

## **Part 2**

1 JOHN RICHARD PAY

2 I was aware of this and felt that  
3 in disclosing figures for Sakhalin, which is a  
4 very large project and therefore the reserves  
5 contribution would be very large, we should be  
6 very clear in specifying the 45 percent minority  
7 interest was included in the figures so as not  
8 to -- so to ensure the correct equity reserves  
9 position was presented to investors.

10 Q. Do you recall the effect of  
11 excluding the Sakhalin interest had on the RRR?

12 A. I would have to remind myself of  
13 the figure.

14 Q. I believe it's reflected in this  
15 document, but you can refresh your recollection.

16 A. 22 percent it says here on page  
17 ending 738.

18 Q. So if that interest were to be  
19 excluded from the RRR it would reduce the RRR by  
20 22 percent; is that correct?

21 A. Yes. And the context in which I'm  
22 mentioning it here is that I was advocating that  
23 that contribution should be made very clear in  
24 our external statements.

25 Q. Where is the Sakhalin project?

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2 A. It's on Sakhalin Island which is  
3 part of the Russian Federation, on the eastern  
4 seaboard of the country.

5 Q. At this time had the project  
6 reached FID?

7 A. I can't recall whether at this  
8 time it had.

9 Q. If we stay on page 10740 for a  
10 moment underneath the graph, that paragraph  
11 talks about the outlook?

12 A. Uh-huh. Yes.

13 Q. It reads, "the outlook is  
14 fundamentally unchanged from the 2002 business  
15 plan with 2004 remaining very weak."

16 Do you recall the basis upon which  
17 you wrote that?

18 A. I mentioned previously that part  
19 of my role was to collect data information from  
20 the operating units on their forecast of when  
21 proved reserves additions would be made, this is  
22 part of the business planning process. What  
23 you're looking at on this page is the colation  
24 of that information from the operating units and  
25 my summarizing of it for the information of

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2 management, so the source of the data is the  
3 business plan submitted by the operating units.

4 Q. If you look at the next sentence  
5 it says, "whilst in principle it appears  
6 possible to achieve 100 percent plus RRR in the  
7 later planned period years, many of the gains  
8 rely on delivery of planned elements that at  
9 this stage were only notionally defined." And  
10 then in the parenthetical, "including a large  
11 contribution from reserves that have yet to be  
12 discovered."

13 What did you mean by plan elements  
14 and in particular the later part of that  
15 sentence that says are only notionally defined?

16 A. In submitting the information on  
17 future proved reserves additions forecasts the  
18 operating units for each project, regardless of  
19 its state of maturity as of the date of  
20 submission of the data, would provide  
21 information on their forward plan for maturing  
22 those volumes for progressing them towards FID.  
23 And as is indicated here, even for exploration  
24 projects, for example, an exploration while  
25 drilling in 2003, as part of that project

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2 information would be provided on the subsequent  
3 project development activity plan that would  
4 following from successful exploration. Bearing  
5 in mind this is only forecast data, the last  
6 part of the paragraph in parenthesis, for  
7 example, includes in later years the operating  
8 units projections of how proved reserves  
9 additions would be made assuming a development  
10 project would follow from exploration activities  
11 conducted in the short-term.

12 Q. If I understand the answer then,  
13 these are projects for which there is no field  
14 development plan in place; is that correct?

15 A. Yes and this information is  
16 reflecting the natural consequence in terms of  
17 proved additions of continuing to work those  
18 projects to define the development plan, submit  
19 and have sanctioned development plan and then  
20 proceed to execute it.

21 Q. Okay. I just want to go back to  
22 the prior page which is 10739. The bottom  
23 bullet point there's a reference to T&OE?

24 A. Yes.

25 Q. What is the T&OE?

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2 A. That's an abbreviation standing  
3 for technical and operational excellence.

4 Q. Do you know what the function of  
5 the T&OE was at the time?

6 A. This was an organization that was  
7 introduced in the central office in The Hague  
8 comprising I believe some 20 or so experts in  
9 various aspects of field development and  
10 operations. I was not involved -- I was not a  
11 part of that organization. However, my  
12 understanding of the purpose of this  
13 organization as I perceived it was to ensure  
14 that oil field operational practices around the  
15 group were harmonized and that best practices,  
16 to provide a conduit, this central community  
17 would provide a conduit for good practices,  
18 practices that had been found to benefit one  
19 operations in one company would easily  
20 disseminated to the rest of the group companies  
21 so that all might benefit from it.

22 Q. Do you know who the head of the  
23 T&OE was at this time?

24 A. No, I don't know who was the head  
25 of T&OE at that time.

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2 Q. Does the name John Bell refresh  
3 your recollection as the head of the T&OE?

4 A. I didn't know that he was -- if  
5 you're telling me that he was, I'm not sure I  
6 knew that.

7 Q. Okay. Do you know whose  
8 initiative it was to create the T&OE?

9 A. No.

10 Q. As the group reserves coordinator  
11 did you work with any member of the T&OE?

12 A. Yes. I had part of the portfolio  
13 of activities that the T&OE group were involved  
14 with was excellence in field development  
15 planning and I worked with Ian Percival who was  
16 in charge -- I believe was in charge of that  
17 particular part of the T&OE organization, I  
18 can't remember his full name but Min Cheong,  
19 M-I-N, C-H-E-O-N-G, who was also working in that  
20 section of T&OE.

21 Q. Your working relationship with  
22 Mr. Percival and Cheong, was that in connection  
23 with the business planning part of your job?

24 A. The nature of my interaction with  
25 those people and with T&OE was to again provide

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2 data to assist them in their role on the  
3 projected performance of the business, not only  
4 in terms of proved reserves additions, but  
5 actually primarily in terms of maturing scope  
6 for recoveries through the various less mature  
7 categories. Their area of focus was primarily  
8 on the less mature elements of our hydrocarbon  
9 volume portfolio and understanding ways in which  
10 our performance in maturing those volumes could  
11 be improved through the application of best  
12 practice procedures.

13 Q. Did you know where Mr. Percival  
14 had worked within Shell prior to the T&OE?

15 A. He was my development manager when  
16 I was working in Brunei. I know that he was  
17 involved in the exploration department at the  
18 same time I with use working in The Hague  
19 earlier in the early '90s. Beyond that, I don't  
20 know his full career history.

21 Q. Have you ever heard of an  
22 organization by the name of SEPTAR?

23 A. I didn't know he worked for  
24 SEPTAR.

25 Q. Have you ever heard of the service



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2 organization SEPTAR?

3 A. I've heard it only by name.

4 Q. Okay. Did you ever work with  
5 anyone affiliated with SEPTAR, again, during  
6 your tenure?

7 MR. TUTTLE: Affiliated while you  
8 were working with them, not asking you to guess  
9 whether someone had worked.

10 MR. HABER: Right.

11 THE WITNESS: What do you mean by  
12 affiliated with?

13 BY MR. HABER:

14 Q. Who was working for SEPTAR?

15 A. And if by working with you mean  
16 conducting specific pieces of work, studies,  
17 analyses, no, I don't recall.

18 Q. Okay.

19 A. Working in-depth with anyone from  
20 SEPTAR.

21 Q. Okay. If you can turn the page,  
22 still on Exhibit 6, page 10743.

23 A. Uh-huh.

24 Q. And also take a look at the next  
25 two pages, 44 and 45. Appendix C appears to be

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2 the exposure catalog that we've been talking  
3 about; is that correct?

4 A. No. I think its correct name is  
5 potential reserve exposure catalog.

6 Q. This is the catalog we've been  
7 talking about; correct?

8 A. Correct.

9 Q. Now, do you know if this updated  
10 catalog was sent to the ExCom?

11 A. At this time, no, I don't.

12 Q. Do you know if Mr. Van der Vijver  
13 had received this updated catalog?

14 A. Evidently he had since he signed a  
15 cover letter in which it was contained.

16 Q. Okay. At or about this time being  
17 July of 2003 do you recall having any  
18 discussions with Mr. Van der Vijver about the  
19 items on the catalog?

20 A. No. I've already answered a  
21 previous question. I don't recall any specific  
22 discussion around the content of this note.

23 Q. If you could just now look at 743.  
24 The second sentence under the title Potential  
25 Reserves Exposure Catalog.

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2 A. Uh-huh.

3 Q. Reads, "of the groups  
4 19350 million BOE proved reserves some  
5 1040 million (5 percent) is currently considered  
6 to be potentially at risk."

7 By potentially at risk, what did  
8 you mean?

9 A. This catalog was prepared, I think  
10 as we've discussed previously, it originated  
11 from the conversation that I had with Mr. Roosch  
12 when I took over the job and by potentially at  
13 risk, primarily we mean or I intended to mean  
14 reserves that are on the books that did not  
15 necessarily fully comply with the internal  
16 guidelines that we had as of that date. We  
17 spent some time discussing this yesterday. Such  
18 that by when judged against the existing  
19 guidelines, bearing in mind the guidelines had  
20 changed over time, the reserves bookings here  
21 would not necessarily have been in compliance.  
22 Therefore, at risk primarily means at risk in  
23 relation to our own internal reserves reporting  
24 guidelines.

25 Q. And the consequence of this risk

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2 would be a potential debooking; is that correct?

3 MR. TUTTLE: Objection to form.

4 BY MR. HABER:

5 Q. You can answer.

6 A. At risk -- the approach we took  
7 was, which we considered to be reasonable at the  
8 time, was that where there existed a plan for  
9 those reserves to become compliant within a  
10 reasonably short period of time, typically two  
11 reporting years, it was reasonable to maintain  
12 those reserves on the books.

13 BY MR. HABER:

14 Q. And, again, the flip side of that  
15 is that they were subject to possible debooking;  
16 correct?

17 MR. TUTTLE: Objection to form.

18 BY MR. HABER:

19 Q. You can answer.

20 A. The intention was should we --  
21 should there be further, because the SEC was  
22 issuing guidance, March 2001, they were issuing  
23 guidance. At this time they were also seeking  
24 information on proved reserves attribution  
25 practices. There was an environment in which it

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2 was felt that the SEC was continually updating  
3 and if you like, tightening the criteria by  
4 which its reserves should be applied, its rules  
5 should be applied. And if that trend should  
6 continue then, yes, there would be the  
7 possibility that some of these bookings would be  
8 called into question.

9 Q. I guess all I'm trying to find out  
10 is once they're called into question and there's  
11 a determination that there is no plan within a  
12 reasonable time to bring them within compliance,  
13 do those reserves then have to be debooked?

14 A. Yes.

15 Q. Okay.

16 A. And indeed they were, in some  
17 cases.

18 Q. Now, on page 10743, there is a  
19 reference to a divestment of the field KMOC.  
20 What is KMOC?

21 A. KMOC is not a field, it's a  
22 company, an entity that was acquired during 2002  
23 as part of the acquisition Enterprise Oil. This  
24 was a company in which at the time I believe --  
25 well, Enterprise had a shareholding and was

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2 therefore an associate company of Enterprise --  
3 I'm struggling now to remember precisely what  
4 the abbreviation stands for. I believe it's  
5 something for Khanty Minsk Oil Company, it's a  
6 Russian based company.

7 Q. Were you involved in the due  
8 diligence of the Enterprise acquisition?

9 A. No.

10 Q. Were you asked to provide any  
11 analyses of the assets that were being acquired  
12 by Shell?

13 A. Prior to their acquisition?

14 Q. Yes.

15 A. No.

16 Q. And same question with regard to  
17 the work in connection with the acquisition,  
18 that is the period of time when the decision was  
19 made to make the acquisition, again, it would  
20 be -- I guess the best way to describe it would  
21 be the due diligence period?

22 A. Prior to the acquisition, no.

23 Q. Subsequent to the acquisition were  
24 you asked to review the assets?

25 A. No, I was not asked to review the

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2 assets. However, since it was the acquisition  
3 of a company and that company had filed reserves  
4 under form 20F I took it upon myself to visit  
5 the Enterprise office in London to learn more  
6 for myself about the specific aspects of the  
7 reserves that we had acquired.

8 Q. When did you visit the office in  
9 London?

10 A. It was very shortly after I  
11 joined -- took up the position of group reserves  
12 coordinator. I think it was probably in June or  
13 July of 2002.

14 Q. Did anyone accompany you?

15 A. No.

16 Q. Was there a purpose for your  
17 visit?

18 A. To understand the reserves and  
19 hydrocarbon resource volume inventory that we  
20 had acquired.

21 Q. During your visit did you find  
22 that there were -- that there was inventory that  
23 was not compliant with Shell's guidelines?

24 A. Yes.

25 Q. And can you explain that a little

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2 bit further, please.

3 A. I found examples of reserves  
4 having been booked by Enterprise Oil in  
5 circumstances that in answer to the question,  
6 yes, were not in compliance with our own  
7 internal guidelines in several areas.

8 Q. Do you recall any of the assets or  
9 fields that were not compliant with Shell's  
10 guidelines?

11 A. Those that are listed on the  
12 following page, 744. There are two identified  
13 as being Enterprise acquisitions. One is the  
14 Tempa Rossa field in Italy, the other is the  
15 KMOC asset that was the subject of your previous  
16 question.

17 Q. Do you know if the reserves that  
18 were from the Tempa Rossa field, if those  
19 reserves were restated as part of the  
20 recategorization?

21 A. No, I don't. However, I would say  
22 prior to the acquisition, of course, they were  
23 not on Shell's annual report in any case, so it  
24 would surprise me if any restatement were  
25 necessary.



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2 Q. Were they on Shell's annual report  
3 in 2003?

4 A. Not -- they were, but not in the  
5 same volume as Enterprise had reported.

6 Q. So there was still a volume that  
7 was reported that reflected reserves from the  
8 Tempa Rossa project?

9 A. In relation to one part of the  
10 project whereas I believe Enterprise had booked  
11 reserves for future projects, as well.

12 Q. So the answer is yes, there was a  
13 portion of the project?

14 A. A portion, yes.

15 MR. TUTTLE: Can I ask a question?  
16 Did Enterprise have a reserve certification?

17 THE WITNESS: Not to my knowledge.

18 BY MR. HABER:

19 Q. If you look at page 745. After  
20 the discussion of Nigeria SPDC there's a  
21 discussion of PSC entitlement?

22 A. Yes.

23 Q. What does that refer to?

24 A. PSC stands for production sharing  
25 contract. This is a form of petroleum licensing

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2 or contracting in which companies such as Shell  
3 participate in development projects and  
4 generally receive compensation for that  
5 participation in the form of a cost recovery  
6 revenue stream and a profit revenue stream.  
7 This is distinct from the type of arrangement  
8 which is common in the US, for example, where  
9 the companies take an equity stake and share in  
10 both costs and revenues in proportion to their  
11 equity.

12 Q. What is the significance of the  
13 reference price?

14 A. The amount of cost and profits,  
15 oil or gas that Shell would be entitled to since  
16 it is essentially a financial compensation, cost  
17 and profit, it is conventional to translate that  
18 financial compensation into a volume, an  
19 equivalent volume of oil entitlement.

20 So for any given amount of  
21 financial compensation, depending on the oil  
22 price, the number of barrels that that would  
23 translate into will vary. If the oil price is  
24 high the number of barrels required to achieve  
25 the financial compensation would be lower. If the

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2 oil price is low the number of barrels required  
3 would be high.

4 Shell's internal policy at that  
5 time was to calculate the entitlement based on  
6 its business planning reference oil price which  
7 at this time was \$16 per barrel.

8 Q. Now, this price, the \$16 a barrel,  
9 did this have an impact on any of the key  
10 performance indicators that Shell followed such  
11 as ROACE, return on average capital employed?

12 A. I'm not qualified to answer that  
13 question, I don't know.

14 Q. Do you know what a mid project  
15 screening value is?

16 A. In evaluating our forward business  
17 plans, a range of different oil price and  
18 related product prices, gas, L&G, et cetera, a  
19 range of pricing scenarios is used for  
20 evaluating projects and business performance  
21 going forward. There is a low price, the high  
22 price and the one you referred to is the middle  
23 price.

24 Q. Now, is this mid project screening  
25 value have any relation to the PSE entitlements

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2 that you just talked about? Is there any  
3 connection?

4 A. The PSE entitlement would be  
5 different if one evaluated the entitlement at  
6 each of those different oil prices due to the  
7 relationship I explained.

8 Q. Is there a time period with regard  
9 to the PSC entitlement where the price of the  
10 barrel of oil is looked upon? Is it annually?  
11 Is it as the market changes? How is that price  
12 looked at?

13 A. I don't know. I suspect it would  
14 depend on the precise terms of each individual  
15 contract.

16 Q. Do you know if there was any  
17 accounting principle that governed what price to  
18 use?

19 MR. TUTTLE: Objection to form,  
20 calls for a legal conclusion.

21 THE WITNESS: Can you specify  
22 accounting principle?

23 BY MR. HABER:

24 Q. Like, for instance, FAS 69?

25 A. I do not -- well, in relation to

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2 accounting, no, I -- I'm struggling to answer  
3 your question in terms of precisely what you  
4 mean.

5 Q. Do you know what FAS 69 stands  
6 for?

7 A. Yes.

8 Q. What is FAS 69?

9 A. It is -- I think it's financial  
10 accounting standard issued by the FASB,  
11 dictating accounting and reporting requirements  
12 with particular emphasis, I believe, on oil and  
13 gas entities, oil and gas producing entities.

14 Q. And I guess my earlier question  
15 was do you know if FAS 69 governed the price  
16 that should be used with regard to the PSC  
17 entitlements?

18 MR. TUTTLE: Objection to form.  
19 Be used in the contract? I'm just trying to  
20 understand. That has to be used inside a  
21 private contract or used for reporting purposes?

22 MR. HABER: That's a fair  
23 distinction. Let's take for reporting purposes.

24 THE WITNESS: Well, the answer to  
25 the question is no, I don't know if there is any

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2 specific direction in FAS 69 dictating  
3 production sharing contract entitlement  
4 calculations.

5 BY MR. HABER:

6 Q. How about in connection with the  
7 contract itself when the contracts were being  
8 negotiated, do you know if FAS 69 sort of  
9 governed the price that was determined to be  
10 used?

11 A. No.

12 Q. Was the pricing issue with regard  
13 to these PSCs an issue that required your  
14 attention during your tenure as a GRC?

15 A. Yes.

16 Q. Why is that?

17 A. There is a clause in regulation SX  
18 governing proved reserves definitions which  
19 indicates that prevailing prices and cost  
20 scenarios should be used in determining proved  
21 reserves. It was brought to my attention that  
22 some -- there is some uncertainty as to  
23 precisely what that means in terms of the price  
24 that one should assume in calculating proved  
25 reserves and the issue arises specifically in

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2 the reporting of reserves for production sharing  
3 contracts for the reason that I've explained.

4 It was Shell policy at the time to  
5 use its reference price or project screening  
6 price for business planning as a fair reflection  
7 of the prevailing price situation, whereas an  
8 alternative interpretation as is indicated here  
9 is that one uses the exact price pertaining to  
10 the last day of the reporting period, so-called  
11 year end price.

12 The view that was reflected in the  
13 policy that we had was that by taking the price  
14 prevailing on one arbitrary day of the reporting  
15 period, the resulting reserves entitlement would  
16 be highly vulnerable to price fluctuations on a  
17 day-to-day basis through the reporting period  
18 and this was felt not to fairly reflect in a  
19 stable and consistent fashion reserve  
20 entitlements from one year to the next.

21 Therefore, our policy was to use our internal  
22 planning price as being a reflection of the  
23 current price conditions on a consistent basis  
24 from one year to the next. So we used our  
25 reference price rather than the year end price

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2 as a means of calculating that entitlement.

3 Q. Do you know if the SEC had a  
4 position on which price period should be used  
5 for these contracts?

6 A. I don't know if it was before or  
7 after I was specifically made aware that it was  
8 required that we should use the year end price,  
9 but that is -- that is known to me today to be  
10 the opinion of the SEC.

11 Q. But at the time of this exhibit,  
12 which is Exhibit 6 in July of 2003, you were  
13 unaware of their position?

14 A. I was aware that there was a  
15 discussion around the issue and I was aware that  
16 the SEC favored the use of year end pricing. We  
17 felt we had an internal -- we felt we could  
18 argue the case for an alternative interpretation  
19 with some degree of rigor.

20 Q. Do you know when the issue was  
21 raised by the SEC with Shell?

22 A. I can't recall exactly when.

23 Q. But certainly by this time, being  
24 July of 2003, it had been an issue that was  
25 raised; is that correct?



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2 MR. TUTTLE: Objection to form,  
3 foundation.

4 THE WITNESS: I don't know.

5 BY MR. HABER:

6 Q. As part of your work on Rockford  
7 did you review the reserves that were connected  
8 to the PSC entitlements?

9 A. Yes.

10 Q. Were those reserves restated?

11 A. Yes.

12 Q. What was the reason for the  
13 restatement?

14 A. To adopt the SEC's preference for  
15 year end pricing rather than reference pricing  
16 as the basis for the entitlement calculation.

17 MR. HABER: Okay. Since we're  
18 going to go back to a prior exhibit, this is a  
19 good time for us to take a break.

20 THE VIDEOGRAPHER: We're going off  
21 the record. The time is 11:32 a.m.

22 (A brief recess was taken.)

23 THE VIDEOGRAPHER: We are back on  
24 the record. The time is 11:51 a.m.

25 BY MR. HABER:

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2 Q. Mr. Pay, if you could turn back to  
3 Exhibit 5.

4 A. Yes.

5 Q. I want to ask you a question, a  
6 series of questions about the proposal  
7 concerning score cards, which is 1F on page 82,  
8 the Bates stamp.

9 Now, under the first sentence  
10 there's a paragraph in italics and it refers to  
11 an observation by the group reserves auditor in  
12 the year end reserves report for 2001. Am I  
13 reading this correctly?

14 A. It seems so, yes.

15 Q. Now, the group reserves auditor,  
16 is that Anton Barendregt?

17 A. Yes.

18 Q. And am I correct that the  
19 observation that Mr. Barendregt makes is that  
20 there is a possibility that score cards with  
21 regard to reserves targets, "is seen to affect  
22 the objectivity of staff and some OUs when  
23 proposing reserves additions." Do you see that?

24 A. Yes, I see it.

25 Q. Do you recall having any

1 JOHN RICHARD PAY  
2 discussions with Mr. Barendregt about what he  
3 writes here and what was written in that report?

4 A. I certainly discussed the issue  
5 with Mr. Barendregt. He was keen to remove  
6 reserves from score cards in order to avoid the  
7 possibility of behavior such as he's describing  
8 here.

9 Q. Are you aware of any examples  
10 where OU staff's objectivity was clouded by the  
11 reserves addition target in the score card?

12 MR. TUTTLE: Object to form,  
13 foundation, characterization of the document.

14 THE WITNESS: In my direct  
15 experience, no.

16 BY MR. HABER:

17 Q. Were you ever advised of an  
18 example where this occurred?

19 MR. TUTTLE: Objection.

20 BY MR. HABER:

21 Q. You can answer.

22 A. Mr. Roosch, my predecessor,  
23 related an incident in which he felt that there  
24 had been an inappropriate level of interest in  
25 booking reserves in a SNEPCO asset which he has

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2 successfully resisted.

3 Q. Did Mr. Roosch attribute the  
4 effort by SNEPCO to book the reserves to the  
5 score card?

6 A. That was the inference that he  
7 drew at the time in describing the situation to  
8 me.

9 Q. Other than that instance, can you  
10 think of any other examples that you were  
11 advised of?

12 A. Not that -- no.

13 Q. Okay. Other than with  
14 Mr. Barendregt, do you recall discussing the  
15 issue of score cards with anyone at Shell during  
16 your tenure as the group reserves coordinator?

17 A. Certainly as part of circulating  
18 this document and in discussion with some of the  
19 people who responded to it I discussed whether  
20 or not it was appropriate to have reserves on  
21 individual operating score cards. When I wrote  
22 this I was inclined to the view they should be  
23 removed just to remove the potential for this  
24 type of behavior.

25 The overwhelming response I got

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2 back to was that the views in the operating  
3 units were such that it was seen as a legitimate  
4 target provided it was properly -- properly  
5 controlled.

6 Q. Were you surprised by that  
7 feedback?

8 A. Not particularly. I also  
9 understand the argument in favor of retaining it  
10 in that reserves replacement is a reflection of  
11 the performance of a business and actually  
12 progressing projects. So to that extent it is a  
13 measure of the success that an operating company  
14 has in progressing its projects to a level of  
15 maturity that would enable execution and  
16 production and that is the fundamental reason  
17 why it was seen as my understanding as a  
18 worthwhile and useful performance indicator to  
19 retain.

20 Q. Now, did you discuss the issue  
21 with Mr. Brass?

22 A. I don't recall specifically  
23 discussing that issue with Mr. Brass.

24 Q. Generally, do you recall any  
25 discussions with Mr. Brass on the issue?

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2 A. To me that sounds like the same  
3 question.

4 Q. Okay. Well, when I hear it I hear  
5 specific could be --

6 MR. TUTTLE: Every time you say  
7 specifically he's going to ask you generally, so  
8 if you don't have a recollection.

9 THE WITNESS: I don't recall  
10 discussing this issue with Mr. Brass.

11 MR. TUTTLE: Sorry.

12 MR. HABER: That's okay.

13 BY MR. HABER:

14 Q. Do you recall discussing the score  
15 card issue with Mr. Van der Vijver?

16 A. No.

17 Q. Do you recall discussing the issue  
18 with Mr. Nauta?

19 A. No.

20 Q. The same question with regard to  
21 Mr. Harper?

22 A. Also not.

23 Q. In this document on this page it  
24 appears that you're proposing an alternative to  
25 the score card. Is that correct?

1 JOHN RICHARD PAY

2 A. May I have a minute just to reread  
3 the page?

4 Q. Please. In particular I'm looking  
5 at the paragraph that begins it is recommended  
6 to remove.

7 A. Yes.

8 Q. Okay. So am I correct that in  
9 this document, in particular what I've directed  
10 your attention to, you're proposing an  
11 alternative to reserves additions in the score  
12 card?

13 A. This is what is written in this  
14 draft document, yes.

15 Q. And what is that proposal? What  
16 is the proposal?

17 I'm just trying to get what you  
18 were intending by this proposal.

19 As I understand it, a proposal is  
20 to use a system of milestones. What I'm trying  
21 to understand is why you made this proposal as  
22 opposed to keeping, in your mind, the reserves  
23 additions as part of the score card?

24 MR. TUTTLE: Object to form. You  
25 can answer.

1 JOHN RICHARD PAY

2 THE WITNESS: I'm attempting in  
3 this recommendation, which is a draft  
4 recommendation, to address the auditor's concern  
5 in terms of having reserves replacement on score  
6 cards. I'm suggesting we respond to that  
7 concern by removing reserves replacement from  
8 the score card and replace it with alternative  
9 metrics, which will still encourage operating  
10 units to perform on project maturation, that  
11 being the beneficial part of having reserves  
12 replacement as a target.

13 BY MR. HABER:

14 Q. And those alternative metrics, are  
15 those reflected in the parenthetical which says  
16 VAR 3, VAR 4, FID and if appropriate  
17 confirmation of improved recovery performance?

18 A. Yes.

19 Q. Do you know if this  
20 recommendation, other than the feedback that you  
21 received, do you know if this recommendation was  
22 supported by Mr. Brass?

23 MR. TUTTLE: Objection,  
24 foundation.

25 THE WITNESS: No, and I don't



1 JOHN RICHARD PAY

2 remember whether it was or not.

3 BY MR. HABER:

4 Q. Do you know if this recommendation  
5 was supported by any of your bosses?

6 MR. TUTTLE: Same objection.

7 THE WITNESS: No.

8 BY MR. HABER:

9 Q. You have no recollection?

10 A. Sitting here today, I can't even  
11 recall if this phrasing was retained for the  
12 final version that was submitted to management.  
13 What I do recall is that there was quite some  
14 resistance to it from my peers in the operating  
15 units.

16 (Pay Exhibit Number 7 was marked  
17 for identification.)

18 BY MR. HABER:

19 Q. I'm handing you Pay Exhibit 7 and  
20 I will identify this for the record while you're  
21 taking a look at it.

22 This is a document that's titled  
23 Note For Discussion Ep Proved Reserve  
24 Management. Its Bates numbers are RJW 00852948  
25 through RJW 00852965.

1 JOHN RICHARD PAY

2 Mr. Pay, have you seen Exhibit 7  
3 before today?

4 A. Yes.

5 Q. Is this the final version of the  
6 draft note that we've been talking about a few  
7 moments ago?

8 A. It certainly is a later draft.  
9 Whether it is the final draft, I don't know.

10 Q. Okay. If you turn to page 8 of  
11 the exhibit which also on the Bates number ends  
12 852955 and the discussion of the score cards, if  
13 you just take a moment to look at it I'll ask  
14 you a question.

15 A. Yes.

16 Q. Am I correct that what's in this  
17 version of the note, which you said is a later  
18 version, that it's now -- you're now proposing  
19 that the score card system with reserve  
20 additions be maintained; is that correct?

21 A. Yes, in response to the feedback I  
22 received from the operating units.

23 Q. Am I also correct that as I  
24 believe you just testified, that it was the  
25 feedback that you received to maintain it with a

1 JOHN RICHARD PAY

2 system that would allow effective policing so  
3 that the score card system was not abused; is  
4 that correct?

5 MR. TUTTLE: Objection to form,  
6 characterization of prior testimony.

7 THE WITNESS: I'm afraid I didn't  
8 retain the first part of your question when you  
9 got to the end of it. Can you repeat it?

10 BY MR. HABER:

11 Q. Let me rephrase it.

12 If you look at the paragraph that  
13 begins however?

14 A. Yes.

15 Q. The sentence that begins, "the  
16 onus is on the center and OU technical  
17 management to ensure the system is not abused  
18 and that it is used as a stimulus for genuinely  
19 constructive behaviors."

20 A. Yes.

21 Q. What did you mean by that?

22 A. That it is the -- that if reserves  
23 additions are to remain on score cards that  
24 there has to be an effective control mechanism  
25 in place to ensure the proved reserves additions

1 JOHN RICHARD PAY

2 are compliant.

3 Q. Who did you intend would ensure  
4 that there was such an effective control  
5 mechanism?

6 A. As stated here, primarily  
7 technical management at the OU -- in the OU who  
8 would be required to sign off on the reserves  
9 estimate with assistance from the center being  
10 my role and my colleagues.

11 Q. When you say your colleagues, who  
12 are you referring to?

13 A. My supervisors.

14 Q. Now, did you intend at this time  
15 that there would be a written policy that would  
16 be used to ensure that the system was not  
17 abused?

18 MR. TUTTLE: Objection to form.

19 THE WITNESS: No.

20 BY MR. HABER:

21 Q. How did you intend to use the  
22 language here that the center and OU technical  
23 management would ensure that the system is not  
24 abused?

25 A. Well, we had our internal

1 JOHN RICHARD PAY

2 guidelines and that was the standard by which  
3 proved reserves were expected to be reported and  
4 I envisioned that as I state at the end of the  
5 paragraph a concerted effort to increase the  
6 level of awareness of importance in terms of  
7 compliance. It doesn't say so in so many words  
8 here, but to ensure people are aware of their  
9 requirements to comply with the guidance.

10 Q. And how was that level of  
11 awareness to occur?

12 A. I'm not sure I had a specific plan  
13 in mind at this time.

14 Q. After this time did you think  
15 about this further, about how to make people  
16 more aware?

17 A. Yes, I thought about it. I don't  
18 recall ever writing down a policy.

19 Q. Is it fair to say then that at the  
20 time you wrote this your intent was to ensure  
21 that the system was not abused through reference  
22 to Shell's guidelines and increased awareness of  
23 the guidelines?

24 MR. TUTTLE: Objection to form,  
25 characterization of the testimony.

1 JOHN RICHARD PAY

2 BY MR. HABER:

3 Q. You can answer.

4 A. At the time I wrote this I'm  
5 envisioning that compliance would be in force  
6 through dissemination and education in relation  
7 to the guidelines.

8 Q. I guess I'm just trying to  
9 understand how -- through what mechanism would  
10 that information be disseminated?

11 A. I'm not sure I can recall that we  
12 ever got to the point of writing down a  
13 procedure, but shortly after this, one of the  
14 measures that we were in the process of  
15 introducing at the time that project Rockford  
16 started was to introduce regional resource  
17 volume managers. So that's effectively people  
18 performing my role in the center, but at the  
19 regional level, so an additional step in  
20 between. And part of the role that we -- that I  
21 foresaw for those positions was to have more  
22 continuous high level interactions with the  
23 people involved in the estimating and sign off  
24 process to ensure, to satisfy themselves that  
25 the guidelines were disseminated and added to on

1 JOHN RICHARD PAY  
2 a continuous basis as part of the reserves  
3 estimating process.

4 Q. As part of your work on Rockford  
5 do you recall discussing the score card system?

6 A. No.

7 Q. Do you know if there was a  
8 recommendation that came out of the Rockford  
9 analysis of whether to -- withdrawn.

10 Do you know if the score card  
11 system is in place today.

12 A. I believe the score card system is  
13 in place today.

14 Q. Are reserves replacement included  
15 in the score card?

16 A. I don't know.

17 Q. Do you know if as a consequence of  
18 Rockford a recommendation was made to remove the  
19 reserves replacement target in the score card?

20 MR. TUTTLE: Objection to form,  
21 foundation.

22 THE WITNESS: I don't know for  
23 sure, no.

24 BY MR. HABER:

25 Q. Do you know if that was a

1 JOHN RICHARD PAY  
2 recommendation from the law firm by the name of  
3 Davis Polk?

4 A. Again, for sure I don't know.

5 Q. Have you ever seen the report of  
6 the Group Audit Committee that was, at least the  
7 executive summary was publicly disseminated in  
8 or about March or April of 2004?

9 A. I have seen it. I did not spend a  
10 long time -- I would not say I've read it from  
11 start to finish and I'm currently familiar with  
12 its content.

13 Q. Are you aware of any  
14 recommendations that were made in that report?

15 A. No, sitting here today.

16 (Pay Exhibit Number 8 was marked  
17 for identification.)

18 BY MR. HABER:

19 Q. We are marking Pay Exhibit 8.  
20 While the witness is taking a moment to look at  
21 it I will identify it for the record.

22 It is an e-mail series, two  
23 e-mails. The latter e-mail is from Remco  
24 Aalbers to John Pay. The subject is EP reserves  
25 management and that e-mail is dated



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JOHN RICHARD PAY

September 24, 2002 and the Bates number of this exhibit is V 00010390 through V 00010391.

A. Okay.

Q. Have you seen this e-mail exchange before today?

A. Yes. It's an e-mail that Mr. Aalbers sent to me.

Q. Is this e-mail in response to your e-mail which is Exhibit 5, the first page of that exhibit?

A. Yes.

Q. Other than through this e-mail, do you recall having any discussions about the draft note with Mr. Aalbers?

A. No, I don't recall.

Q. Other than this e-mail, do you recall any subsequent communications with Mr. Aalbers concerning the draft note?

A. I certainly replied to him on a couple of the points that he raises, by e-mail.

Q. If you look at the first page Mr. Aalbers comment to 1B it says, "need to think how to handle this adjusting the end result versus the auditors - not sure how the

1 JOHN RICHARD PAY

2 others do -- I believe it should be it - but you  
3 do not want to be accused of misinforming your  
4 shareholders...or manipulating the books."

5 Do you have an understanding what  
6 Mr. Aalbers meant by this?

7 A. No. However, I agree with the  
8 sentiment he's expressing and I'm careful in the  
9 note I think to always make sure we are staying  
10 compliant with the SEC rules as we understand  
11 them, so I agree with his sentiment.

12 Q. Is it his sentiment you should be  
13 sensitive to ensuring compliance with the SEC?

14 A. Sorry, can you repeat the  
15 question.

16 Q. I said was it your understanding  
17 that he was expressing that Shell ought to stay  
18 compliant with the SEC rules?

19 A. He isn't saying that, but such  
20 assentment would be consistent with what he's  
21 saying, I would say.

22 Q. Do you recall replying to what he  
23 wrote here?

24 A. I remember feeling I had to  
25 respond to his comment in 1E.

1 JOHN RICHARD PAY

2 Q. And what do you recall about your  
3 response?

4 A. I recall advising him that in my  
5 opinion he's drawn reference here to Appendix B,  
6 which is the potential reserves exposure  
7 catalog, suggesting that that should have a  
8 limited circulation and I replied to him along  
9 the lines that, well, yes, of course, it  
10 shouldn't be circulated unnecessarily, but  
11 actually I have no problem with it being  
12 circulated to management and to auditors, the  
13 purpose of preparing that appendix was indeed it  
14 would be available to such people.

15 Q. Did you have an understanding of  
16 what sort of trouble you would have if the  
17 potential reserves exposure list were to be in  
18 the hands of the SEC?

19 MR. TUTTLE: Objection to form,  
20 characterization of the document.

21 THE WITNESS: You would have to  
22 ask Mr. Aalbers what he felt by that statement,  
23 but I was quite clear that the items that were  
24 on the list were defensible, where they were  
25 defensible and would be debooked where they were

1 JOHN RICHARD PAY

2 not defensible.

3 BY MR. HABER:

4 Q. So in your mind it was is  
5 certainly appropriate if the auditors or the SEC  
6 were to have seen the exposure list?

7 A. Indeed, because as part of the  
8 exposure list there was a summary of the  
9 reasoning or the justification behind retaining  
10 the bookings or not, as the case may be.

11 Q. Do you recall Mr. Aalbers  
12 responding to your response?

13 A. No.

14 (Pay Exhibit Number 9 was marked  
15 for identification.)

16 BY MR. HABER:

17 Q. While the witness is looking at  
18 the document that we've just marked as  
19 Exhibit 9, Pay Exhibit 9, I will identify it for  
20 the record. It is a series of e-mails between  
21 John Pay and Sarah Bell, the last of which is  
22 dated October 9, 2002 from Mr. Pay to Sarah  
23 Bell. The Bates number is PER 00031460 through  
24 PER 00031462.

25 MR. HABER: Why don't we change

1 JOHN RICHARD PAY

2 the tape and then I'll ask some questions and  
3 then we'll be able to break for lunch.

4 THE VIDEOGRAPHER: This marks the  
5 end of tape one, Volume II, in the deposition of  
6 Mr. Pay. We're going off the record. The time  
7 is 12:26 p.m.

8 (A brief recess was taken.)

9 THE VIDEOGRAPHER: This marks the  
10 beginning of tape two, Volume II, in the  
11 deposition of Mr. Pay. We're back on the  
12 record. The time is 12:27 p.m.

13 BY MR. HABER:

14 Q. Mr. Pay, do you recall seeing this  
15 e-mail exchange before today?

16 A. Well, evidently I must have seen  
17 it before since I'm engaged in it, but it's  
18 not -- I've just been reminded of it, yeah.

19 Q. Do you recall looking at your  
20 e-mail to Ms. Bell on the first page of the  
21 document expressing surprise about the feelings  
22 of the recipients of the draft note concerning  
23 the score card issue?

24 A. Well, as I've testified in a  
25 previous answer to your question or in answer to

1 JOHN RICHARD PAY

2 a previous question, yes, I was surprised people  
3 were so strongly in favor of retaining reserves  
4 replacement on the score card and the reason  
5 offered was because of the benefits in relation  
6 to ensuring project progress and development of  
7 the business.

8 Q. Now, if you turn the page, and  
9 again this is an e-mail from Ms. Bell to you  
10 dated October 10, 2002 where she's commenting on  
11 the draft note, and I would like to direct your  
12 attention to the last paragraph that says page  
13 8.

14 A. Uh-huh. Yes.

15 Q. If you see the second sentence it  
16 says, "meetings I had with BP earlier this year  
17 strongly implied that they only disclose volumes  
18 associated with signed contracts as proved  
19 reserves to the SEC. This is in contradiction  
20 to SDA's policy of booking the total 'low  
21 estimate' on the grounds that the eventual sales  
22 are certain."

23 Do you know how long the policy  
24 that's discussed in this e-mail was in effect at  
25 SDA?

1 JOHN RICHARD PAY

2 A. No.

3 Q. Do you know if it was in effect at  
4 the time of the Gorgon booking?

5 A. No.

6 Q. Did you ever ask Ms. Bell?

7 A. Not that I recall.

8 Q. Did you ever investigate the  
9 issue?

10 A. Not that I recall specifically in  
11 relation to SDA.

12 Q. Did you ever ask anyone to  
13 investigate the issue in relation to SDA?

14 A. I don't think so.

15 Q. As part of your work in Rockford  
16 do you know if this issue was reviewed and  
17 considered?

18 A. It wasn't by me and I don't know  
19 if it was by anyone else.

20 Q. If you look at the again, her  
21 e-mail to you, this time under the portion of  
22 the page that says page 2. At the bottom of the  
23 paragraph she writes, "on a related matter -  
24 perhaps there is potential for a 'reserves  
25 reporting module' to be included in one of the

1 JOHN RICHARD PAY

2 reserve engineering phase II courses. I am not  
3 aware of any reserves formal training within  
4 Shell - as far as I understand people pick up on  
5 the job - which could lead to  
6 misinterpretation."

7 Do you recall responding to  
8 Ms. Bell with regard to what I just read into  
9 the record?

10 A. No, I don't recall responding. If  
11 you have a response you would like to show me it  
12 would perhaps refresh my memory.

13 Q. I don't at the moment. Again,  
14 just looking for your recollection.

15 A. Uh-huh.

16 Q. Do you know if subsequent to this  
17 e-mail, which is October of 2002, Shell  
18 implemented a formal training course, as  
19 Ms. Bell is suggesting here?

20 MR. TUTTLE: Objection to form,  
21 foundation, characterization of the document.

22 THE WITNESS: The -- yes. Shell  
23 did introduce additional training pursuant to  
24 Rockford, project Rockford.

25 BY MR. HABER:



1 JOHN RICHARD PAY

2 Q. So it was after the announcements  
3 of the recategorization?

4 A. Correct.

5 Q. Do you know who gives those  
6 courses?

7 A. I don't know everyone who is  
8 involved in delivering those courses. By chance  
9 I met Jan-Willem Roosch in the restaurant at  
10 work and he mentioned that he was involved, this  
11 was a few weeks ago, in delivering those  
12 courses.

13 Q. Has Shell made it mandatory for  
14 reservoir engineers to attend these courses?

15 A. Shell's made it mandatory for  
16 everybody involved in the proved reserves  
17 estimating process to attend these periodically.

18 Q. How periodically?

19 A. I don't know exactly the standard  
20 that applies. For me personally it applies  
21 every two years.

22 Q. Such a requirement was not  
23 existing prior to Rockford; is that correct?

24 A. That's correct.

25 MR. HABER: This is a good time to

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JOHN RICHARD PAY

break for lunch.

THE VIDEOGRAPHER: We are going  
off the record. The time is 12:33 p.m.

(Whereupon, at 12:33 p.m., a lunch  
recess was taken.)

1 JOHN RICHARD PAY

2 AFTERNOON SESSION

3 (1:20 p.m.)

4 THE VIDEOGRAPHER: We are back on  
5 the record. The time is 1:20 p.m.

6  
7 EXAMINATION BY COUNSEL FOR  
8 THE LEAD PLAINTIFF -- RESUMED

9  
10 BY MR. HABER:

11 Q. Good afternoon, Mr. Pay.

12 A. Good afternoon.

13 Q. Do you know -- I believe we  
14 mentioned his name a couple times through this  
15 deposition, but just for clarity sake, who is  
16 Frank Coopman?

17 A. Frank Coopman was the chief  
18 financial officer of Exploration and Production.  
19 Whether he held that position at the beginning  
20 of the time that I took the group reserves  
21 coordinating job, I can't remember, but  
22 certainly he was through much of that period.

23 Q. Do you know who Mr. Coopman  
24 reported to?

25 A. Mr. Van der Vijver, I believe.

1 JOHN RICHARD PAY

2 Q. Have you heard of a dotted line  
3 reporting within Shell?

4 A. In general or specifically for  
5 Mr. Coopman?

6 Q. In general.

7 A. I understand what the term means,  
8 yes.

9 Q. What does that term mean?

10 A. Not a direct supervisory reporting  
11 relationship, but one that is nevertheless  
12 beneficial to the person that the -- at each end  
13 of the dotted line. So typically an example  
14 where that would exist would be where we have  
15 teams of in my own field of expertise, if we  
16 have field development teams, the various  
17 individual members of that team will have  
18 different areas of specialization, but will  
19 report directly to the project manager, whereas  
20 they would have a dotted line relationship to  
21 the senior engineer in that area of expertise  
22 within that organization.

23 Q. Did you have a dotted line person  
24 that you reported to?

25 A. Not that I'm aware of.