIP WATTS: Because this organic stuff tends to be very incremental, but -- but where you make real progress in -- in -- in the business and getting new platforms, is -- is when you get new positions, like Sakhalin, like Qatar. Ah, a big deep-water project in Nigeria, that -- that sort of -- sort of thing.

DAVID BLUNT: Was it making a difference to the reserves replacement?

SIR PHILIP WATTS: It does make a difference to reserves replacement, but my -- my view of that is that's when an oil and gas business really steps up a -- a -- as- a quantum amount as -- as has happened over the last couple of years as I -- as I mentioned with -- with Sakhalin or Qatar, those kind of positions, because once you've got the position, you tend to accrete. They tend to grow and you accrete other stuff around.

MICHAEL PRANGE: Moving on to – to the response by Walter van de Vijver, do you recall receiving the response?

SIR PHILIP WATTS: Yes.

MICHAEL PRANGE: And – and how did you view it at the time?

SIR PHILIP WATTS: Well, I – I liked it because, he's got the forthcoming meeting in mind. He – he says it's on the agenda for 9 July. As it happened, it happened a couple of weeks later. Ah, but he's, – he's obviously got this issue in focus. That's what you expect of a – of a CEO.

MICHAEL PRANGE: So, there's no – this is the end of this correspondence, so to speak, was there any – did you make any further contact in relation to this issue, i.e. reserves replacement, do you recall?

SIR PHILIP WATTS: Ah, I don't recollect any further re- reaction or – or discussion. I'm – I'm pleased to see the impact. It confirms the impact of Enterprise, so I'm pleased to see that and he – he -- he tells me what the reserves replacement ratio is l- latest estimate, and I'm looking forward to July.

MICHAEL PRANGE: How – how did you feel about the – the organic figure of 50%?

SIR PHILIP WATTS: I – I don't recollect precisely how I felt. But as I reflect on it now, I – I wouldn't have been that surprised, because this was an issue.

MICHAEL PRANGE: Again, before – does anyone else want to ask any question on the response? Okay, before we move on to, I guess, the July CMD meeting, I'd just like to ask generally, did you discuss with anyone in any forums the -- the exposure that you became aware of in February, or the reserves replacement issues? Can you remember any other discussions that you had?

SIR PHILIP WATTS: Ah, I don't remember. For me the – the next key item is this July meeting.

MICHAEL PRANGE: Okay. Well, we might as well go on to that. Can you just explain what happened in the July meeting, basically, in relation to exposure and reserves replacement?

SIR PHILIP WATTS: Yes. Do you want to refer to a document?

MICHAEL PRANGE: We don't have a document in the file.

SIR PHILIP WATTS: Okay. My recollection of – of that meeting was a paper for a –with a presentation. The presentation was made by Lorin Brass. The paper was a – an overview of the reserves position. There was quite a bit of discussion. Once again without the document to remind me I can recollect the bottom line of that. And the minutes will, I guess, capture that – that discussion. The bottom line for me was that a paper was brought; there was a discussion about the exposures; the question was asked after the discussion of the exposures and SEC rules, what is the bottom line. Question: "Well, do we need to de-book anything?". And the short answer was: "No." There was more

discussion around that, but I would need the document to -- to remind me.

MICHAEL PRANGE: Can -- do you recall -- again, I'm aware you don't have the document, but who -- who was it that ultimately said -- this is the person -- sorry, I didn't remember who brought the paper. Was it Lorin?

SIR PHILIP WATTS: Yes.

MICHAEL PRANGE: Was the question put to them whether there was a need for de-booking and was it them that gave the response? I'm just wondering whether -- how that decision was come to in the form of?

SIR PHILIP WATTS: No, if -- if -- if I might say, it doesn't quite work like that --

MICHAEL PRANGE: Yeah.

SIR PHILIP WATTS: -- with the form of the meeting --

MICHAEL PRANGE: Sure.

SIR PHILIP WATTS: -- that we have. Nothing comes to CMD if it's not sponsored by a managing director. When you get to that item on the agenda, I asked the sponsor - in this case, Walter van de Vijver -, "Can you introduce the item, Walter?" He takes ownership, at that point, of the stuff and the people present. The question was asked; I don't remember who actually gave the -- the answer but ultimately, it's owned by you know, the business that is bringing the paper. And then that's recorded in the -- in the minutes, and the next week the draft minutes are all discussed and we agree, "Does that reflect what was said, what we agreed?" And there it is.

MICHAEL PRANGE: Do you recall whether this was "No, it doesn't need to be de-booked and there's -- the exposure's gone" or, "No, it doesn't need to be de-booked, but we'll need to readdress it"?

SIR PHILIP WATTS: Oh I do remember that the exposures hadn't necessarily gone away and that we said they'll need to be followed up in the -- in -- in the future. And that, of course, would naturally be the end-year process. And, as we know then six months later, the -- the following July, it was looked at.

MICHAEL PRANGE: Right. Was -- was there any -- any dissenting voice in this decision, or -- that you can recall, or was it everyone was in agreement?

SIR PHILIP WATTS: Ah, I don't recollect any dissention, but the way our system works is that when you then go through the minutes if they don't properly reflect the discussion, you -- you meet the dissention there and -- and change the words and -- and finally sign off. But I don't -- I don't recollect dissention in this case.

MICHAEL PRANGE: Does anyone have any further questions on that meeting? We'll continue on chronologically into tab 5 now, which is an email from Walter van de Vijver to yourself and various other people dated 2 September 2002, at 15.19, and it's subject is 'EP Delivery'. And it's

labelled 'Confidential' and some notes are attached, one of which is 'CMD EP Delivery –ZIP' and 'Caught in the Box'. And I think -- the subsequent pages, I think, are the attachment. Again, do you -- do you recall receiving this email?

SIR PHILIP WATTS: Yes.

MICHAEL PRANGE: And could you provide us with your initial reaction to it, please?

SIR PHILIP WATTS: As -- as well as giving the initial reaction, may I just provide a little context?

MICHAEL PRANGE: Sure.

SIR PHILIP WATTS: We're now in the business planning process, which starts in the May and we're -- we have Away Days and CMD meetings where people - the individual members of CMD are free to send notes to their colleagues. This actually doesn't come to a CMD meeting, it's sent to us to prepare for the discussion. My reaction to this is Walter's setting out his stall as far as the EP business is concerned and this is not -- my general reaction is that this is typical for any CEO running a business, that - you can call it 'caught in the box' - but you want a certain profitability, you want a certain long-term growth, etc, etc. It's a matter of tension. And he tells me he's got his first look at his, his information and he -- he feels a bit trapped and -- and he feels something has to -- has to give. Actually my bottom line reaction is "He'd like more money and a relaxation of his profitability criteria". And they're all the same.

MICHAEL PRANGE: Is there any part of it that concerns you further than as you've described, you know, they're all the same, he wants more money? Are there any aspects of this email that you can remember jumped out or gave you any cause for concern?

SIR PHILIP WATTS: Well, because of the attention it's being given, if -- if you -- if you look on the -- the front page -- and -- and I presume you're referring to the --what is it? The third paragraph, where he talks about, "The market can only be fooled"?

MICHAEL PRANGE: Yeah.

SIR PHILIP WATTS: Ah, frankly my reaction to that is -- is -- is first of all, the sentence actually doesn't make sense and I don't think -- Walter is -- can use colourful intemperate language. I take this with a pinch of salt and of course -- if I thought he was inferring he was fooling the market, I would have reacted. But that's not the way I read it. I mean, it's slightly, -- if you wanted to put a sensible word in there, it would be something like 'convinced'.

MICHAEL PRANGE: Did you respond or discuss the contents of this email with -- with Walter other than in the -- the forum that this was prepared for?

SIR PHILIP WATTS: I don't recollect a -- I certainly don't recollect a detailed discussion, but I know it was about this time --, just let me check the date. When is the forthcoming meeting? Um, yes, I, -- I recollect that we had a -- I

think it was about this time that we had a dinner together - I do occasionally with members of – of CMD and whatever. And -- and in the most general terms, I talked to him about; you know, the pressures that CEOs are -- are under. This is not unusual. We were going through the planning process; there was another three or four months of the planning process yet to go through and, you know, the thing would get -- you know, his issues would get proper attention.

MICHAEL PRANGE: Do you recall discussing, in particular, anything to do with reserves at dinner?

SIR PHILIP WATTS: Ah, I don't recollect any particular details of reserves or -- or much else frankly.

SAMANTHA GRIFFIN: Just on the -- on the format of this. You talked about it being through the, – part of the planning process and these notes were sent around CMD.

SIR PHILIP WATTS: Yeah.

SAMANTHA GRIFFIN: This is attached saying, "Please find attached a note as input to planned further discussion at CMD this month" but –

SIR PHILIP WATTS: Yeah.

MICHAEL PRANGE: – yet, it's not – it's not a Note for Information, a Note for Discussion, nor a Note for Presentation.

SIR PHILIP WATTS: No, it's an informal note and CMD's free to do that and, as part of the planning process, we have Away Days in the green when we all let our hair down and – and – you know, think unthinkable thoughts, you know, to – to try to stimulate each other and get, – get our minds working. But also then there are formal meetings at CMD, and -- and he's giving us early warning, you know, "Colleagues, please read this so that we can have a discussion about not just the Group, but also my EP business".

SAMANTHA GRIFFIN: Okay. So, there would be an agenda item at the next CMD meeting?

SIR PHILIP WATTS: For this?

SAMANTHA GRIFFIN: For this to be brought up.

SIR PHILIP WATTS: Ah, probably not because this was a note sent to us that could well be discussed at an Away Day. It could come up during the formal planning cycle, or the meetings that take place at CMD, but I don't recollect this being a particular item at CMD.

SAMANTHA GRIFFIN: Okay, thanks.

MICHAEL PRANGE: Can we move on?

SAMANTHA GRIFFIN: Mm hmm.

SIR PHILIP WATTS: If I may just add, right at the end of the Note he says -- it's a scene setter and he talks about the overall EP delivery story. Whether it was, -- whether it was based specifically on this note or some other stuff that he'd prepared, I don't recollect at the moment.

MICHAEL PRANGE: Okay. If we can move onto tab 6? Again, I'll read out what it is for the tape. It's an email from Philip Watts, dated 21 October 2002 at 19.44, to Walter van de Vijver, and its subject is, "Weekend Reflections" and it also contains the response from Walter van de Vijver dated 22 October 2002 at 15.01.

SIR PHILIP WATTS: Yeah.

MICHAEL PRANGE: Again do you recall -- recall writing the email?

SIR PHILIP WATTS: Yes.

MICHAEL PRANGE: And can you explain the purpose of -- of why you wrote it?

SIR PHILIP WATTS: Yes. We've met and I say to him, you know, "You've -- you've got a challenge, it's not unusual". Ah, but the thing is if -- if you're the Chairman of CMD you don't want to be in the position that you're the one that's the whole time putting the points, otherwise it gets in the way of being Chairman. So a way of avoiding you know, having too much to say is to make sure your colleagues are aware of the kind of questions you have in mind, in the hope that they -- they deal with them themselves in the process. And I'm -- I want to make a few points and I use his mental framework that he's established for himself to make a few of them. And -- and I say at the end, you know, "These are some of the key questions that I think we've got to answer" and as you see here it says that we've actually got this meeting happening on 29 October.

MICHAEL PRANGE: Is -- is this -- this is another meeting, is it? Sorry I'm just -- the -- the initial -- sorry, in tab 5 it's dated 2 September and I think it sort of says on the -- the front page, "a note as input to planned further discussion at CMD this month". Has that sort of meeting occurred and then this is after that?

SIR PHILIP WATTS: I -- I -- I just don't recollect.

MICHAEL PRANGE: Okay. So, going back to tab 6. Point 2 is -- is titled, "Reserves" on your email, and you say, "We have a real issue but the Enterprise acquisition allows us to keep 100% replacement ratio averaged over, say, 3 years". Can you just expand a little bit on -- on what you mean by you saying, "We have a real issue"?

SIR PHILIP WATTS: Well, it's the same issue that I -- I identified earlier in -- in our discussions. If -- if we're going to have the sort of reserves replacement that we want to have, and sustain that, we have to refresh the, -- the portfolio and both organically and through acquisitions. And, of course he's the one that has actually done the Enterprise acquisition just before, in April, which gives us that extra - I think it's about a billion barrels but -- but both he and I know that more

acquisitions are planned. It's not just acquisitions, it's also the organic work, too.

MICHAEL PRANGE: Does anyone want to ask any further questions on the email? Okay. And then the response to that comes the next day from Walter van de Vijver. Do you recall receiving this email?

SIR PHILIP WATTS: I -- I recollect the response. Yes, I -- I don't actually recollect everything that's -- you know, I don't recollect when I received it --, all of the stuff, I don't recollect it now.

MICHAEL PRANGE: But you -- you did receive it contemporaneously? It's not something that's recently come to your attention? Or has it?

SIR PHILIP WATTS: My recollection is of having received it.

[pause]

SIR PHILIP WATTS: Parts of it I don't recollect from the time.

MICHAEL PRANGE: Which parts do you recollect and which parts don't you recollect?

SIR PHILIP WATTS: Well, it is very -- you put your finger on the question. It is very difficult to -- to sort out what you remember from the time and what pieces you remember from having subsequently seen it. The -- one thing I don't recollect reacting to is this reference to, -- to Sarbanes-Oxley and the like.

MICHAEL PRANGE: Is there anything else in particular that you don't recollect reacting to?

SIR PHILIP WATTS: No, not in particular.

MICHAEL PRANGE: No. Okay. Can you remember what you -- your general feeling was upon receiving this email - what you felt the tone was, etc, etc?

SIR PHILIP WATTS: No.

MICHAEL PRANGE: Can you recall any subsequent actions you taken -- took in relation to any of the points in it?

SIR PHILIP WATTS: Ah, no and, of course, we -- we had our meeting shortly after this at the, -- at the CMD to -- to discuss the plan.

MICHAEL PRANGE: Are there any more questions there?

DAVID BLUNT: Well, just specifically on the second paragraph, the first sentence, "I must admit that I've become sick and tired about arguing about the hard facts". What are your recollections about receiving that, and addressing that?

SIR PHILIP WATTS: I've little recollection of it at all.

SAMANTHA GRIFFIN: Okay. Perhaps on something else, in -- in the first paragraph Mr van de Vijver refers to 'legacy' problems which is something -- a phrase

he's used a couple of times in some of the precious emails as well. Do you know what he's referring to?

SIR PHILIP WATTS: Well, of course, he's in Oman as I'm reading it now --

SAMANTHA GRIFFIN: Mm hmm.

SIR PHILIP WATTS: -- and he's addressing the issues in Oman of production decline, which by now in 2002 are serious. And he's trying to get a grip on that situation as the CEO of EP.

SAMANTHA GRIFFIN: But that sentence is specific to, um -- to Oman. And I think it was -- it was in tab 4 as well. It's just the same wording in his email in tab 4 that you would appreciate -- it has my highest attention. He's talking about remaining legacy proved reserves. It's -- it's -- the word 'legacy' just keeps popping up. I was just wondering if --

SIR PHILIP WATTS: Yes.

SAMANTHA GRIFFIN: -- if any --

SIR PHILIP WATTS: and -- and -- and I remember at some stage discussing with Walter, you know, you get different sorts of legacies, you get good legacies where your predecessors have done great things and you enjoy the benefits of it. You -- you get some legacies where there are difficulties on hand that you have to -- to deal with. I -- I think his connotation - when he uses 'legacy' - it tends to be a difficulty that he's having to deal with.

SAMANTHA GRIFFIN: Okay.

MICHAEL PRANGE: Again, not going back to your recollection, but looking at that email now what would you say the tone of it was generally?

SIR PHILIP WATTS: I think Walter's a bit frustrated. We're now getting to the crunch time of the plan. It's all about capital allocation; it's all about the profitability criteria and he feels that tension, and we're going to be discussing it on the -- on the 29th.

MICHAEL PRANGE: Was it out of character at the time of -- of how he generally was, do you think, or ...?

SIR PHILIP WATTS: When I look at this message now, you'll -- you'll find numerous messages from, -- from Walter where he -- he speaks in sometimes colourful language, sometimes a bit intemperate. Ah, it's part of the challenge that he faces, you know, that what you expect of a, you know, top executive is a more -- more considered view.

MICHAEL PRANGE: And I'm talking now with -- subsequently, with hindsight, having looked at this email con- contemporaneously, have you considered what he's talking about in the line that you said you didn't recall, "If I was interpreting the disclosure requirement literally, Sarbanes -- Sarbanes-Oxley --"

SIR PHILIP WATTS: I find it very difficult to speculate on that.

MICHAEL PRANGE: Okay. This seems a good time to stop. Okay.

SAMANTHA GRIFFIN: It's 4.01pm, and this is the end of tape 5 of an interview with Sir Philip Watts.

TAPE 7

SAMANTHA GRIFFIN: It's 4.14pm and this is the start of tape 7 of our interview with Sir Philip Watts. Can I just correct myself? At the end of the last tape I said it was the end of tape 5. It was actually end of tape 6.
Sir Philip, can I just again remind you are still under caution and ask you to confirm that we haven't asked you any questions relating to this matter while the tape has been switched off?

SIR PHILIP WATTS: That's correct.

SAMANTHA GRIFFIN: Thank you.

MICHAEL PRANGE: I think before -- just before the end of the tape we were referring to tab 6. Does anyone have any further questions they want to ask Sir Philip in relation to the response of Walter van de Vijver?

DAVID BLUNT: Just on the first paragraph. "I am currently in Oman dealing with another legacy problem". What at the time did you think were the "other legacy problems" to which Walter van de Vijver was referring or had previously referred?

[pause]

SIR PHILIP WATTS: I mean, as I'm trying to think here -- I'm at the point where I will now be speculating on what he was thinking at the time. And I'd be speculating by trying to reconstruct something now. So, I don't think that would be very helpful.

MICHAEL PRANGE: All right. Shall we move onto the, --

ZULFIQUAR RAMZAN: Just one point here. "I must admit" -- this is the second paragraph,

"I must admit that I become sick and tired about arguing about the hard facts"

I mean, in light of -- of that comment what other -- well, what conversations were you having with -- with Walter at the time, in relation to the facts he's talking about and the fact that he's become "sick and tired about arguing"?

SIR PHILIP WATTS: I -- I am afraid this is Walter using colourful language. He's sick and tired, he feels caught in a box ... When I receive that sort of stuff I think, "This is the way Walter is expressing himself again, to -- to make his point, to make his argument". When -- when I see that I don't know what -- what he's referring to, particularly, except the totality of his business. And my reaction is, "We're going to have a meeting shortly about the business plan in CMD and we'll address these issues then".

MICHAEL PRANGE: Okay.

SIR PHILIP WATTS: He -- he's not the easiest of individuals to -- to deal with. You'll see it in the phraseology he uses and the relationship is not easy but that's

something you have to -- to manage as the -- as the Chairman of CMD as you go through the business planning process.

DAVID BLUNT: So, which relationship wasn't easy?

SIR PHILIP WATTS: Between us.

DAVID BLUNT: Right.

SIR PHILIP WATTS: Other relationships I can't comment. But that's I mean, that's just a fact of life.

MICHAEL PRANGE: Before we actually move onto the next tab, again we've obviously just taken a -- a small sample of documents out. I just want to mention to you, or ask you, obviously the overriding issue is reserves exposure, and as we go along I think we had July the CMD meeting of 2002 and we've already moved up to October and I think next tab even goes up -- tab 7 goes up to July 2003, and I was wondering if there were any other elements of discussion or conversation that you can -- can recall in the intervening periods? Just -- just let us know, or -- or were there? I mean, I don't want to just be stuck to these particular tabs that we set out. Are there any other key moments where reserves exposures were discussed between say July 2002 and July 2003, which is the next tab.

SIR PHILIP WATTS: No, I -- I don't recollect any at the moment any particular discussions but a -- a key event had happened between July 2002 and July 2003. We'd had the annual reserves report and the external auditors had signed off on that. It had come to CMD -- CMD the -- the Group Reserves Auditor. It had come to CMD on its way up to the Group Audit Committee. There'd been a discussion about it at that point and -- and now we reach July.

JOSEPH GOLDSTEIN: I don't mean to interfere but there are other documents that, you know, that we had talked about in the presentation that we have so I mean, there -- there may be other issues that he may just not be recalling that if you --

SIR PHILIP WATTS: Well, as I said, I'm not reflecting them -- recollecting them just at the moment, except for the moment that -- that key event but there may well be others.

MICHAEL PRANGE: Yeah, no, what I didn't want to do is -- is just run over something you might want to tell us in the intervening period that isn't in these documents.

MARTYN HOPPER: It's a very long period. So, I think, you know ... We should probably move on.

MICHAEL PRANGE: Fine. Okay, just going back to the actual 2002 report that contained the reserves -- proved reserves figures in it.

SIR PHILIP WATTS: The 2002 report? Which one do you mean?

MICHAEL PRANGE: The annual report that contained the supplementary information 2002 report. Isn't that --

SIR PHILIP WATTS: -- which -- which was signed off in early 2003?

MICHAEL PRANGE: Yes.

SIR PHILIP WATTS: So, I'm just being sure we're referring to the same thing.

MICHAEL PRANGE: Yes, we are.

SIR PHILIP WATTS: We're talking about the report for 2002 --

MICHAEL PRANGE: Yeah.

SIR PHILIP WATTS: -- which was signed off in February 2003 and then went to the Group Audit Committee?

MICHAEL PRANGE: Yes. That's what you were mentioning before.

SIR PHILIP WATTS: That's what I was referring to, yes.

MICHAEL PRANGE: Sure. Okay, I was just -- clear on that. We'll move on to tab 7 which is 'EP Reserves Outlook' a 'Note for Discussion' again and it's signed by Walter van de Vijver and it's dated 17 July 2003. At Appendix C there's the potential reserves exposure catalogue.

SIR PHILIP WATTS: Yes.

MICHAEL PRANGE: Can you -- can you comment on -- on that? Was it a surprise? Was it how you expected it to be? Were you being updated?

SIR PHILIP WATTS: Well, it's -- we were having a report. Walter has delivered it as a Note for Discussion. It gives the total context and it has Appendix C which lists the reserves exposure with -- with comments about the status of all of them. That's a good -- as far as I was concerned, it was a good transparent overview.

MICHAEL PRANGE: And were there any discussions relating to it that you can recall?

SIR PHILIP WATTS: I don't recollect a particular discussion about the exposures catalogue. But of course, well let me -- let me leave it. I -- I just don't recollect a particular discussion about -- about that catalogue. We certainly saw it.

MICHAEL PRANGE: One -- one thing that springs to mind - to me anyway, is that Gorgon's still in it and to a similar quantity as it was back in February 2002. Do you have any comment to make in relation to that?

SIR PHILIP WATTS: No, it's there.

MICHAEL PRANGE: No, I just -- from earlier, I think, you recalled that when you got it in 2002 you said you didn't want to see this coming up again in future years. I may've not understood what you said.

SIR PHILIP WATTS: No, that's not what -- what -- what I said.

MICHAEL PRANGE: Right.

SIR PHILIP WATTS: What I said was, in February 2002 when we saw that in this document, talk of an exposure, I didn't want to wait the full annual cycle before it was brought up again. That's why they brought it in July 2002. I didn't say I didn't want to see it again.

MICHAEL PRANGE: Right.

SIR PHILIP WATTS: Did I make myself clear?

MICHAEL PRANGE: Yeah.

SIR PHILIP WATTS: Thank you.

SAMANTHA GRIFFIN: Can I just ask you about Appendix C here? One of the reasons we wanted to bring it to your attention was it -- it is a sort of formal note setting out potential reserves exposure catalogue. Now, is this something that's been prepared off the back of the -- off the back of what happened in, was it February 2002 when you first started discussing reserves exposures?

SIR PHILIP WATTS: My understanding is that the E&P business is doing its job here and making a list of this stuff and we are shown a document that EP looks at occasionally --

SAMANTHA GRIFFIN: Right.

SIR PHILIP WATTS: -- to -- to monitor. Because after all they're the ones that are responsible for this piece of the business and so Walter brings it as an attachment --

SAMANTHA GRIFFIN: Mm hmm.

SIR PHILIP WATTS: -- to his note to CMD to describe the situation.

SAMANTHA GRIFFIN: So, this -- this kind of a document in your days but it appears something that you would've --

SIR PHILIP WATTS: No.

SAMANTHA GRIFFIN: -- looked at?

SIR PHILIP WATTS: No.

SAMANTHA GRIFFIN: I'm just trying to get a feel for sort of ... You've got a reserve exposure catalogue. Um, is it part of just your ongoing review of reserves or is this something that's specific to events that occurred?

SIR PHILIP WATTS: As -- as you saw in February 2002 there was this question raised about exposure --

SAMANTHA GRIFFIN: Sure.

SIR PHILIP WATTS: -- and that was what triggered them to -- to keep looking at it. This -- this wasn't something that belonged to the time that I was in -- in E&P.

SAMANTHA GRIFFIN: Okay, so the -- but the -- it was triggered - the word 'exposure' was triggered back in -- in -- in 2002, it was continuously reviewed from then onwards. This was one of those reviews. This report was one of those reviews. Prior to 2002, what I'm trying to get at is your, sort of ... You carry reserves, sort of, year-on-year on certain fields. How does the validity of those reserves get checked year-on-year?

SIR PHILIP WATTS: Through the -- the validity of the reserves is checked through the annual process that I described where people have a fresh look in the Operating Units. They submit their pluses and minuses to the Group Reserves Co-ordinator. It's checked against the Group Reserves Auditor and then checked by external audit.

SAMANTHA GRIFFIN: Mm hmm.

SIR PHILIP WATTS: That's the --

SAMANTHA GRIFFIN: Yeah.

SIR PHILIP WATTS: -- process that was taking place annually.

SAMANTHA GRIFFIN: Okay. So, prior to 2002 there was nothing triggered onto a -- a watch list of -- a -- an exposure catalogue, anything like that?

SIR PHILIP WATTS: Not to my knowledge.

SAMANTHA GRIFFIN: Right. Okay.

MICHAEL PRANGE: Move onto tab 8?

SAMANTHA GRIFFIN: Yeah.

MICHAEL PRANGE: Moving onto tab 8 now. For the tape it's an email from Walter van de Vijver dated 9 November 2003, 11.17 and it's sent to Philip Watts. Sorry, it is the original message is actually from John Bell sent on 6 November 2003, 11.20 and it's to Walter van de Vijver and it's cc'd to John Pay and Frank Coopman and it's an "LKH Zip Slide" and John Bell asked,

"Walter, you asked details of our exposure to LKH issue. The attached is from John Pay. Happy to discuss further if needed.

John will join the EPLF tomorrow to help facilitate the discussion on the acceleration of reserves bookings. He will sit in the Group with the RTDs and EPT to assist in assessing ideas and providing data. John"

And then it moves on to an email from Walter van de Vijver to Philip Watts which was sent on 9 November 2003, 11.17 and the subject is "LKH" again. And I'll read it out for the tape. It says,

"Phil, reference our discussion on reserves on monday 3/11, please find attached the summary on LKH. The issue of LKH is not just a US issue (perhaps you were implying something there?). I am becoming sick and tired about lying about the extent of our reserves issues and the downward revisions that need to be done because of far too aggressive/optimistic bookings in the past, aside from the embarrassment of having booked reserves prematurely. Regards, Walter"
Do you recall receiving this email? The –

SIR PHILIP WATTS: Yes.

MICHAEL PRANGE: – one dated 9 November? And can you tell us what your initial reaction to it was?

SIR PHILIP WATTS: My – my initial reaction was -- was mixed. First I'm, frankly, shocked and – and baffled. I see this language again, "I'm becoming sick and tired about lying". I mean, let's -- let's deal with the lying thing in the -- in the first instance. If -- if I'd have thought he was lying, you know, the – I would've really reacted because I've – I've just gone through a process, as late as -- as July - that memo we've just discussed, and it talks about the reserves exposure that we talked about. But in that document you find it says no de-booking is – is recommended. Then the thing has come back to CMD on its way to the Group Audit Committee and there's been a presentation to the Group Audit Committee about it in -- in October - later in October. So I have absolutely no reason to think that people are lying about reserves.
Frankly with – with – in fact I – I put it in my briefcase because I was about to fly to Switzerland and you reflect about it. Uh, I've – I've got a problem. Here is the Chief Executive of a $40 billion business who is sending stuff like this. Uh, and as I say I put it into my briefcase. I know I've got to – this is not the kind of thing you send an email in response to. This is something I've got to think about and decide how I'm going to discuss it with him.

MICHAEL PRANGE: So, what happened next after you put it in your briefcase? Just tell us the story about -- tell us how you responded.

SIR PHILIP WATTS: Well, in fact as -- as it went in the end I didn't respond because it was overtaken by events. Uh, I actually got on the plane, went to Switzerland on the Sunday, came back on the Monday in the evening, had a – a day in the office and then flew off to Washington. I had three days in Washington. I -- the following weekend we had a -- a signing ceremony for the gas contract in Riyadh.
So, I actually flew overnight from Washington to Rotterdam climbed on the – the – the new plane with – with fresh pilots – actually Walter and other people that were involved in – in the Saudi business climbed onto the plane too, so it was pretty full, and we went off to Riyadh. That – later that afternoon and in the evening Saudi time, we had the signing ceremony and I climbed on the plane, flew back to the UK overnight and got in that morning to – to Farnborough, I can tell you pretty exhausted. Spent Sunday and then on Monday and Tuesday we had CMD. I'm trying to think of the – think of the dates. It must be the – the 17th and 18th. We had the CMD meeting and at

the end of the meeting on the -- on the Tuesday, right at the end as we're preparing to -- to leave, he, under 'Any Other Business', he informs CMD that he's got two 'Unsatisfactory' audits; one for Nigeria and the other for Oman. My response to that is, "You'd better give us a report on this, Walter". So, the reserves issue is being a bit overtaken by events.

MICHAEL PRANGE: Just going back to when you were in Saudi, you actually were with Walter but didn't discuss this. Did you -- you met him face-to-face then?

SIR PHILIP WATTS: Well, with other people. We were on a plane together. This is not ... This has now become, in my view, a real personnel issue. He's a -- a very clever, very intelligent, but can be a difficult fellow. We don't enjoy the best of relationships so that has to be carefully managed. But don't forget that this guy is a Royal Dutch Crown Prince. He's young. He might be my successor when I leave in, -- as was planned, in 2005, age 60. Even if he's not my successor and Jeroen Van der Veer takes over, he's only got 3 years until he's 60, so Walter's going to be there anything from 7 to 10 years in the top position.
Now, if you're Chairman of CMD -- *primus inter pares* - you -- you don't have the power to hire or fire. I know that when we -- if we raise this thing with him and address him about it - behaviour on sending stuff like this - we're going to have a difficult confrontation. It's not the kind of thing that you raise when you're exhausted or when you've only got -- certainly not with other people around. You have to have a considered view and -- and probably would need to have a conversation with some other people, you know, from the Royal Dutch Board or whatever. This is somebody who has been reprimanded by CMD some years before when he was Chief Executive in the USA before he came and joined CMD. So this is not the kind of thing I'm going to do lightly.
Now, we're there in Saudi Arabia. I can tell you what I did for most of that day, I slept and organised a -- a call to wake me up Saudi time, 5.00pm in the evening to get ready for all these ceremonies -- this was no time to address anything.

MICHAEL PRANGE: On -- on the 17th and 18th is when you say the -- the events overtook i.e. the -- the 'Unsatisfactory' audit reports. In the period between the 9th and the 17th and the 18th, given the seriousness of the email, and you had to sort of form some view and you -- I think you said you'd need to speak to other people. Did you speak to anyone -- anyone else about it --

SIR PHILIP WATTS: No.

MICHAEL PRANGE: -- in the intervening period? And why was that?

SIR PHILIP WATTS: As I said, if I'd have thought he was lying I would've done something very quickly but I just didn't feel that that was the case and that was the view I took at that time.

ZULFIQUAR RAMZAN: What -- what view did you take then? What -- what was your perception of the words he's used here, like the words, "I'm becoming

sick and tired about lying about the extent of our reserves issues". How -- how did you perceive them?

SIR PHILIP WATTS: I think I've just explained what I thought about lying. That I didn't think he was lying because I had a track record of -- of meetings and written documents and going to the Group Audit Committee and the like. Uh, so my view was this was some hyperbole. Does that answer your question?

ZULFIQUAR RAMZAM: Okay.

MICHAEL PRANGE: So, so in the seven days after you received this, before events overtook it, did you have a view of what you were going to do? I mean, or were you just going to let matters lie? I mean, I think we've got a seven-day period before events overtake. I just wondered what conclusion you'd come to and what you were going to do about this email --

SIR PHILIP WATTS: I -- I --

MICHAEL PRANGE: -- in that period.

SIR PHILIP WATTS: I frankly had had a very hectic time but my mind would be working towards how we would address it with him but that would need to be done rather carefully.

ZULFIQUAR RAMZAN: Well, he's making quite serious statements here. The language he uses. I mean, we haven't seen another email before this using the same sort of language. Did that bring any concern to you at this point in time?

SIR PHILIP WATTS: Well, as I said, I was shocked, baffled, concerned.

ZULFIQUAR RAMZAN: I mean, this guy is -- I mean, as you say, he's the Chief Executive of a global business.

SIR PHILIP WATTS: I've got a big personnel problem on my hands.

MICHAEL PRANGE: Do you want to ask any questions? The next tab is tab 9 and before -- before I read it out I just want to state that we don't believe it was sent to you but we're just going to ask you whether you've seen the attached document anyway. The actual tab 9 was sent from Frank Coopman to Brian Ward on the 2 December 2003 at 6.56 and its subject is "Proved Reserves". It says, "Please do not copy or forward this note" and the note is entitled "Script for Walter". This script for Walter is passed around various people and there is correspondence in tabs 10 and 11 but you're -- you're not -- or don't appear to be on any of these email lists. I was just wondering if you could have a look at the Script for Walter on Proved Reserves position at tab 9 and -- and tell us if -- if you if you saw that document at any time around December 2003.

SIR PHILIP WATTS: I did *not* see the document around the dates that are here in early December.

MICHAEL PRANGE: Did -- did anyone mention its existence to you, that you recall?

SIR PHILIP WATTS: Its existence was mentioned to me by Judy Boynton and she gave me a copy at the end of December. I'm not absolutely certain of -- of the dates but it was some time at the end of December.

MICHAEL PRANGE: In what context did she give you the copy? Was it during a meeting, or email, or ...? And why did she give it to you?

SIR PHILIP WATTS: I think it -- it came out of a -- a discussion and a reference where she -- she mentioned a -- a -- a document and then she gave me a copy. I -- I can't -- this December and January was a most incredibly hectic time and as you can imagine there were many conversations and with the best will in the world I can't reconstruct all of that. But as I say I got a copy late in -- in December.

MICHAEL PRANGE: And -- and what was your reaction to it when you got it?

SIR PHILIP WATTS: To say the least, real surprise, because she -- not she -- I -- I realised that things had been going on with a degree of -- of precision of which I was unaware.

SAMANTHA GRIFFIN: When you were -- when you were shown the document, were you shown any of the email traffic that went with it, or were you just shown the -- the document?

SIR PHILIP WATTS: I -- I'm just looking at the --

JOSEPH GOLDSTEIN: Are you referring to tab 10?

SAMANTHA GRIFFIN: Yes, if you look in -- tab 9 is the original document and then 10, 11 and 12 are all reactions to that document.

MICHAEL PRANGE: I'll just read out what they are for the tape. Tab 10 is an original message from Judith Boynton on 2 December 2003 at 7.55 to Walter van de Vijver, subject, "Reserves". And also tab 10 contains a response from Walter van de Vijver on 2 December 2003 at 9.57, while tab 11 contains an email from Frank Coopman on 2 December 2003 at 7.12 to Walter van de Vijver and also it contains the response from Walter van de Vijver on 2 December 2003 to Frank Coopman.

SIR PHILIP WATTS: I -- I recollect receiving the script. I -- I think there was a message or two attached to it but what I did not receive was this message that talks about, "This is absolute dynamite".

MICHAEL PRANGE: Not tab 11.

SIR PHILIP WATTS: That's tab -- tab 10, isn't it?

JOSEPH GOLDSTEIN: That's where we have it. Tab 10.

SIR PHILIP WATTS: Anyway, it's under tab 10 for me and it's the -- this message saying, "This is absolute dynamite". I did not see that at the time and I didn't see it for quite a long time until it was presented to me as part of the interview I had with Davis Polk. I did ...

MICHAEL PRANGE: I don't suggest we go through any more of the tabs. I'm aware of the time as well. (inaudible). This can be --

DAVID BLUNT: Can I just ask one-question?

MICHAEL PRANGE: Go on.

DAVID BLUNT: You said you were surprised in the precision in the script for Walter. Why was that?

SIR PHILIP WATTS: Well, we'd been informed of two 'Unsatisfactory' audits on 18 November. I had asked for a written report to CMD. I knew it was under preparation and that Walter van de Vijver would bring it to CMD. It was a bit later than I'd hoped in -- in early December but the reason -- one reason for that was that we were heavily engaged in negotiating a deal with -- with the Russians and -- and the -- thing eventually came to CMD on 9 December and that triggered Project Rockford. And we were absolutely in crisis management mode. We were working for a number of weeks with -- with massive intensity and addressing all the issues around that, trying to get sufficient definition to make a -- a proper -- not, you know, proper disclosure. And at the end of the month you can imagine when I see this, that people in E&P have you know, got a formal document dated 1 December. I think that would elicit some surprise.

DAVID BLUNT: The surprise is to do with the detail in that document at the beginning of December?

SIR PHILIP WATTS: Yes. People had put together something called, "A script for Walter" on 1 December and we're doing Project Rockford which is kicked off on 9 December and we're all beavering away trying to get it finished, not just Nigeria and Oman but we're treating all the other issues all around the world and -- and by the end of December we're in the last days before making a coherent disclosure, and this existed already.

SAMANTHA GRIFFIN: Okay. I think it's probably better if I end this tape and we'll start a new one when we come back as there's only a few moments.

DAVID BLUNT: Well, shall we just stop this?

MARTYN HOPPER: I think if we just pause.

SAMANTHA GRIFFIN: Okay, it's 4.41pm. I'm just going to stop this tape for a moment.

[PAUSE]

SAMANTHA GRIFFIN: It's 5.00pm and this is a continuation of tape 7 of our interview with Sir Philip Watts. Again, quickly just to confirm that I haven't asked you any questions in relation to this matter whilst the tape was switched off and again to remind you, you are still under caution.

SIR PHILIP WATTS: That's correct.

SAMANTHA GRIFFIN: Okay, we've finished all of our questions for the moment. Is there anything that you would like to add?

SIR PHILIP WATTS: No. Thank you.

MARTYN HOPPER: I would just like to add at this point - we've covered a great deal of territory in terms of the period of time that's been covered during the course of the day. There are obviously an awful lot of documents in existence which haven't been discussed today. I just want to -- to make clear that we would obviously reserve the -- the ability to -- to comment on those documents and indeed for Phil to comment on them in due course.

SAMANTHA GRIFFIN: Yes. That's it. It's 5.01pm and that is the end of our interview with Sir Philip Watts. Thank you.