3. OBJECTIVES, STRATEGIC & CHALLENGES (continued)

The 6 Strategic Themes
High-level strategic directions are discussed in Volume 0 of the Business Plan. We translate these high-level strategies into six Strategic Themes.

Determined efforts are ongoing to grow new business in **Major Resource Holding** countries such as Iran, Iraq, Saudi Arabia, Libya and Kuwait. Competition is intense, however, and the returns are likely to be moderate and relatively insensitive to oil price. Nevertheless, MRH countries could provide a steady and long-term stream of income and provide a counter balance for more oil price sensitive undertakings such as Deepwater projects.

Gas strategies for each of the targeted markets are determined by the state of market liberalisation, maturity and saturation level of the market.

We would like to retain our strong competitive position in **Deepwater** by focusing on a limited number of material (Gulf of Mexico, Nigeria, Brazil and Angola) and emerging (Egypt, Trinidad, Morocco) basins. In addition we will try to leverage Shell Deepwater Services (SDS) capabilities in novel ways.

Nigeria has been raised to "theme" level to provide extra focus. The main challenges will be to restore onshore production levels to capacity, to balance onshore developments with growth offshore, to develop the local communities and to gain new licences.

Caspian/CIS Oil has been kept on as a theme. The name of the game here is to mature and pursue our options. A very large discovery has been made by OKIOC on the Kashagan prospect in the Northern part of the Caspian Sea. The Inam farm-in in Azerbaijan may provide a platform for growth in the Caspian region. The anticipated PSA and Crude Transportation agreements for Salym will open the road for further developments such as Komsomol.

A sixth Theme, **Unconventional Resources** encompasses EP diversification into Oil Sands, and new options which could render economic significant volumes of unconventional hydrocarbons. EP is also looking at novel geothermal power options (Hot Fractured Rocks).

Key objectives, strategies and activities in each of these themes are summarised in section 10 of this document.

Low Cost MRH Oil		
• Actively build relationships • Pursue synergies with GP, OP • Differentiate ourselves	• Big Gulf Oil • Libya	actively pursue Iran, Iraq, Saudi Arabia, Kuwait actively pursue

Gas : net importer, net supplier, balanced market (all by 2005)		
EP • Market driven regional strategies • Upgrade portfolio; pursue new gas sources with focus on optimal cost of supply curve position and near term market • First mover advantage critical to secure "new" markets	• India • China • Turkey • Med Rim • Asia Pacific • NW Europe • Middle East • Russia • Atlantic Basin • N.America • S.Cone	support aggressive Group entry play demonstrate domestic gas viability then expand secure supply into Turkey position for early Nemed gas (SMDS) minimise supply costs & secure market [illegible] protect existing revenue, position for future full gas chain play to secure upstream Strengthen Sakhalin position Shell as LNG buyer/enabler find new gas supply play (including Mexico) consider shrinking to Brazil only
GP • To create a portfolio of businesses roughly double the size of the existing portfolio by 2010	• SMDS • LNG • Power • Midstream • Coal Gas • M & T • Residential	become GTL Leader, retain first-mover advantage maintain position in LNG through cost leadership become a significant player unlock significant upstream value monetise technology through selective investments obsessive focus on customer needs preferred multi-product/service company

Deepwater Oil & Gas		
• Consolidate no 1 position in selected basins • Leverage SDS • Focus on few emerging areas • Legacy countries - low cost solutions • Balance investment with low oil price robustness	• GOM • Nigeria • Brazil • Angola • Emerging	pursue near term opportunities + find new big plays develop existing discoveries, defend strong position aggressively pursue make or break (establish infrastructure corridor) Egypt, Trinidad, Morocco.

Nigeria		
• Grow oil production and therefore grow entitlement reserves • Diversify portfolio (balance onshore vs offshore). Security of gas supply. • Realise some value early • Develop community • Set up novel licenses on basis of existing acreage • Reduce % of operated production.	• Onshore • Nigeria • Deepwater • Ultra Deep • SNEPCO	restore production to capacity level manage K/H-E/A projects develop exploration strategy, project secure access to new acreage dilute

Caspian/CIS Oil		
• Mature andpursuestrategic options	• OKIOC • Azerbaijan • Russia	evaluate economics grow bridgehead pursue Salym and Komsomol

3. OBJECTIVES, STRATEGIC & CHALLENGES (continued)

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EP strategies are supported by a continuous track-record of innovation. All of the innovations listed here have been introduced over the past couple of years.

Whilst 'making the most of what we have' is characterised by continuous business improvement initiatives, 'Getting new business' is driven by the Aspired Portfolio and 'Breaking new ground' is technology dominated.

:xamples of Innovation

Making the most of what we have	Getting new business	Breaking new ground

Specific Examples:

Making the most of what we have	Getting new business	Breaking new ground
• Realising the Limit	• Saudi, Iran, Libya	• Technology Ventures
• (e)-Procurement	• Sakhalin	• Eureka
• Too Fast To Follow	• China	• Hot fractured Rocks
• Capital Allocation	• North American gas	• FLNG
• Portfolio Management	• Mexico	• SMDS

Cross Cutting Enablers:

People: New Ways of Working, Global Staff Pool, LEAP
Global Deepwater Services, Exploration FRD, Regional Clustering
Planning Process: Risk& value based option evaluation
Gamechanger, Turbo, R&D: 20% committed to Revolutionary
Value Creation Teams: Diversity, e-Business
Sustainable development, emission permit trading

4.1 EXPLORATION

Shell EP has consistently been rated highly by external analysts on the key measures which reflect exploration success - Unit Finding and Development Cost, and Reserves Replacement Ratio. However, both measures are positively influenced by significant field revisions, and mask recent years of under delivery from exploration.

In response to the **FRD "Exploration in the New Millennium"** , Shell EP has introduced the position of Head of Global Exploration, and a **Global Exploration Forum** to advise on management of the global exploration portfolio, and establish a strategic framework for exploration.

A number of advances have already been made. Mandatory peer reviews result in a greater degree of challenge to proposed programmes, and ensure higher levels of consistency. The Global Exploration Forum facilitated the exploration Capital Allocation process, aimed at optimisation of the programme based on three criteria:

- Project Attractiveness: Ranking based on economic attractiveness and strategic imperative
- Option Value: Portfolio considerations not specifically addressed by the attractiveness (eg. Play-opening potential)
- Exploration Performance: Track record of delivery of SFR and reserves against predictions.

Global Exploration objectives and strategies presented here are preliminary and will be further refined during 2000 and 2001.

Global Exploration Objectives

To maximise short-term value creation from selective ('Designer') exploration in mature basins, whilst making material discoveries in new and emerging basins for the medium and long term.

- To be equity owner in at least 2 material (>500 mln boe SFR, 100%) discoveries each year.
- To add at least 1.0 bln boe expectation SFR per year, at a finding cost of less than $1.0/boe.
- To achieve a Unit Finding Cost of < $2.0/boe (Proved Reserves) in 2001, dropping to < $1.5/boe in later Plan years (3-yr rolling average).

Exploration Strategies

- **Protection**
  Explore at minimum cost in mature plays if it is demonstrable that stopping exploration places existing or future revenue from production operations under threat (e.g. BSP, Syria, SPDC).
- **Near-Field**
  Explore near existing infrastructure only if the exploration activity is expected to add NIAT within 6-24 months (e.g UK, Malaysia).
- **New Oil Hubs**
  Explore for new oil in mature plays only if FID is within the Plan period.
- **Gas**
  Explore for gas where a significant supply/demand gap exists, or is projected in the Plan period, and where Shell is well-placed to secure this market (e.g USA, Netherlands).
- **New Frontiers**
  Explore for material new oil frontiers with potential Shell-share production > 100 kb/d before 2010 (e.g. Angola, Brazil, Azerbaijan, Kazakhstan).

Clustering of Resources

- To develop and maintain key exploration organisational capabilities, **Centres of Excellence** (Clusters) with critical mass to promote organisational learning, will be established.
- Benefits of clustering relate to:
  - Organisational Capabilities: Technology penetration, regional geology, learning & development, staff skills, flexible deployment and critical mass
  - Portfolio Management: Aligning activities with strategies, active regional/thematic portfolio management
- Improvements in performance due to enhanced organisational capability, coupled with increased efficiency will positively impact all key externally benchmarked metrics.
- Whilst clustering of capabilities is in place for Deepwater, and is proceeding in Europe, a number of difficult political issues will need to be overcome before all clusters are in-place end-2001. Not least will be the need to fully address the impact on local staff in countries which are not cluster centres.

4. 2000 EP BUSINESS PLAN (continued)

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Exploration & Appraisal Activities 2001

Exploration expenditure in 2001 amounts to $1.3 bln, and comprises the following key elements:

- **OU Base Programme $1.0 bln**

  The Capital Allocation process resulted in the funding of high-ranking exploration activities in 37 countries.

  Expenditure on new portfolio elements (underlined in the chart opposite) totals $0.2 bln. Drilling activity will continue in Brazil and Angola, and a second well will be drilled in Azerbaijan. Evaluation of the giant Kashagan discovery in Kazakhstan will continue. Newly acquired acreage will also be explored in Nigeria deepwater, Egypt, and Morocco.

  A total of 99 exploration wells will be drilled in 2001. Within Shell's traditional portfolio, 8 wells will be drilled in the Gulf of Mexico and 17 wells in Oman. Exploration in the UK, Brunei and Malaysia will focus on near-field exploration delivering short-term production.

  Shell OUs will participate in the acquisition of 25,000 km^2 of 3D seismic and 50,000km of 2D seismic. Additional activities to be undertaken following the "Christian" acquisition are yet to be incorporated.

- **ExCom Flexibility $0.2 bln**

  As opportunities materialise and mature over the course of 2001, additional exploration funds may be required. The 2000 EP Business Plan consequently contains a provision to be held by ExCom. Exploration expenditure required in support of Strategic Options will compete with attractive opportunities that mature from the existing portfolio for funds from this flexibility.

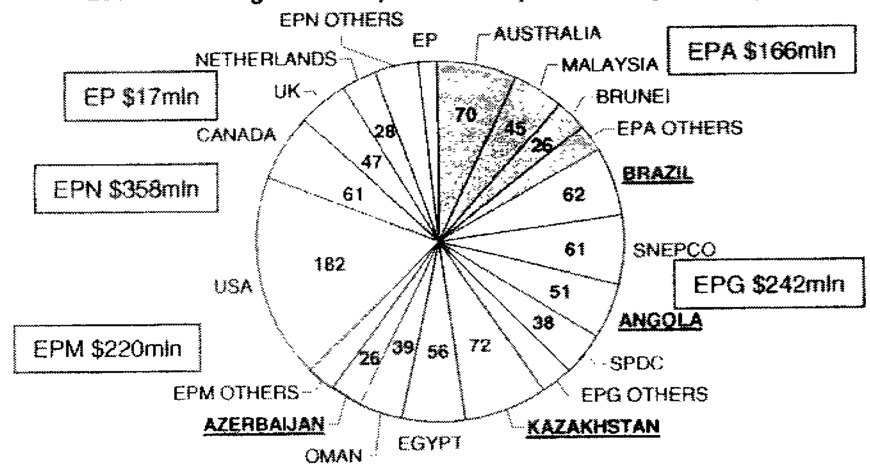
- **Contingency $0.1 bln**

  As a consequence of Capital Allocation, a number of projects with outstanding commitments have been ranked-out. Whilst it is expected that these commitments will be removed by the OUs, contingency is held pending confirmation. Once achieved, this will release additional funds for new opportunities that materialise.

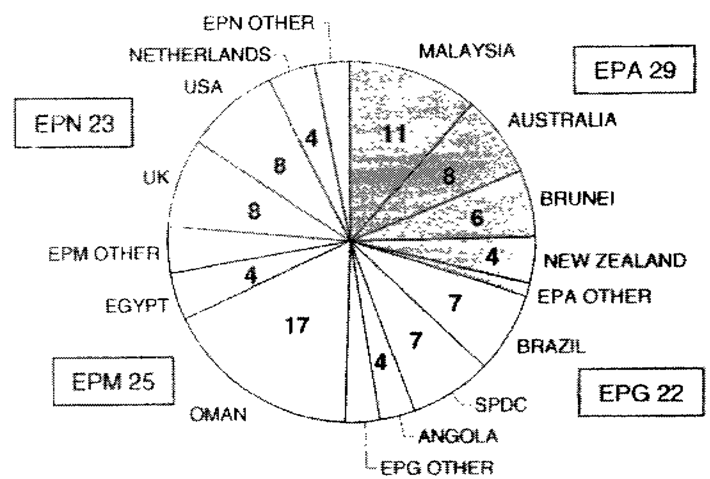
During the course of 2001, exploration exits from Albania, Ireland, and Poland will be completed, whilst exits from Congo, Surinam, and Indonesia will be effected.

In addition, appraisal activities, amounting to $0.2 bln will also be undertaken in China, Angola, Sakhalin and the USA (EB2 wells).

2001 Base Programme Exploration Expenditure by Country



2001 Base Programme Exploration Wells by Country



4. 2000 EP BUSINESS PLAN (continued)

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Exploration Deliverables

The 2001 OU Base Programme (excluding any impact from the "Christian" acquisition) is expected to deliver the following:

- **Scope for Recovery (SFR) 2.4 bln boe ($0.4/boe)**

Gas 0.9 bln boe, with key contributions from:

  - Argentina (0.2 bln boe)
  - Kazakhstan (0.2 bln boe)
  - Egypt (0.1 bln boe)

Oil 1.5 bln boe, with key contributions from

  - Kazakhstan (0.4 bln boe)
  - Brazil (0.3 bln boe)
  - SNEPCO (0.2 bln boe)
  - SPDC (0.2 bln boe)
  - Angola (0.1 bln boe)
  - USA (0.1 bln boe)

- **Proved Reserves 0.6 bln boe ($2.2/boe)**

  Key contributions are expected from:

  - USA (0.3 bln boe)
  - Brazil (0.1 bln boe)

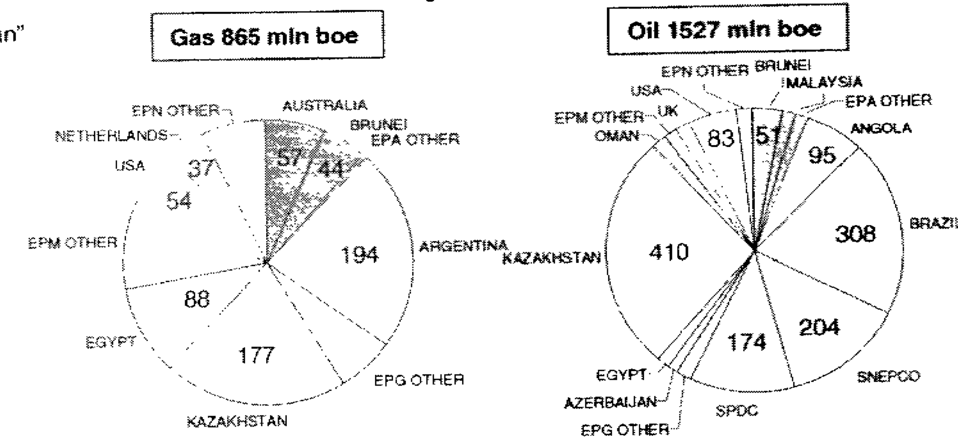
Over the Plan period, Unit Finding Cost for SFR is expected to remain below $1.0/boe.

Efficiency of Proved Reserves additions will improve over the Plan period, as the benefits of a programme optimised by global competition for funding are realised. Proved Reserves from our new acreage additions are expected from 2001 onwards.

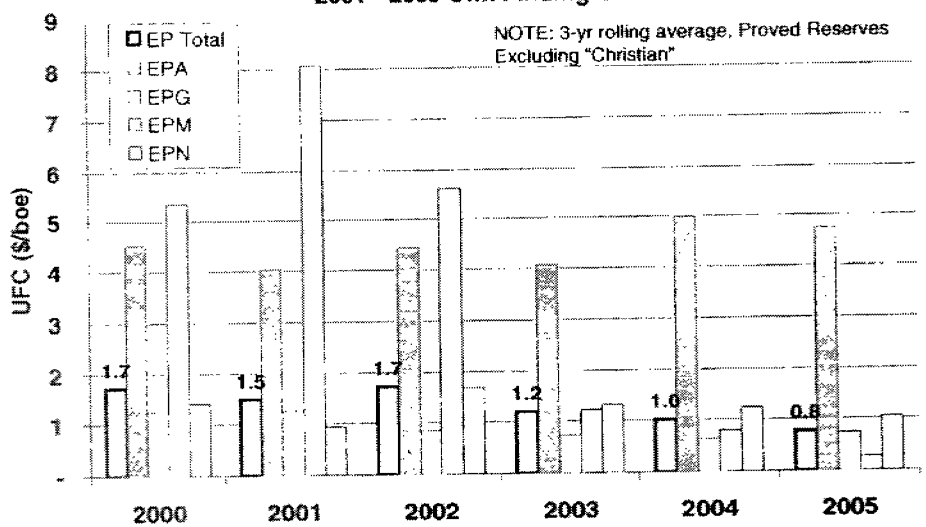
Addition of Proved Reserves from Sakhalin (2 bln boe in 2002), and Kazakhstan-Kashagan (0.8 bln boe, 2003-2005) offer huge potential improvements in UFC. However, each of these projects has considerable technical and commercial uncertainties which need to be overcome before reserves can be booked.

Including Sakhalin and Kazakhstan results in a UFC for Proved Reserves (3-yr rolling average) declining from $1.5/boe in 2001 to $0.8/boe in 2005. Significant regional variations in UFC are illustrated in the chart opposite.

2001 Base Programme SFR Additions



2001 - 2005 Unit Finding Cost



4.2 PRODUCTION

EP production is dominated by high quality existing assets in the UK, USA, NAM, Oman, SPDC, and Brunei which produce over 50% of EP oil & gas volumes. Decline rates of 8% p.a. for oil and 5% p.a. for gas existing assets mean that average production growth forecasts of ca. 6-8% over the Plan period represent a major challenge.

EP has two critical production issues:

- Ensuring that production from existing assets is maximised
- Ensuring that new development projects are delivered on time with the expected production contribution

'01 Bottom-up production forecasts are heavily [illegible]. Our VAR and [illegible] initiatives, and tighter linkage to scorecard [illegible] [illegible] to ensure continued longer term [illegible]

Excluding the effect of divestments undertaken in response to the low oil price in 1998, EP has delivered steady underlying production growth over the period 1994-2000. Whilst 2000 oil production appears to lag the target, this effect is mainly due to the effect of high oil prices on entitlement in PSCs. 2000 gas production is lagging target (1510 kboe/d) due to the effect of a warm winter, PSC effects, and commissioning problems.

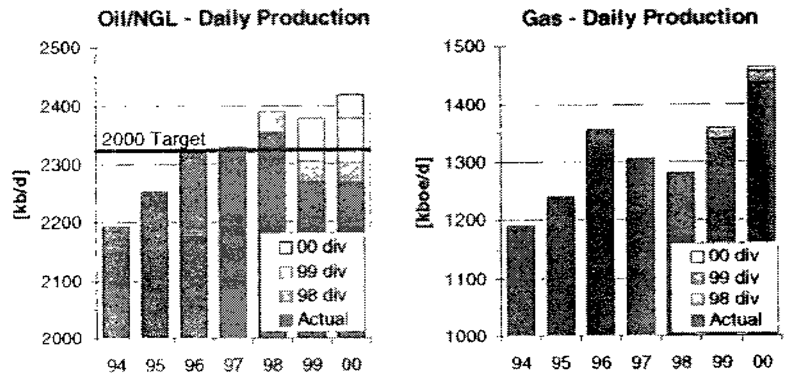
- **Foundation**

Over the Plan period, oil production shows an average 3% growth (BP'99 Foundation 4%) with major growth areas in SPDC, SNEPCO, Iran and AOSP. Gas also shows 3% growth (BP'99 Foundation 3%) with major growth due revised accounting procedures in Oman Gisco, and in Australia and SPDC. Dependency on Nigeria for production growth in oil and gas remains, albeit with more realistic planning assumptions. The top five oil producers in 2001 are largely the same in 2005, and in gas no change at all.

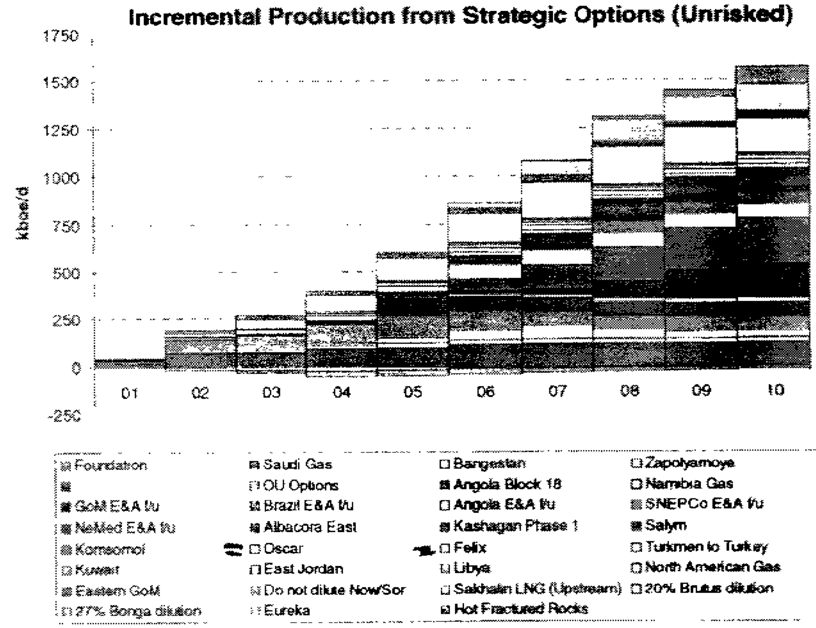
- **Strategic Options and "Christian"**

The addition of Strategic Options and the "Christian" acquisition increases oil production growth by 3% and gas production growth by 5% with respect to the Foundation Plan. Production from Strategic Options (risked) is forecast to generate ca. 300 kb/d and 15.7 mrd Sm3/yr by 2005 (refer to Appendix A2 and Volume 0 for further details). "Christian" delivers 31 kb/d and 4.5 mrd Sm3/yr by 2005.

EP Production Performance 1994 - 2000



Incremental Production from Strategic Options (Unrisked)



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4. 2000 EP BUSINESS PLAN (continued)

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Existing Assets

Oil Production from existing assets declines by 8% p.a. over the Plan period. Recent performance improvements in the BSP-Champion Field (+20% production) underline how existing business is being improved through RtL initiatives. In accordance with historical performance, deferment assumptions in Nigeria have been revised to 40%.

Gas Production from existing assets declines by 5% p.a. over the Plan period with de-regulation of European Gas markets resulting in revised production forecasts over the Plan period.

Production delivery of projects recently onstream has been disappointing. Subsurface, well completion, and commissioning problems have been identified as root causes. The VAR process, Capital Allocation and tighter linkage to scorecard deliverables are ensuring greater confidence of future delivery in line with current plans.

Major projects coming on stream in 2001 will contribute ca. 70 kboe/d of new production. Of post-FID projects yet to come onstream during the Plan period, five dominate -AOSP, Soroosh/Nowrooz, Brutus, Bonga, EA and delivery on these key projects is critical for the delivery of the Plan.

Short-term Oil

In response to current high oil prices, additional incremental production projects are planned, predominantly in the USA and UK. These short-term oil projects will deliver 85 kb/d in 2001.

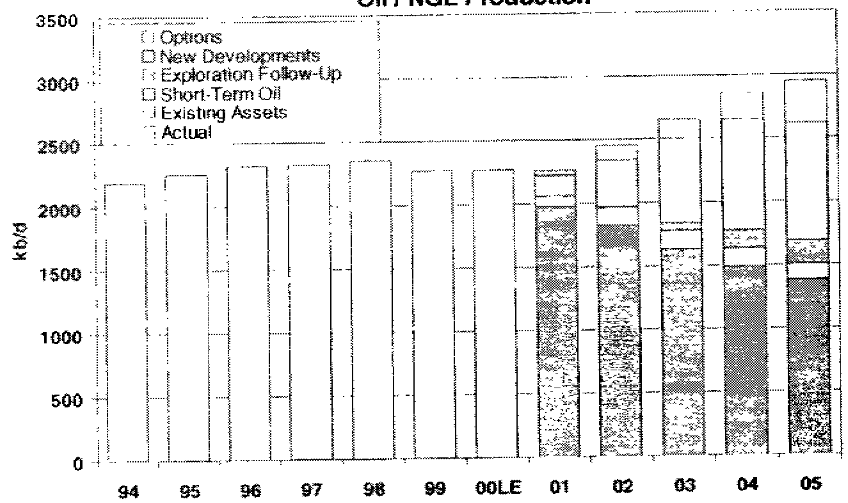
New Development Projects

Major new oil developments will be undertaken in Denmark (Halfdan), USA (Nakika, Holstein) and Nigeria (Ehra). Each of these individually peak at over 40 kb/d in the plan period. New gas developments in Denmark, Nigeria-SPDC, Brunei, and Australia contribute to the planned growth in gas production.

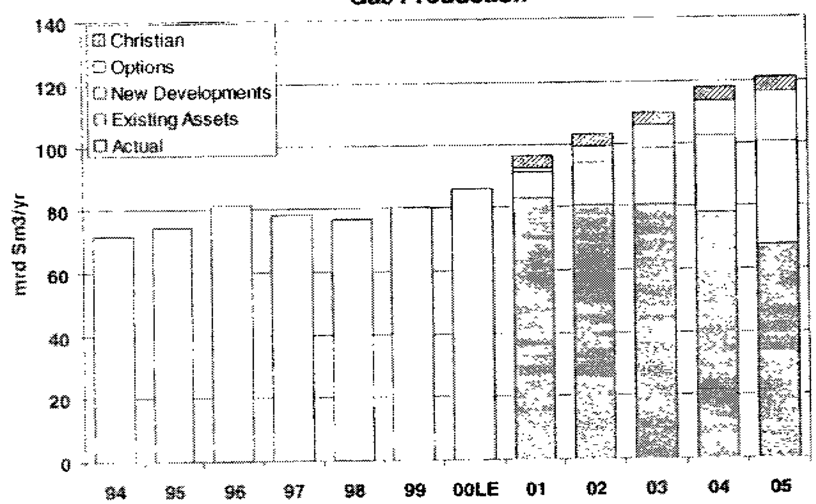
E&A Follow-up

20% of incremental oil production at the end of the Plan period is delivered by E&A follow up activity primarily from 2003 onwards.

Oil / NGL Production



Gas Production



4. 2000 EP BUSINESS PLAN (continued)

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4.3 HYDROCARBON RESOURCES

In recent years Shell EP has achieved a proved **Reserves Replacement Ratio** (RRR) in excess of 100%. Our success is based on significant field revisions, and in the inclusion of non-conventional hydrocarbons.

The latest estimate of RRR for 2000 is 28% due to the effect of divestments (69% excluding divestments). The target RRR for the Plan in 2001 is 79% excluding A&D. Including A&D increases RRR to 198% with **Saudi Gas** representing the main component within the Strategic Options.

Average RRR over the Plan period for the Foundation Plan is 93%. Inclusion of Strategic Options raises the **average RRR to 122%.**

Total Proved Reserves addition over the Plan period will be 10.0 bln boe, of which "Christian" contributes 0.3 bln boe.

In contrast to BP'99 which included significant Proved Reserves additions from SPDC, BP'00 assumes zero additions. Significant production growth is required before current Proved Reserves can be produced within the licence period. Without this constraint EP would achieve 100% Reserves Replacement from the Foundation Plan alone.

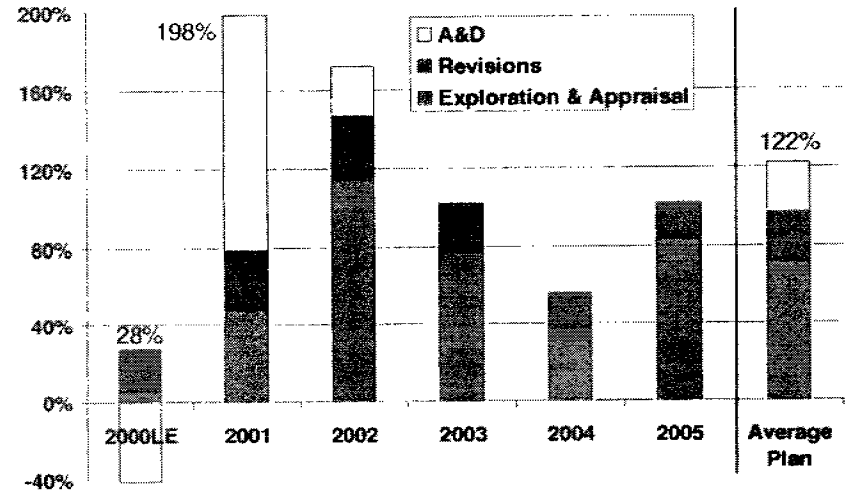
Key contributions to Proved Reserves from the Foundation Plan in the Plan period are expected from:

- Sakhalin: gas reserves in 2002 pending market maturation
- Kazakhstan-Kashagan: First booking of reserves expected 2002. Technical and commercial maturity of the huge discovery has yet to be demonstrated.
- USA: Exploration for large volume new plays will, if successful, provide a significant contribution.

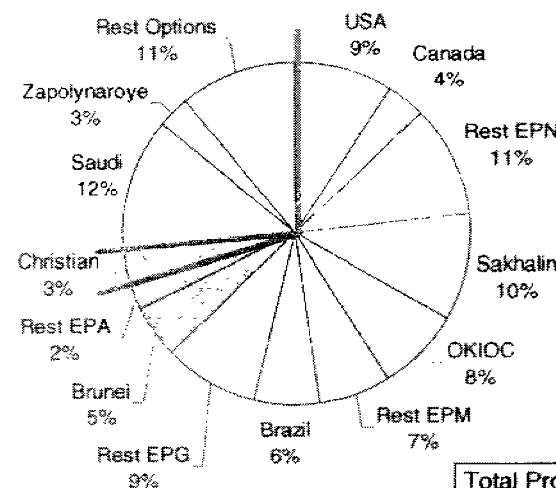
Critical success factors and key issues are:

- Exploration: a number of potentially material new plays will be investigated through the Plan period (Brazil, Angola, Azerbaijan, Kazakhstan, Eastern Gulf of Mexico). An objective of Global Exploration is to deliver Proved Reserves at a finding cost of < $1.5/boe.
- Maturation: Emphasis on the maturation of SFR to Reserves has been increased through the Volume-to-Value and "Realising the Limit" initiatives.
- Field Revisions: Shell EP traditional strengths in field development will be exploited to maximise Reserves additions.

Proved Reserves Replacement Ratio 2001-2005



Proved Reserves Additions 2001-2005



Total Proved Reserves Additions 10.0 bln boe

4. 2000 EP BUSINESS PLAN (continued)

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4.4 PORTFOLIO MANAGEMENT

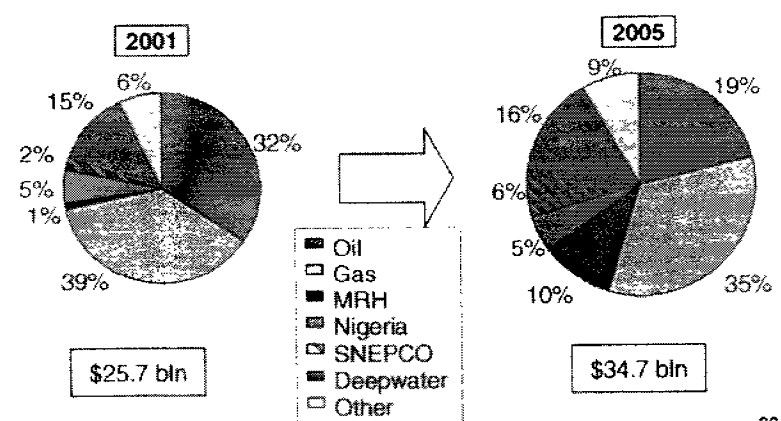
Detailed analysis of the EP portfolio is reported in an update to Volume 1 of the Business Plan and is summarised here.

Within the EP portfolio, the focus themes of Nigeria, Deepwater and MRH all grow over the Plan period. With the inclusion of significant oil opportunities in the EP Plan, **Gas reduces in proportion** in terms of Average Capital Employed. The desire to increase the proportion of gas in the portfolio remains and EP will be vigilant in identifying profitable gas opportunities.

Analysis of ROACE performance in 2001 by theme illustrates the requirement to maintain a balanced portfolio. With the contribution of Nigeria and MRH increasing over the Plan period, these themes provide **increasing robustness against low oil price**. Deepwater performance in 2001 is suppressed due to significant investments in Brazil, Angola and SNEPCO. By 2005, both Erha and Bonga will be on production and deepwater ROACE improves accordingly (18% at $14/bbl).

The absolute level of **Non-Income Generating Capital Employed** increases from $6.3 bln at the end of 2001 to $6.7 bln at the end of 2005. However, this represents a reduction from 23% to 19% of the total Capital Employed due to the planned levels of investment.

Portfolio Composition - Average Capital Employed by Theme

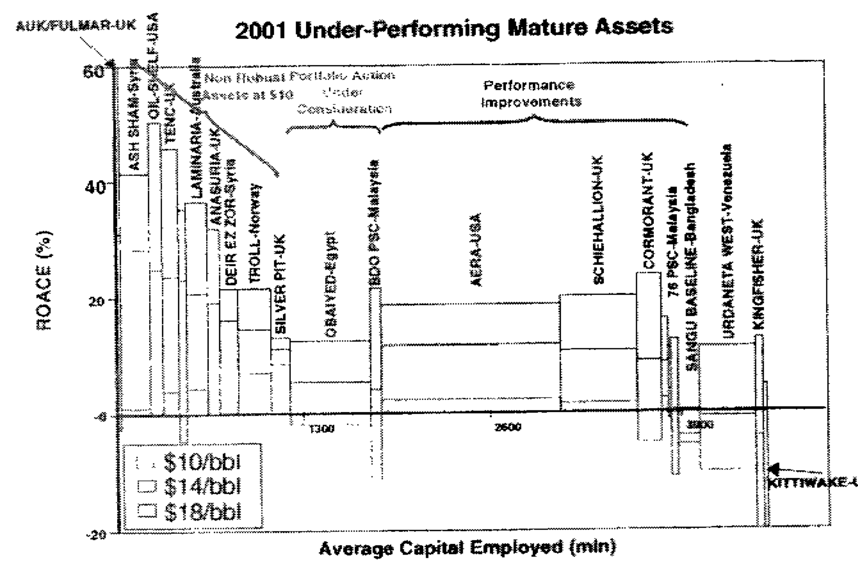


Under-Performing Mature Assets

Some $4.5 bln of average Capital Employed relates to assets which are classified as under-performing (ROACE <15% at $14/bbl and/or ROACE <8% at $10/bbl).

- A significant number of assets classified as under-performing due to their performance at $10/bbl perform well at $14/bbl. Underlying contract terms and costs structures have been extensively reviewed for these assets, and optimised wherever possible.
- Whilst portfolio actions are under consideration for some of the remaining under-performing assets, the majority will be subject to performance improvement measures, including application of the principles of "Realising the Limit"

2001 Under-Performing Mature Assets



4. 2000 EP BUSINESS PLAN (continued)

The following portfolio actions will be completed in 2000:

- USA — Divestment of Altura and CO2
- UK — Divestment of Foinaven
- UK — Divestment of Elgin/Franklin
- Canada — Divestment of Plains
- Australia — Divestment of Barrow/Thevenard and Bass Strait
- Kazakhstan — Divestment of Temir
- Philippines — Farmout of additional 10% equity in Malampaya
- Egypt — Farmout of 25% equity in Nemed
- Sakhalin — Acquisition of 37.5% equity in Piltun-Lunskoye and Molikpaq

The Foundation Plan assumes the following portfolio actions:

- UK — Divestment of selected assets
- Iran — Farmout of 40% equity in Soroosh/Nowrooz
- Sakhalin — Farmout of 22.5% equity in Sakhalin
- Gabon — Dilution of part of shareholding

In addition, ongoing exploration exits from Poland, Ireland and Indonesia will completed and further exits from Cote d'Ivoire, Congo and Zaire effected.

Viner ?
Bangla ?

4. 2000 EP BUSINESS PLAN (continued)

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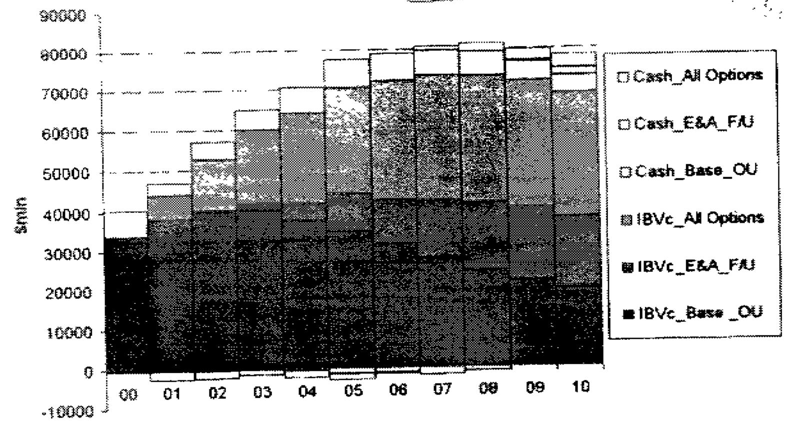
4.5 VALUE BASED MANAGEMENT

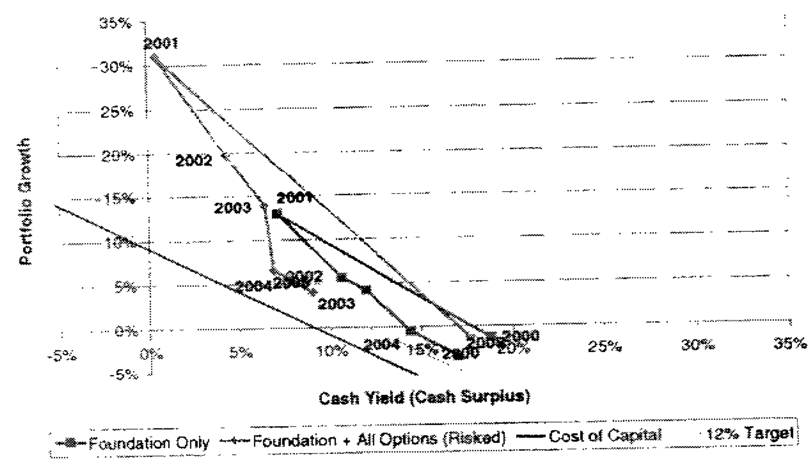
Intrinsic Business Value and Intrinsic Business Return - Committed

- In EP the (ungeared) **Intrinsic Business Value (IBVc)** at year-end is based on the IBV of existing assets and committed (post-FID) projects. This enables us to project the growth in portfolio value (**Portfolio Growth**) based on additional commitments made each year as per Business Plan. The chart opposite shows this for a 10 year period reflecting the value contribution of our Strategic Options.
- IBVc at 1.1.2001 amounts to some $33.7bln of which $16.6 bln relates to our producing assets and the remainder to post-FID projects. This represents a slight decline in IBVc over 2000 of some -$0.4 bln (-1.3%) compared to the previous plan, essentially due to slippage in FIDs and production.
- In line with the decline in production from existing assets, their IBVc declines to some $8.4 bln by the end of the Plan period.
- Through the addition of new development projects and E&A follow-up the IBVc of the Foundation Plan is maintained at around $40 bln throughout the Plan period. Future growth relies on the successful securing and execution of our Strategic Options.
- Inclusion of Strategic Options delivers a growth in IBVc over the plan period of some 16% per annum and brings IBVc to some $70 bln by the end of the Plan period and is maintained at that value within the 10-year horizon.
- The Strategic Options represent a total (risked) value of some $9.8 bln as at 1.1.2001, i.e. an additional 29% to the IBVc of the Foundation Plan.
- **Cash yield** - Cash Surplus as a percentage of IBV at the beginning of the year - is reduced by the increased investment requirements, but still averages some 5% over the Plan period. High Cash Yield derived from high oil prices in 2000 is available for reinvestment in the Business and fuels high Portfolio Growth in 2001.
- **Intrinsic Business Return (IBRc)**, the sum of cash yield and portfolio growth, therefore averages some 21%.

Intrinsic Business Value - committed
Foundation + All Options (Risked)



Intrinsic Business Return - committed
Foundation and Foundation + All Options (Risked)



4. 2000 EP BUSINESS PLAN (continued)

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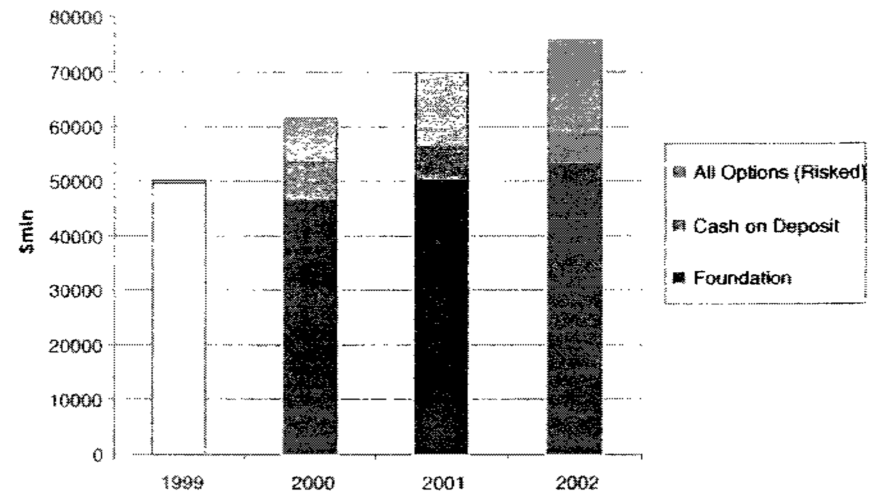
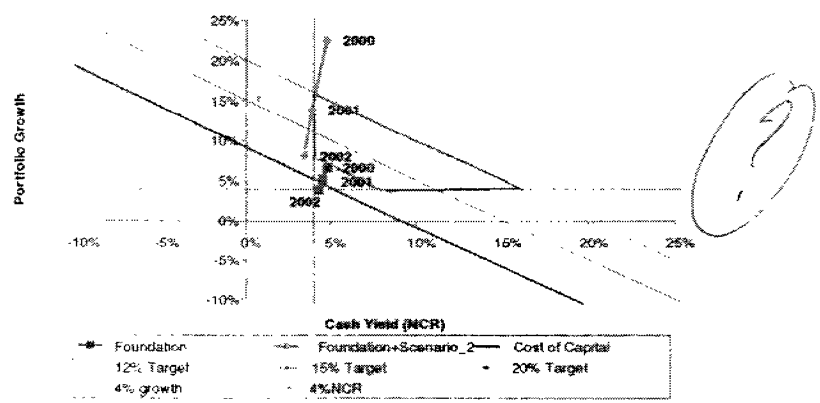
Total Shareholder Value and Shareholder Return

- **Total IBV** of EP is measured on the basis of:
  - existing business and of projects for which FID has been taken (IBVc)
  - new projects planned to be committed during the first two Plan years
  - the value of pre-FID investments, taken as a fixed proportion (20%) of that committed value in view of its inherent greater uncertainty; this represents a conservative average value of pre-FID investment
  - any surplus cash on deposit in OUs and in the Net Cash Return (NCR) Bank (surplus NCR held by Group on behalf of EP).
- **Intrinsic Shareholder Value (ISV)** is Total IBV minus Interest Bearing Debt (IBD).
- The above method for determining the total value of the Plan ensures consistency of value measure between Businesses. The chart opposite shows the ISV of EP for the the period 1999 - 2002.
- Total IBV at 1.1.2001 amounts to $57.0 bln of which some $42.4 bln relates to existing business and projects committed up to end 2002 and $7.6 bln to pre-FID projects. The remainder is cash on deposit ($7.0 bln). With $ 3.5bln interest-bearing debt, the ISV at 1.1.2001 is $53.5 bln. This represents a growth in ISV over 2000 of some $3.3bln (6.6%) compared to the previous plan.
- Through the addition of new development projects and E&A follow-up the ISV of the Foundation Plan is maintained at some $57 bln over 2000 - 2002. Future growth relies on the successful securing and execution of our Strategic Options.
- Inclusion of Strategic Options delivers significant growth in ISV (23% over 2000 due to the positive impact of cash in the NCR bank and averaging some 15% per annum over 2000 - 2002), bringing it to $75.7 bln by end 2002.
- **NCR to Group** is assumed to be maintained at $2.4 bln per annum, resulting in a build-up surplus in the NCR bank that adds to ISV growth.
- **NCR yield** - NCR as percentage of ISV at the beginning of the year - averages some 4% over the first two Plan years.
- **Intrinsic Shareholder Return (ISR)**, the sum of NCR yield and ISV growth is 27% over 2000 and averages some 19% over 2000-2002, sufficient to meet Ground Rules (shadow) targets.

Intrinsic Shareholder Value
(incl. Shell Canada, Cash On Deposit & NCR Bank)



Intrinsic Shareholder Return
Foundation and Foundation + All Options (Risked)



4. 2000 EP BUSINESS PLAN (continued)

4.6 FINANCIAL QUANTIFICATION

EP is committed to delivering financial performance in 2001/2002 in line with **Ground Rules**:

- ROACE at $14/bbl: 15%
  - EP has an additional aspirational target to achieve 10% ROACE at $10/bbl.
- Net Cash to Shareholder: $2.4 bln per annum
- Gearing less than 35%
- Intrinsic Shareholder Return of 10-12% at $14/bbl, comprising 7% Net Cash return and 3-5% growth in IBVc.

Investment Levels

- Exploration expenditure constant at $1.3 bln and Production Capex at $8.0 bln in 2001 and constant at $7.0 bln thereafter.

NIAT and ROACE

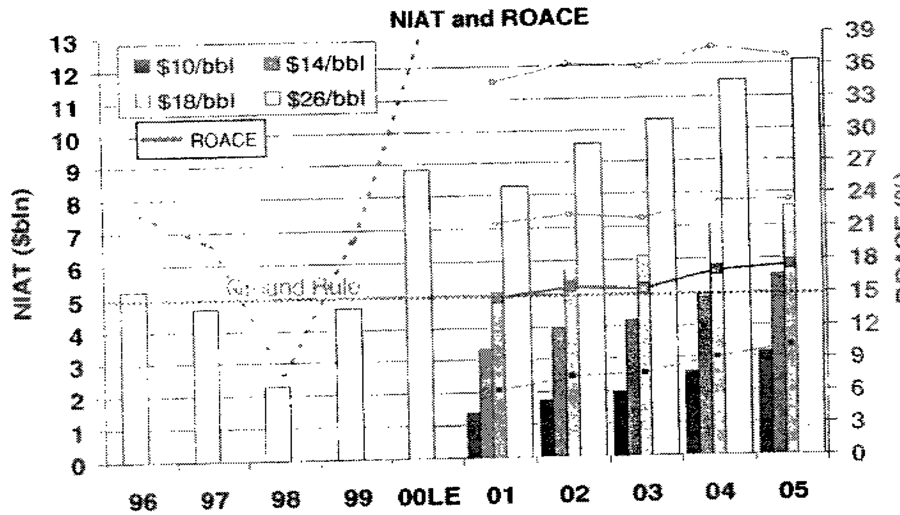
- At $14/bbl, ROACE increases from 14.7% in 2001 to 17.4% in 2005 (excluding Saudi Gas).
- Average Capital Employed increases from $25.7 bln in 2001 to $ 34.7 bln in 2005. An additional $3.9 bln of Capital Employed will be added in the event that the Saudi Gas project proceeds.
- NIAT (before minority interests) at $14/bbl grows from $3.4 bln in 2001 to $5.5 bln in 2005.

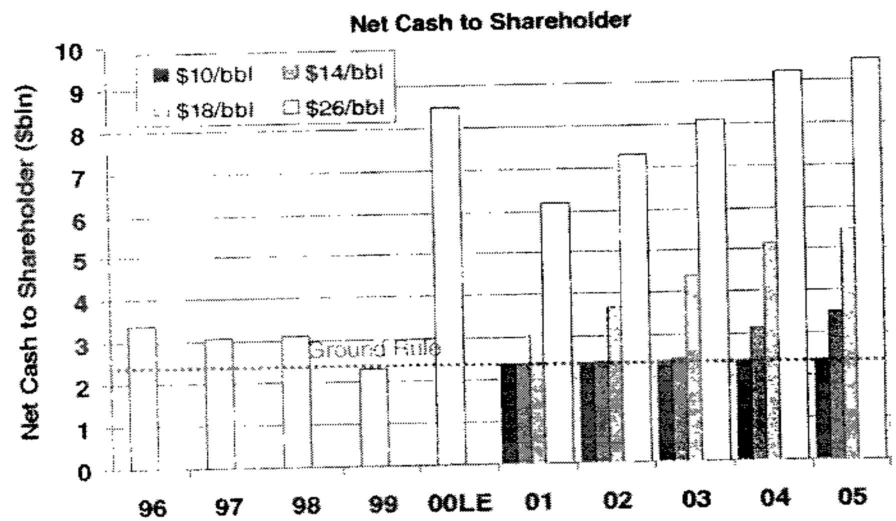
Net Cash to Shareholder

- Net Cash capacity at $14/bbl is $2.4 bln in 2001 and 2002, and increases thereafter.

Gearing is targeted at some 14% in 2001 and 20% for later Plan years.

Net Hand down?





4. 2000 EP BUSINESS PLAN (continued)

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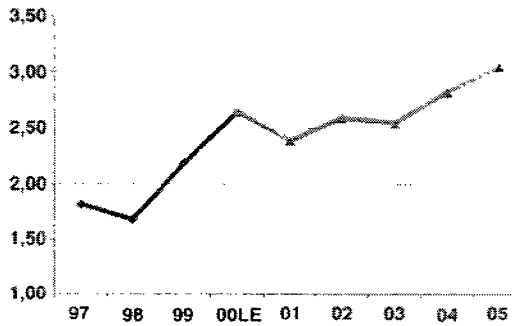
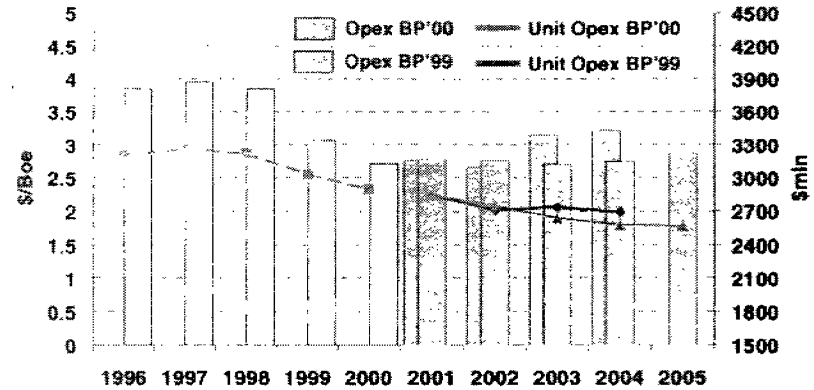
4.7 OPEX AND THE EXTERNAL COST PROMISE

- Unit Opex at $14/bbl continues to decline throughout the Plan period, decreasing from $2.3/boe in 2001 to $1.8/boe in 2004 (including pension fund credits of $0.15-$0.2/boe).
- At $14/bbl, the Unit Margin has increased from $1.8/boe in 1997 to $2.2/boe in 1999, and will further increase from $2.4/boe in 2001 to $3.0/boe in 2005.

Unit Margin, $/boe, (normalised at $14/bbl)



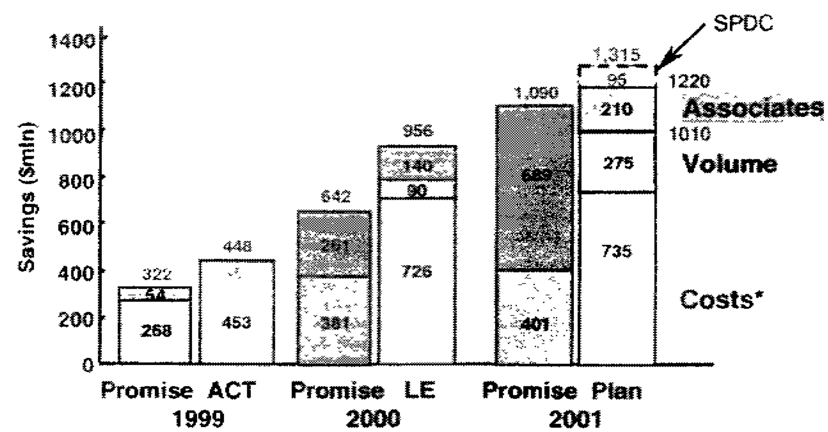
Opex and Unit Opex (Group Accounts)



External Cost Promise

- Performance on costs saving, stimulated through rigorous Strategic Cost Leadership initiatives is encouraging. Savings in 1999 and the 2000LE are well ahead of plan. Absolute cost take-out exceeds the original 1998 estimates.
- The volume component of the Cost Promise is lagging behind as production has remained flat since 1998, although "Christian" will help to break this trend.
- With inclusion of pension fund credits and Associates, the Cost Promise will be met, notwithstanding uncontrollable production effects in SPDC.
- With a planned exploration expenditure of $1.3 bln, exploration expense is projected to be $770mln (excluding Associates). On this basis saving with respect to 1998 projected expenditure is $820 mln and the exploration component of the Cost Promise is consequently met.

External Cost Promise



(*) Plan includes PF credits and "Christian"

5. ROBUSTNESS AGAINST OIL PRICE COLLAPSE

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The 2000 EP Business Plan is based on a premised oil price of $14/bbl. This page describes a possible EP reaction to a sustained period of low oil price, based on an assumed price fall from $26/bbl end-2000 to $10/bbl end 2001, such that the average price over 2001 is $18/bbl, followed by $10/bbl for the remainder of the Plan period.

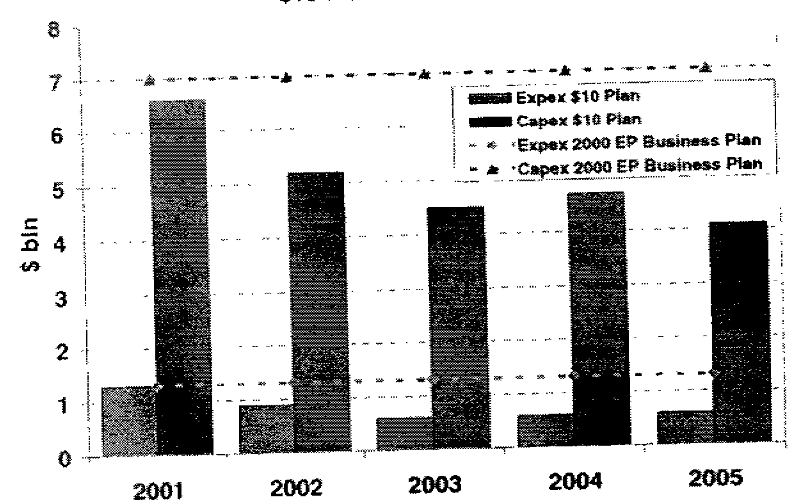
The "$10 Plan" involves the following amendments to the EP Business Plan:

- **Expex**: Reduced to $0.9 bln in 2002 and $0.6 bln per annum thereafter through cancellation of discretionary activities, limited new acreage acquisitions and selected portfolio actions, resulting in reduced exploration expense. Expenditure on brownfield and greenfield maturation studies is also reduced.
- **Production Capex**: Reduced to ca. $4.8 bln per annum through deferment of major new developments, and cancellation of low-ranking activities in existing assets. Development of Sakhalin and Kashagan - OKIOC would be deferred beyond the Plan period. Expenditure on existing assets and post-FID projects will be maintained to ensure maintenance of production at current levels. By the time oil price is modelled to reach $10/bbl at end-2001, FID's will have been taken and commitments will have been made on Saudi Gas, Bangestan, Felix, Angola Block 18, Salym, and Libya, in addition to OU Options. A sudden downturn in oil prices would trigger a deferment of the further options.
- **Production**: Reduction of Production Capex is expected to result in flat production through the Plan period. A fall in gas prices is assumed to lag the oil price fall by 6 months, resulting in benefits in the UK and USA.
- **Opex**: Renegotiation of third-party contracts and other savings initiatives expected to deliver a reduction in Unit Opex (GA) below $2.0/boe (excluding pension fund credits).
- Renegotiation of licence terms and conditions, and further portfolio actions, may result in further savings, but are not included here.

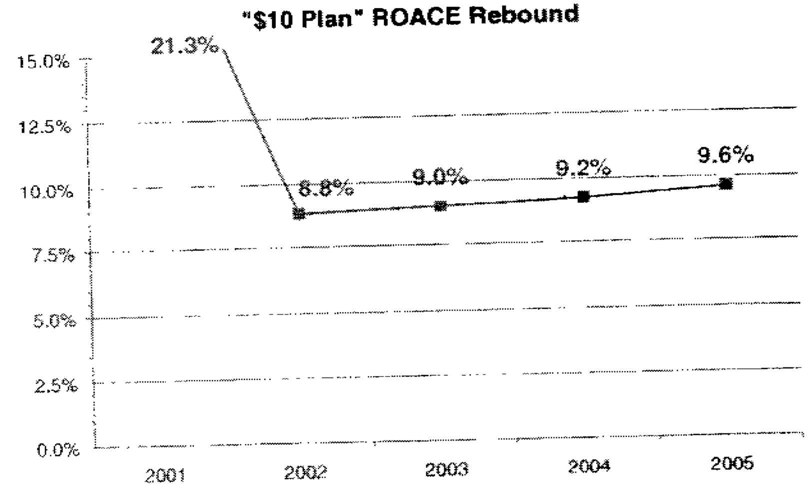
The scenario presented results in the following outcomes at $10/bbl:

- Net Cash to Shareholder targets met through increased gearing
- Gearing levels increase from 19% to 27% but remain below 35% throughout Plan period, with cash still in the NCR bank.
- Average Capital Employed increases to $31.4 bln in 2005
- ROACE falls to 9-10% throughout Plan period
- Proved Reserves Replacement reduced to 55%

"$10 Plan" Investment Levels



"$10 Plan" ROACE Rebound



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6. BUSINESS FOUNDATIONS

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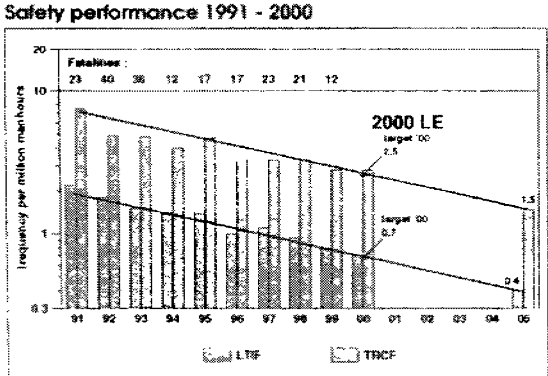
6.1 HSE

Q1, Q2 2000 HSE results (17 fatalities to date, LTIF latest estimate 0.8) indicate the need for continued vigilance and increased focus on HSE. EP must urgently progress to the effective implementation of HSE Management Systems (HSE-MS) essential to lasting improvements in HSE performance. Key elements to drive this are:

- **ISO 14001** (or equivalent) **certification** of the environmental component for major installations to embed the MS at the working level - the majority by end-2000 and the balance completed early 2001.
- A **revised HSE audit methodology** better to assess the effectiveness of the HSE-MS control framework in managing HSE risk;
- A **strengthened assurance process** to provide management confirmation that the MS is applied;
- Structured assessment and development of **HSE competence** in advisers and line staff, introducing, a.o. an HSE skills forum and e-learning;
- Approaches to drive the **improvements in "safety culture"** that are largely recognised as key to achieving a step change in safety performance. A set of tools that seek to reach the "hearts and minds" of the workforce are being developed and tested.
- Introduction of Group wide **minimum expectations for** the management of occupational and strategic **health** risks.
- Continued **external verification of HSE performance** supported by further improved quality and process of HSE data reporting.

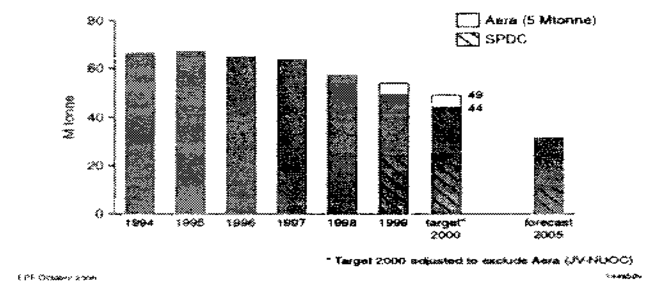
Safety performance 1991 - 2000



Progress towards meeting **Group minimum environmental expectations** will continue:

- **Reducing** the **Global Warming Potential** of EP emissions, initially targeting elimination of routine venting and flaring by 2003 and 2008 respectively - gas utilisation projects to harness flared gas in Nigeria are crucial. Focus on emissions reduction will be increased with introduction of carbon screening values and promotion of further participation in emissions trading (STEPS) and pursuit of Clean Development Mechanism (CDM) projects.

Global warming potential



- **Reducing hydrocarbon spills** is a priority target - improved pipeline and flowline integrity in Oman and Nigeria is key;
- **Remediation of** previously identified high priority **contamination legacies** is complete except for SPDC's Ebubu site (held by community issues), and BSP's Sungei Bera Basin (progressing to 2001 completion).
- Improving the quality, scope and timeliness of **Environmental Impact Assessment** with particular focus on social (including health) aspects, biodiversity and stakeholder engagement. Business processes to ensure the early notification of NGOs in sensitive areas, such as 'eco-regions' with high biodiversity, will be fully implemented.

Work related Stress is recognised as a significant risk throughout the Group. A Stress Management Project in SIEP/SEPI was initiated in 2000 and reports out in Q3. Implementation of resulting action plan and opportunities for roll-out of approach and learning throughout EP are important components of 2001 HSE plans.

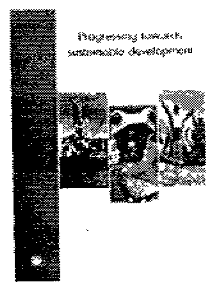
6. BUSINESS FOUNDATIONS (Continued)

6.2 SUSTAINABLE DEVELOPMENT

In line with the EP vision to *achieve and maintain an outstanding reputation for sustainable development*, EP will continue the journey along the path set out in ***"Sustainable Development - The Way Forward for EP"*** issued mid-1999. Over twenty EP companies, from large, established OUs to small NVOs, have developed their own SD strategies and policies which they are implementing within the broad framework of six sustainability principles:

- *Respect and safeguard people*
- *Minimise impact on the environment*
- *Maximise profitability*
- *Engage and work with stakeholders*
- *Use resources efficiently*
- *Maximise benefits to the community*

Promulgation of success stories that illustrate the ways in which individual companies have effectively contributed to SD is crucial to progressing our commitment ever more widely into the Business. Effective communication mechanisms established during 2000 will continue to facilitate sharing of good practice between OUs/NVOs: a monthly *SD Update* is now received by over 100 members of the *EP SD Network;* EP's *SD intranet* is the biggest source of SD information in the Group, providing a central location for knowledge sharing and is regularly one the most downloaded websites; special SD features in internal publications and on Business TV are also helping to raise awareness.



Publications such as the brochure *"Progressing towards SD – Shell E&P's Commitment in Action"* (right) which includes examples from over 20 OUs, serve the increasing demand to show external stakeholders what our SD commitment means in practice.

Embedding SD considerations into every aspect of our Business remains a fundamental goal. In 2000, SD aspects were introduced into the capital allocation process, project evaluation and screening criteria. **2001 activities** to further this aim will focus in three key areas:

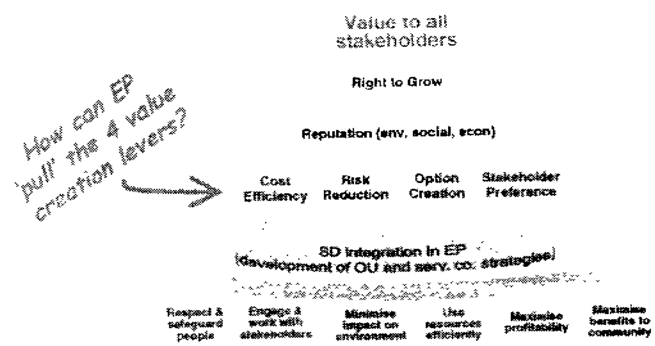
- Ensuring that sustainability principles are **integrated into all key business processes** (both documents and decision making) to enhance ownership in OU/NVO plans.

  Identification of SD issues and opportunities early in the project cycle has been strengthened in the New Business Forum and through application of an early notification system for biodiversity (see 6.1) These aspects will be incorporated into the new business identification and maturation process during 2001.

- Projecting **SD as a differentiator for companies.**

  There is increasing evidence that companies proactively pursuing SD are achieving favour from ethically-based investors. Pioneering SD approaches such as those demonstrated by projects such as Malampaya (establishing the first SD professorial chair, maximising local employment opportunities) and Athabasca (assessing greenhouse gases over the lifecycle) are good examples of where SD can add business value. EP is actively seeking ways systematically to leverage the Group's commitment, both to enhance existing practices and to seek out new sources of value creation.

  A practical approach to stimulate innovative thinking and identify SD business opportunities is being tested in PDO, STEP and SCAN with a view to providing, early in 2001, a structured framework, supported by case studies, that can be applied at both EP Business and, in particular, OU and NVO level.



- Measuring progress through **Key Performance Indicators** (KPIs).

  These are being developed particularly to address the quality of social performance (including social investment), and sustainability integration (a self assessment tool to test the degree of alignment of business processes with sustainability principles). These KPIs will be piloted late 2000 with a view to first reporting in 2001 (scorecard milestone). Although EP focussed, these KPIs will be aligned with Group indicators under parallel development.

6.3 EXTERNAL AFFAIRS (EA)

External Affairs aims to foster a mindset in EP that efficient management of external affairs is as essential to the bottom-line success as technical, operational, financial and HSE management. It is stressed that EA management is too important to be left to EA practitioners only and that it is a Line responsibility.

OUs/NVOs will develop External Affairs plans which should be regularly updated to:

- ensure continued relevance in the face of changing circumstances
- monitor execution
- identify areas of weakness and opportunities for improvement

Stakeholder Engagement is still considered the main focus of EA management. This, however, should be seen in the context of the other areas of EA Management – Issues Identification and Management, External and Internal Communication, Social Investment and Crisis and Business Continuity Management – and EP's Sustainable Development objectives. OUs/NVOs are expected to:

- Identify the full range of stakeholders concerned with a venture, and the specific concerns and aspirations of each in relation to it,
- Take maximum advantage of the Shell Brand in handling relationships and advancing reputation.
- Maximum alignment with its stakeholders.

To complement efforts in the OUs/NVOs, Corporate EA:

- Provides EA management framework and associated tools
- Provides, in close co-operation with SI-PX, insight on global factors that may have local relevance
- Facilitates contacts with NGOs and others potentially interested in specific OU/NVO areas of activity.
- Provides support, including "fire-fighting" assistance in OUs and NVOs where necessary.
- Facilitates sharing of best practices throughout EP.
- Supports development of EA competence, not just for dedicated practitioners, but also for management team members needing understanding of this area.

<u>External Affairs Action Plan:</u>

General

- Achieve recognition of EA management as a key enabler for overall business success
- Review OU/NVO RM plans, monitor their execution and provide support in area of weakness
- Develop measurable targets for execution
- Ensure that EP key messages reflect current Group objectives

Issues Identification and Management

- Include key stakeholder identification
- Enhance regional networking on issues

Stakeholder Engagement

- Assist OUs/NVOs to develop power maps (Issues vs Stakeholders)
- Develop measurable targets

Communication

- Develop a structured and co-ordinated approach to external communication
- Make more effective use of media for internal communication.

Social Investment

- Develop measurable targets
- Provide guidelines on implementation based on current best practice

Crisis and Business Continuity Management

- Increase awareness of revised Crisis Management procedures
- Support Crisis Management competence throughout EP and test with realistic drills

Tools and Competence Enhancement

- Develop an EA Management Framework for OUs and NVOs
- Assist OUs/NVOs to get pragmatic EA organisations resourced and trained.

6. BUSINESS FOUNDATIONS (Continued)

6.4 HUMAN RESOURCES

Human Capital, linked to financial capital and technical achievement, will ensure excellent strategy creation and execution and thus ultimately delivery on our promises in the Business Plan.

HR focuses on 3 key areas:

- the provision of people and skills for the current and future business
- enabling globalisation of the business through global people processes
- building commitment of people throughout the business.

These are supported by a number of key people processes:

- resourcing of the business
- learning & development
- performance & reward
- people engagement
- senior leadership development

Execution of these processes will take place in the context of ever changing external factors and a globalising EP business.

- **Resourcing the Business**
  - Continue the development and steer the implementation of the Global staff pool and it's associated global process to ensure global talents are utilised to their fullest extent.
  - Continue to drive global attraction and recruitment processes and activities to meet both immediate (experienced) and future (graduates) global demands for talent.
  - Implement an integrated plan to address the skills issues identified from Volume 2 returns.
  - Develop and implement a strategic resourcing and organisational design process for new ventures, ensuring optimum use of flexible deployment capability.
- **Learning & Development:**
  - Fully operationalise the Learning Management system following the successful 2000 pilot.
  - Continue to build learning partnerships, and to migrate from traditional learning modes to the EP Global Open University model.
  - Relentlessly pursue the development of a professionally excellent and globally integrated HR community.
- **Performance & Reward:**
  - Continue to drive personal accountability and performance, ensuring global reward systems encourage high performance and help strengthen people commitment.
  - Drive implementation of globally consistent competence-based progression processes, and in doing, fuel the demand for personal development.
- **People Engagement:**
  - Implement the detailed Diversity plan, designed to deliver significant improvements in EP's diversity performance during the Plan period, and founded on the recommendations of the 2000 Diversity Value Creation Project.
  - Continue to build and re-build people commitment in order to ensure the organisational health of the business.
- **Leadership Development:**
  - To ensure the EP business has the leadership capability to capitalise on opportunities, support delivery of the EP strategy and develop future leadership talent, continue the design and delivery of leadership assessment and development programmes for leaders throughout the business.
- HR-IT
  - In pursuit of world-class HR processes, development of an integrated HR information system.

6.5 TECHNOLOGY

Shell Technology EP Global Business Technology Strategy is best encapsulated in the vision that **"The Difference is Technology"** and in our aspiration to be "**Too fast to follow**".

Strategy

- Support Shell to be the first and the fastest up the learning curve in the application of selected technologies.
- Help Shell to be a preferred partner by being recognised in the industry as a primary shaper and mover of EP technology.
- Develop and maintain significant flexibility in approach towards the access to, development and implementation of technology.
- As part of this flexible approach, engage increasingly in commercial activities.

Strategic Goals

- Provide and support differentiating technologies that our customers use as quickly as possible.
- Complement our internal innovation process from ideas, innovation, and technology from the outside world through strategic partnerships, alliances and selective commercialisation of our products.
- Focus technology development on high value adding technologies in response to customer needs and supported by a truly collaborative global approach.
- Adopt and maintain a fit for purpose approach to for deploying and supporting technology and best practice, matching the mode of delivery to suit the capability (e.g. Deepwater Services, **Realising the Limit**) and for the customer (e.g. Iran Technical Service Centre, Syria Study Centre).
- Attract the best people by providing challenging development opportunities in a stimulating environment that promotes innovation.
- Gain and maintain the respect of all stakeholders in order to retain our license to operate.
- Ensure that our technologies contribute to the current and future generations' economic, social and environmental security.

Technology Action Plan

Maintain spend on in-house technology development programme at the 2000 level, i.e. at $130 MM, focussing on: Drill & Produce the Limit ($30.6 Mln), Volumes to Value ($27.7 Mln), #1 Explorer ($15.6 Mln), Capital to Value ($ 7.1 Mln), Deepwater Leadership ($14.9 Mln), New Energy/New Limits ($10.0 Mln), Technology Access ($26.5 Mln)

- STV technology deployment: Active portfolio management to maximise value (Enventure, e2Tech, Well Dynamics); Focused investments (Strategically build & complement portfolio positions); Cycle time reductions (More rapid deployment for new venture technology)
- Deepwater technology deployment plan: Provide best in class evaluation, planning, development and well delivery products and solutions for Shell DW OU's; Leverage SDS capabilities in support of DW portfolio actions; Increase robustness of future DW developments against low oil price threat
- Human Resources: Progress Centres of Excellence to operational phase, and identify further opportunities; Advance acceptance of the Global Staff Pool concept, provide a People & Skills plan, and represent the global resourcing interests of EP; Implement "EP Open University" and e-Learning, Leveraging organisational capabilities by maximising use of global networks and global consultants
- Implement EP-SSI plan with specific focus on implementation of Group desktop and IT infrastructures e.g. GID.
- Expand the value assurance review (VAR) process to include an "Asset Operations" review to extend assurance of best practice implementation in Major Projects.
- Increase leverage of commercially attractive technologies and to enhance Shell commercial focus via Shell Technology Investment Partnership (STIP).
- Accelerate implementation of already available technology programmes to meet OU's and Service Companies demand: Volumes to Value, Producing the Limit, Drilling the Limit, Capital to Value
- Deliver the global strategic technology implementation programme:

Under Balanced Drilling	6 campaigns
Smart Wells Solutions	10 applications
Expandable Tubulars	40 applications
4D Reservoir Imaging	12 surveys

6. BUSINESS FOUNDATIONS (Continued)

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6.6 eBUSINESS

The Group eBusiness strategy was formulated during Q1 2000. The cross-sector plan was coordinated by Shell Internet Works with the Business sectors formulating their own eStrategies.

A Value Creation Team was set up within EP in July, due to report out in October. The VCT received input from Group scenarios, external companies, other Shell Businesses, the eBusiness Council, Shell Internet Works and competitor analysis. The team developed EP strategic themes together with a framework to illustrate the range of themes and a database containing project ideas, catalogued by theme. The team has now reached a point where a decision needs to be made on strategic posture.

The methodology adopted for this is "Strategy under uncertainty" from McKinsey. EP will have to decide whether it wants to be a shaper, adapter or simply reserves the right to play. The choice can be made on an overall level or at theme level, as deemed appropriate.

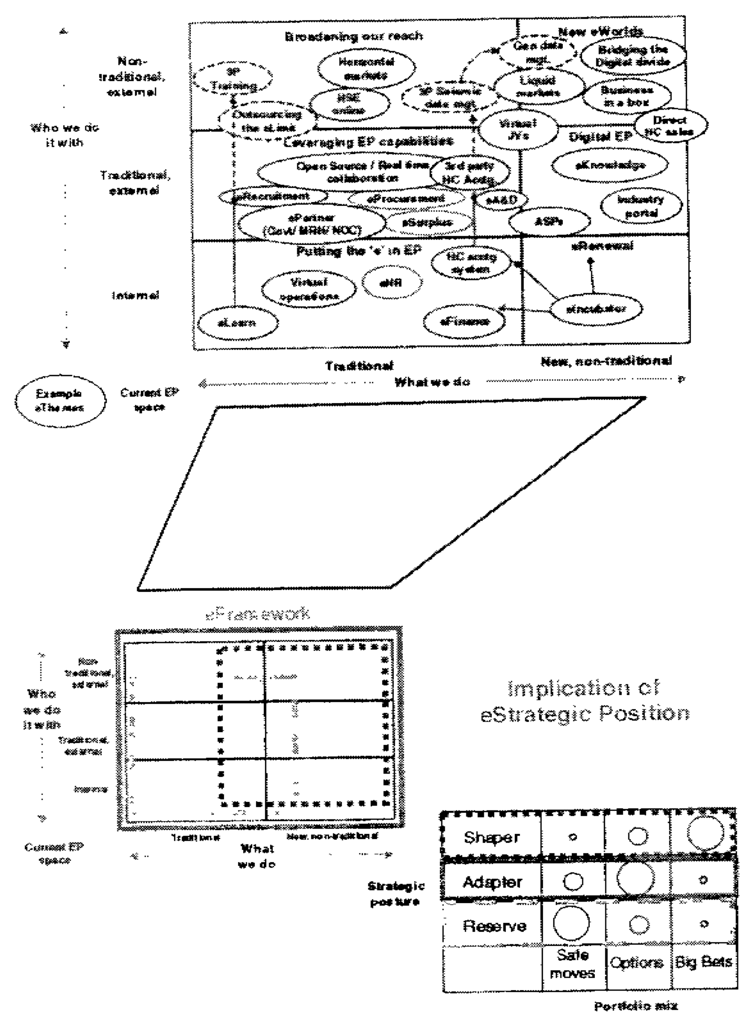
Following the initial choice, individual projects can be selected based on an appropriate portfolio mix. EP ExCom will be requested to provide steerage at the 27 October close-out. The VCT will have following deliverables:

- Options and recommendations on priorities
- Process to replenish the eStrategy
- Process and supporting organisation
- Recommendations on rules, people and skills, communication,
- Measurement and technology requirements to support eBusiness
- Migration path and plan to complement the recommendations

eBusiness Action Plan

The plan will be finalised after ExCom steer on the preferred strategic posture, but the programme is likely to include specific and focused eBusiness projects selected from a matrix of opportunities and reflecting the preferred strategic posture

eFramework - Illustrative themes



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7. KEY BUSINESS PROCESSES

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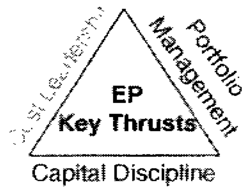


Background

- Strategic Cost Leadership (SCL) was initiated in 1998 as a prerequisite in our drive for operational excellence and our aspiration to be universally recognised as the partner of first choice.
- In an increasingly competitive business environment, SCL remains absolutely vital, despite the current period of high oil prices.

Following delivery of the Cost Promise, EP must outperform the competition in terms of UFC, UDC and UOC and ultimately provide "best value" in the industry, expressed in explicit targets for ROACE and TSR. Success will ultimately depend on the ability to continuously identify value enhancement opportunities in each part of the value chain (explore, develop, produce).

- Thus far, the SCL thrust has focused on asset performance, facilitated by Capital Allocation and Portfolio Management. Procurement and Realising the Limit initiatives are other key enablers.
- In order to build and sustain a Business at the Limit culture, fast, cheap, and effective learning will become a core competence and structures must be created to encourage this learning. This requires both strong asset management and strong process management.
- Last, benchmarking must be extended to cover all major spend processes.

Realising the Limit

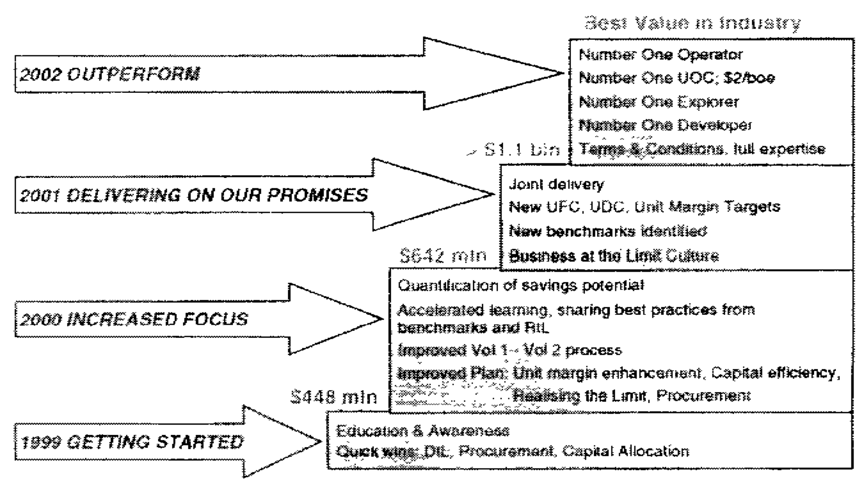
Through 2001, the RtL teams will continue to consolidate and evolve the tools and techniques employed in the business, as well as becoming the executive arms of their Fora in delivering benchmarking, global procurement and skills.

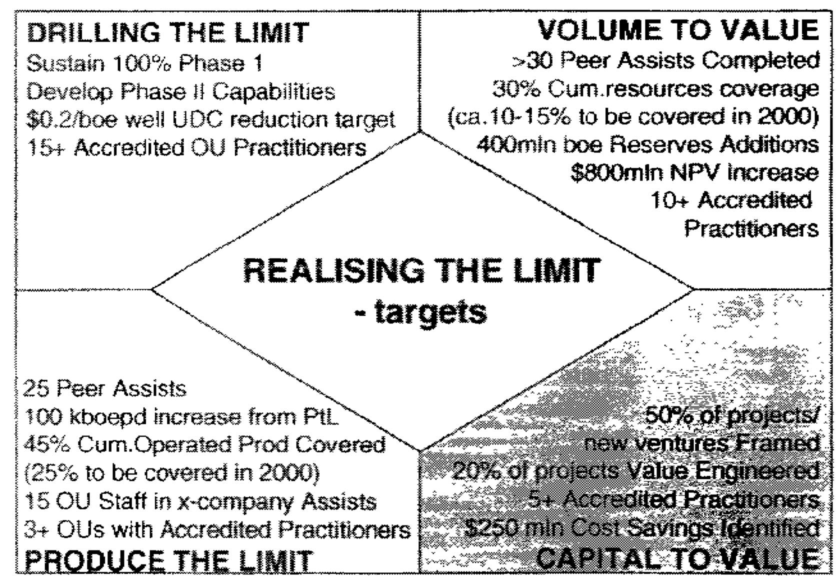
The three main thrusts will be:

- **extending coverage and penetration**: maintaining the momentum built up in '00, primarily through the peer assist and consultancy approach.
- **developing capability**: the implementation and enhancement of best practice business processes through the accreditation of RtL practitioners in OUs.
- **promoting global ownership**: ensuring OU/NVO steer is provided to RtL development and application through the respective Global Fora.

Improved communication of learnings, best practices and benefits will be made through increased use of the web and other media.

SCL - Step by Step





7. KEY BUSINESS PROCESSES (Continued)

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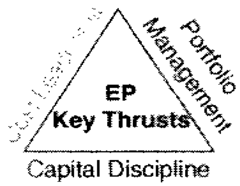


Benchmarking

- Benchmarking has become an integral part of EP business management; Capex benchmarking has been identified as a priority area and will be mandatory at VAR 4 as of mid 2001.
- To facilitate an enhanced and faster exchange of benchmark data and best practices Benchmark Online will be created. A working version is operational and will be evaluated mid 2001 for further functionality.

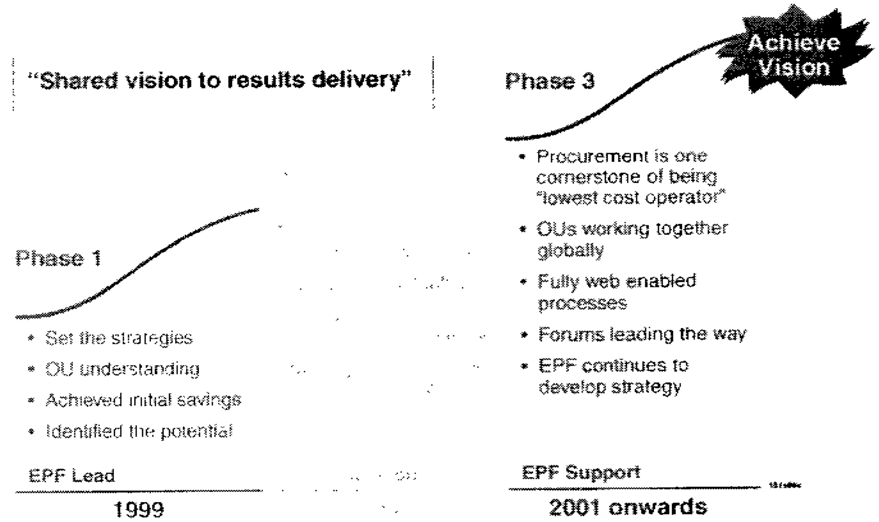
Procurement

Vision: "Create the leading procurement capability in the energy industry by which others benchmark".

- A total saving of $500mln (Capex and Opex) will be achieved in 2000. The target for 2001 is to increase this saving to $700 mln.

The Procurement Strategic Framework consists of five parts:

- Global Contracting: further implementation of global and regional contracts, and development of new contracts. Forums in Well Engineering, Capital projects, Operations, Geoscience and IT driving the programme.
- Contractor Value: Improvement projects between Shell OUs and major contractors. Targeting efficiency of Shell contractor processes and learning from contractors, particularly in their work with other operators.
- eProcurement: implementation of the eProcurement solution in EP OUs (RequisitionToPay system) and the Trade Ranger Exchange. Online Bidding for procurement of material and services, and for surplus auctions.
- Supply & Stock: Supply Chain Improvements by inter-OU benchmarking. Reduction of stock through reuse, sharing and surplus trading.
- People: Procurement skills for all staff, and skillpool management.



Procurement Action Plan

Procurement Cost Savings	US$ 700 million, vs 1998 costs.
eProcurement in EP	15 OUs live, trading 1.5 billion across Trade Ranger by End 2001
Online Bidding	Used in 15 OUs; 3 bids exceeding US$ 10 million
Global Contracts	Usage 50% of EP Spend
Contractor Value	15 global contractors engaged
Supply Chain analysis	eSupply in place, 10 major supply chains analysed
Stock trading	eSurplus used by 12 OUs
Stock level reduction	Aspiration: 50% reduced from 1999
People	Competence Framework and Skillpool management in place; Learning framework in place
External Benchmarking	Self-assessment of OUs, to identify improvement opportunities

7. KEY BUSINESS PROCESSES (Continued)

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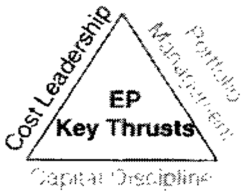
7.2 CAPITAL ALLOCATION & PORTFOLIO MANAGEMENT



The principle of strict capital discipline through ***internal competition*** for allocation of funding, even in times of high oil price, continues to high grade EP's portfolio of activities. Projects submitted for Capital Allocation are mapped to the Strategic Imperative Framework (shown opposite).

Capital Allocation allows planning ***flexibility***. The plan can be refocused in a low oil price case, or (in the case of the 2000 Plan) tailored to accommodate short term oil options to take benefit of current high oil price.

- The linkage of Economic and Financial planning data in the process has had the benefit that OU Planners/Financial staff are working more closely to create their OU plans. Greater transparency enables challenge and tracking of the projects key performance metrics and ties well with other control processes such as VARs.
- Delivery against promises made to secure funding are tracked at a project level and form the basis of OU scorecard metrics.
- The maintenance of a global database of an "ever-green" portfolio of projects will provide continued benchmark incentives to those seeking funding.
- The extensive use of IT tools has enabled project by project "lookbacks". With continued use it will be possible to track the entire project lifetime, plan and actual.

In 2000 Capital Allocation received raw data submissions of over 1000 projects requiring Capex of $7.0 Bln and Expex of $1.9 Bln. The Capital Allocation process, facilitated by intra-OU challenge during workshops, has resulted in a high-graded Foundation Plan programme of $6 Bln for Capex (including $0.5 Bln for short term oil projects) and $1.0 Bln for Expex.

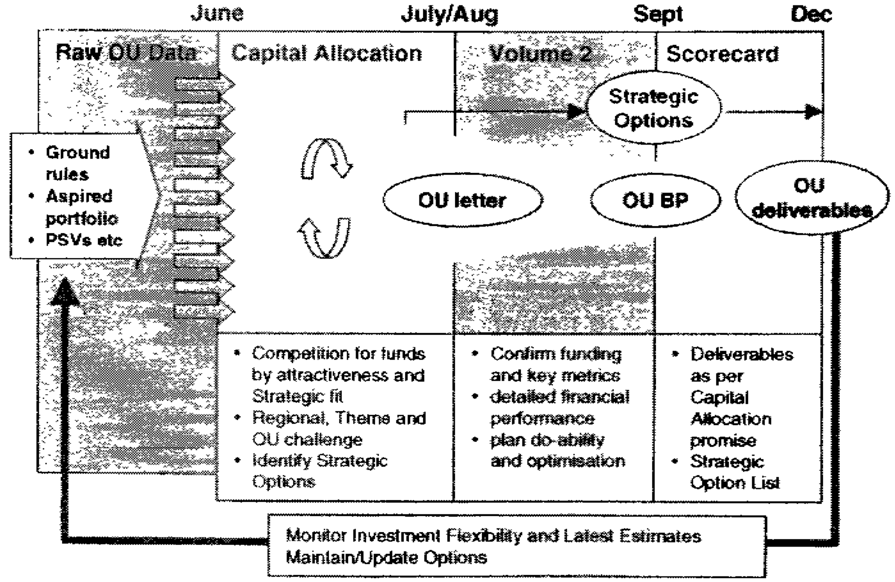
In summary, global Capital Allocation continues to ensure that

- Ground Rules are met,
- The optimum EP programme is carried out,
- Investments are targeted to Shells aspired portfolio
- There is flexibility to react to external changes, and
- Tools are in place to track performance against promise

Strategic Imperative Framework

	Low	Medium	High
Gas	Gas outside GP strategy	Aligned with GP credible market	Aligned with GP monetise in 3yrs
Deepwater	Oil not in GOM Niger basin, Angola, Congo & Brazil	Oil in GOM Niger basin,Angola, Congo & Brazil	
MRH			Low cost Oil countries with >25 Bln bbls reserves
Oil	New oil outside MRH counties	Existing OU oil	Projects with sustainable dev. e.g. flares out
Nigeria		Existing OU oil SNEPCO Niger basin	

Capital Allocation Process



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7. KEY BUSINESS PROCESSES (Continued)

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7.3 AUDIT & REVIEW

- SIEP provides external audit and review services to OU's under the Service Agreements. Co-ordination of these services is undertaken by a group in SIEP (EPT-AV) on behalf of the Service Companies (EP 00-2021 Audit & Review Services Guide). These audits and reviews contribute to the "Group Risk and Internal Control Policy" the Chief Executive of an OU is expected set-up, operate and maintain.
- On average 440 audits and reviews are planned into the system for SIEP (including SEPI and Group Audit) each year. These figures exclude the Realising the Limit (RtL) peer assists. Distribution of the audits and reviews is 11% HSE, 40% VAR's, 40% technical and 9% others including process and operations reviews. Two key areas are HSE Audits and Value Assurance Reviews.
- On average circa 40% of the initially planned reviews do not take place however a similar unplanned ones are added each year. This requires a flexible response and capability from the Service Companies.

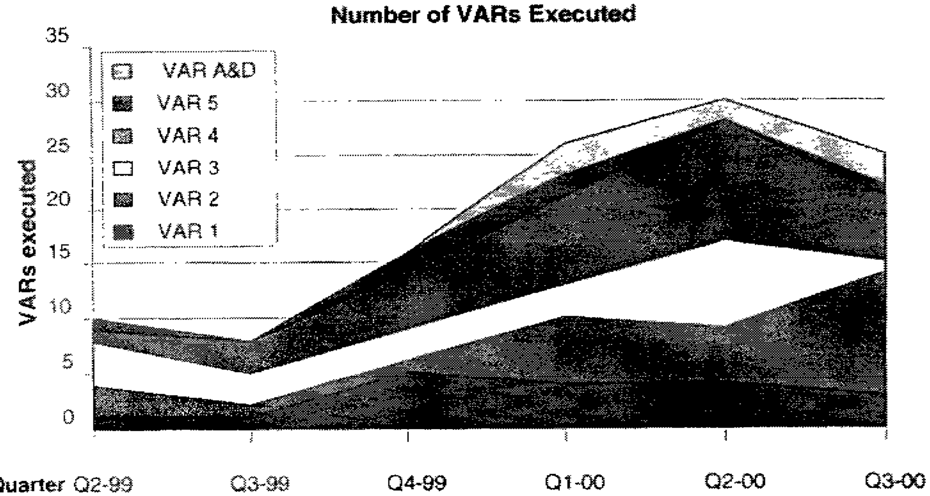
HSE Audits

- Independent HSE audits and reviews are designed to assess the effectiveness of the HSE control framework, either in its Independent HSE audits and reviews are designed to assess the effectiveness entirety (HSE MS) or in relation to some specific aspect (environmental or occupational health management) or activity (project pre-start-up, seismic or drilling), and to make recommendations for improvement. The EP Excom currently requires that OU HSE-MSs are subject to audit at least every 5 years – likely to become every 3 years with Group audit guideline revisions planned for Q4 2000.
- Typically, the annual HSE audit and review programme will involve up to 40 audits/reviews, some 80% of which will have been requested in the previous autumn via the Business Planning process, while the remainder will be *ad hoc* requests made during the year. Last minute requests and cancellations exacerbate scheduling and resourcing challenges.
- Consistent with globalisation and cost reduction drives, increasing use of suitable, regional resources, particularly for activity audits, is being encouraged, without undermining the quality and independence of the process.

Value Assurance Reviews

- Value Assurance Reviews (VARs) were introduced in 1999 as mandatory on all projects over US$ 100 million or those of a strategic nature. There are 4 VARs prior to FID (inception, feasibility, concept selection and final investment) and a post investment review (VAR-5). VARs are also carried out on Acquisitions and Divestments.
- In 2000 - 190 externally led VARs have been planned in the system but by mid-year only 51 had been carried out due to Human Resource constraints.
- A major challenge remains in translating the learnings from VARs rapidly throughout global EP.
- Based on the Capital Allocation process 18 major projects will pass FID in 2001 with an additional 18 carried as options. On average 30-35 coded projects are also being dealt with during the year. Thus the planning for VARs in 2001 is planned on a base load of circa 150 reviews.
- A correlation between the Capital Allocation data-base of projects and the planned VARs is carried out by EPB-P and EPT-AV groups to ensure coverage required by the Excom.

Number of VARs Executed



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