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The "Shell" Transport and Trading Company, p.l.c.
Annual Report and Accounts 2000

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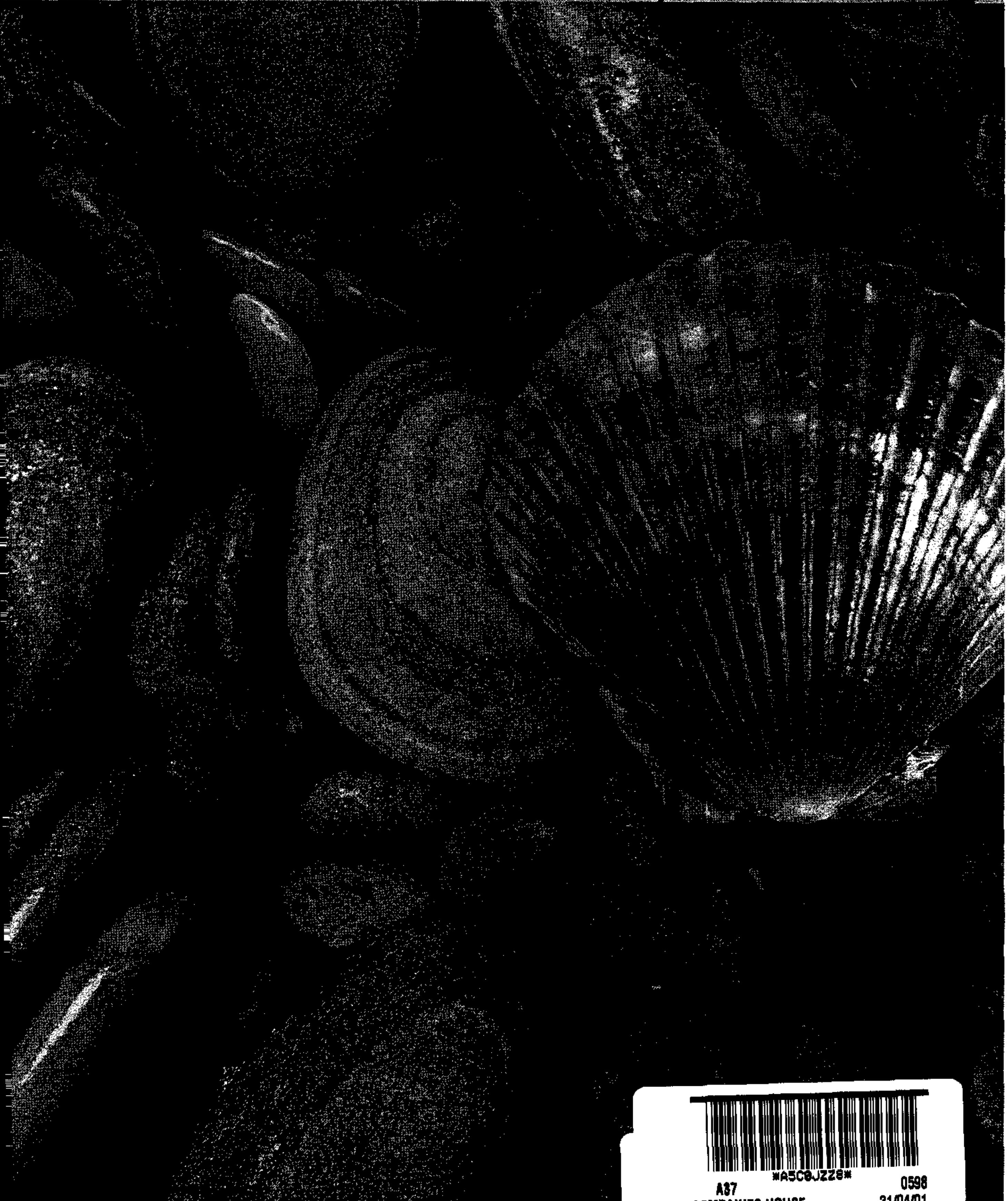

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This is Shell

Shareholders
There are some 740,000 shareholders of Royal Dutch Petroleum Company and some 270,000 shareholders of The "Shell" Transport and Trading Company, p.l.c. Shares of one or both companies are listed and traded on stock exchanges in eight European countries and in the USA.

Parent Companies
As Parent Companies, Royal Dutch Petroleum Company (Royal Dutch) and The "Shell" Transport and Trading Company, p.l.c. (Shell Transport) do not themselves directly engage in operational activities. They are public companies; Royal Dutch is domiciled in the Netherlands, Shell Transport in the UK.

The Parent Companies own the shares in the Group Holding Companies but are not themselves part of the Royal Dutch/Shell Group of Companies. They appoint Directors to the Boards of the Group Holding Companies, from which they receive income in the form of dividends. The Parent Companies derive most of their income in this way. Royal Dutch has a 60% interest in the Group and Shell Transport has a 40% interest.

Royal Dutch/Shell Group of Companies
The numerous companies in which Royal Dutch and Shell Transport own investments are collectively referred to as the Royal Dutch/Shell Group of Companies. The Group has grown out of an alliance made in 1907 between Royal Dutch and Shell Transport, by which the two companies agreed to merge their interests on a 60:40 basis while keeping their separate identities.

Group Holding Companies
Shell Petroleum N.V. and The Shell Petroleum Company Limited between them hold, directly or indirectly, all Group interests in the Service Companies and the Operating Companies.

Service Companies
The main business of the Service Companies is to provide advice and services to other Group and *associated companies*.

Operating Companies
Operating in more than 135 countries around the world, the companies of the Royal Dutch/Shell Group are engaged in the business of Exploration and Production, Downstream Gas and Power, Oil Products, Chemicals and Renewables as well as other activities.

Exploration and Production: Searches for, finds and produces oil and gas. Builds the infrastructure needed to deliver hydrocarbons to market.

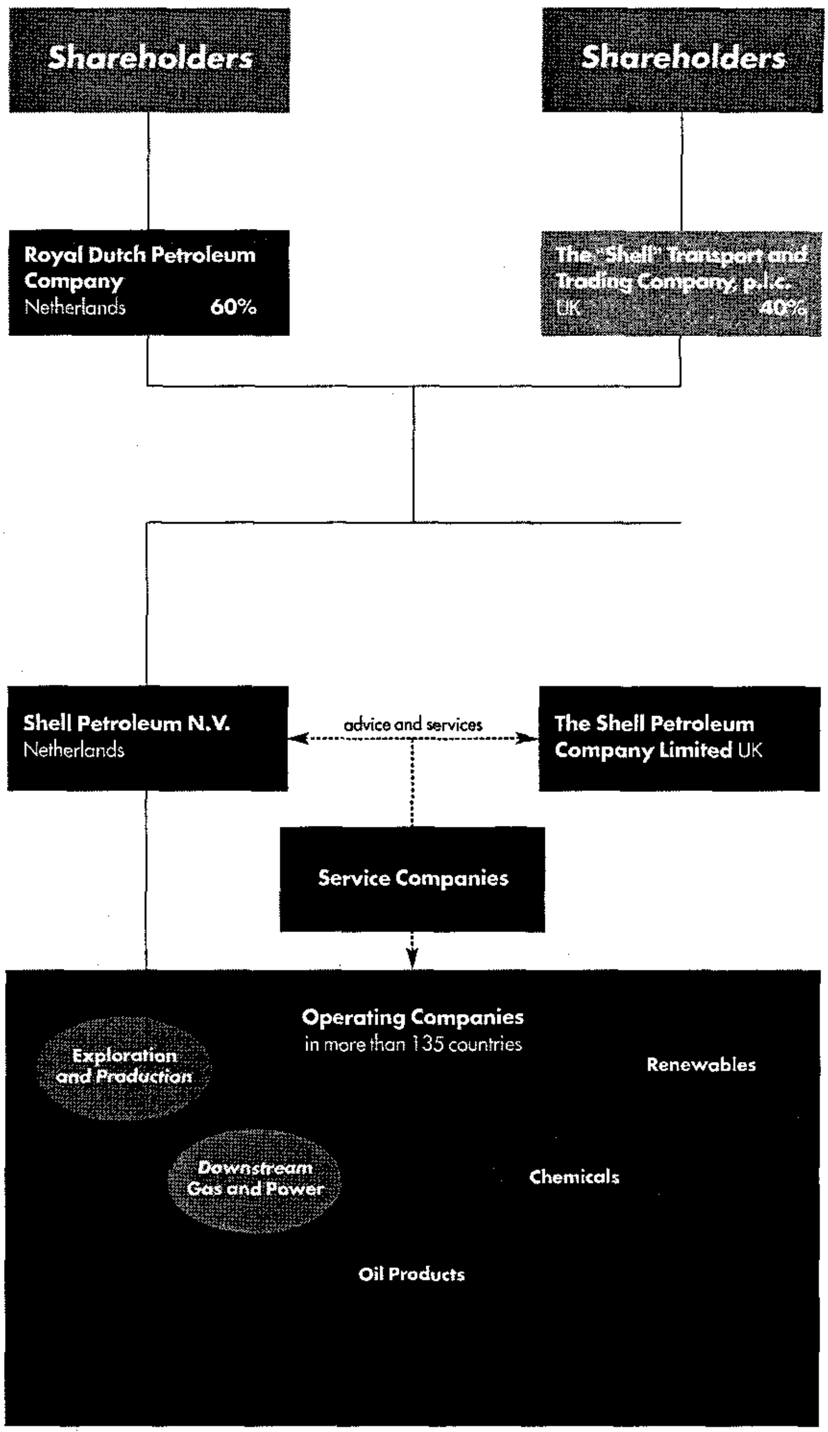
Downstream Gas and Power: Natural gas and liquefied natural gas (LNG) infrastructure and market development, marketing and trading of natural gas and electricity, power plant development, Gas to Liquids.

Oil Products: Sales and marketing of transportation fuels, lubricants and speciality products. Refining, supply, trading and shipping of crude oil and petroleum products.

Chemicals: Producing and selling base chemicals, petrochemical building blocks and polyolefins globally.

Renewables: Generates green electricity and provides *renewable energy solutions. Develops and operates* wind farms and biomass plants; manufactures and markets solar systems and grows sustainably managed forests.

The management of each Operating Company is responsible for the performance and long-term viability of its own operations, but it can draw on the experience of the Service Companies and, through them, of other Operating Companies.

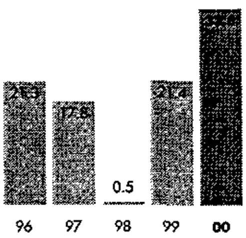


The companies in which Royal Dutch Petroleum Company and The "Shell" Transport and Trading Company, p.l.c. directly or indirectly own investments are separate and distinct entities. But in this Report the collective expressions "Shell", "Group" and "Royal Dutch/Shell Group of Companies" are sometimes used for convenience in contexts where reference is made to the companies of the Royal Dutch/Shell Group in general. Likewise the words "we", "us" and "our" are used in some places to refer to companies of the Royal Dutch/Shell Group in general, and in others to those who work in those companies. Those expressions are also used where no useful purpose is served by identifying a particular company or companies.

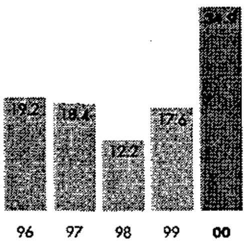
Financial highlights

The "Shell" Transport and Trading Company, p.l.c.

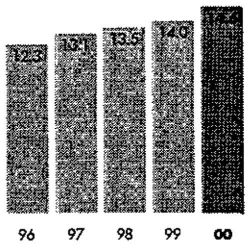
Earnings
pence per 25p Ordinary share



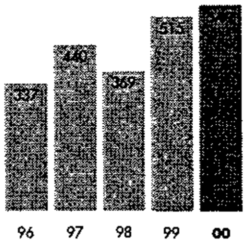
Adjusted CCS earnings[a] (pro forma)
pence per 25p Ordinary share



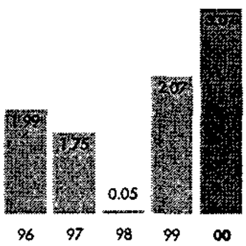
Dividends
pence per 25p Ordinary share



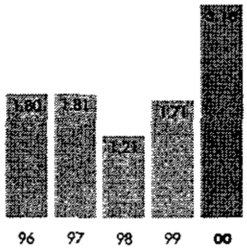
Year-end share price
pence per 25p Ordinary share



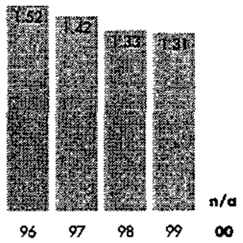
Earnings
$ per New York Share



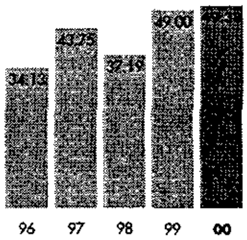
Adjusted CCS earnings[a] (pro forma)
$ per New York Share



Dividends
$ per New York Share



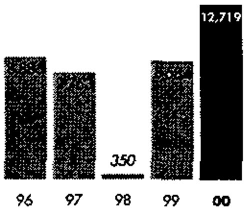
Year-end share price
$ per New York Share



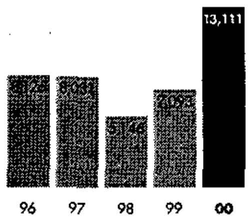
One New York Share = six 25p Ordinary shares

Royal Dutch/Shell Group of Companies

Net income
$ million

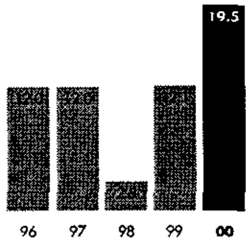


Adjusted CCS earnings[a]
$ million



a Earnings on an estimated current cost of supplies (CCS) basis, excluding special credits/(charges).

Return on Average Capital Employed[b]
%



b CCS earnings plus the Group share of interest expense after tax, as a percentage of the Group share of average capital employed.

For information about the data contained in the charts relating to Shell Transport, consult the Shareholder information section on page 64.

Throughout this Report, a billion = 1,000 million.

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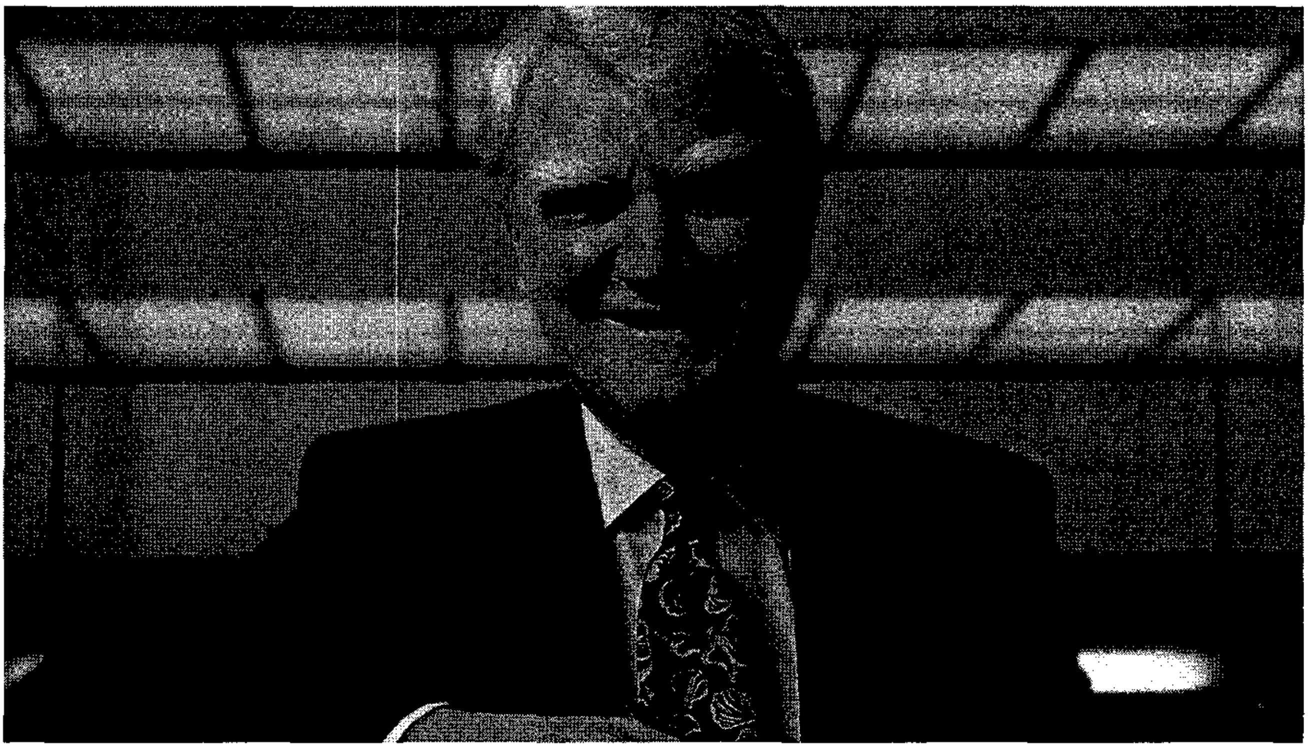
Registered Office:
The "Shell" Transport and Trading Company, p.l.c.
Registered in England No. 54485
Shell Centre
London SE1 7NA
Secretary: Jyoti Munsiff

Auditors: PricewaterhouseCoopers
Bankers: Lloyds TSB Bank

Message from the Chairman

Record results reflect business achievements as well as exceptional oil prices. We are exceeding our cost improvement targets and realising opportunities – accessing new reserves, selling more gas, offering new choices, pursuing the potential of e-business, contributing to sustainable development. Our technology, brand, global reach and reputation provide the foundation for delivering excellent returns and building for the future.



Our strong financial results in 2000 reflect considerable business achievements, as well as exceptionally high oil prices. We are fulfilling our commitments and building for the future.

We must deliver – and be seen to deliver – in two ways. We need the profitability that provides competitive returns and funds investment. Being profitable – through serving our customers – is also a vital element of what we contribute to society. But this contribution goes far wider. Shell companies accept their responsibility to help deliver the economic, social and environmental requirements of sustainable development. Being trusted to meet societal expectations is essential for long-term profitability.

We are committed to transparency, and to developing and integrating our reporting on how Shell companies fulfil their responsibilities.*

Our success rests on the quality and commitment of Shell people. They drive our vision – from their concern for their world, their urge to contribute, their pride in the success of their company. What we have achieved – over difficult years of transformation – is a testament to their performance. They inspire confidence that we can continue meeting the challenges of an uncertain world.

I thank them most sincerely, as well as all the others who have worked with us.

Delivering exceptional returns

Oil prices in 2000 were exceptionally high – considerably above the average for the previous decade and more than double the 1998 level, when conditions were very difficult. Refining margins were higher everywhere. But chemicals margins and oil marketing margins continued to decline.

On a current cost of supplies basis – excluding special items – earnings for the year were \$13.1 billion, 85% higher than the adjusted earnings for 1999. Reported net income of \$12.7 billion was 48% higher. Exploration and Production made record earnings. Those of our growing Gas and Power business tripled, with expanding liquefied natural gas sales. Stronger refining margins, coupled with major additional cost reductions, enabled Oil Products to achieve an impressive improvement on the previous year's results, which were depressed by global weakness in the refining sector. Chemicals earnings fell.

The return on average capital employed was 19.5%, and would have been over the 14% target at our $14 a barrel planning assumption. The Group's financial position is strong. We are implementing a share buyback programme.

Oil prices and margins remain volatile. The economic outlook is uncertain. It is prudent to continue basing our plans on conservative assumptions. However, energy needs are growing with expanding populations and economic development, particularly in Asia-Pacific where we are strongly placed. We also have great strengths in gas, an increasingly attractive fuel which has an important role in responding to climate change.

The Group is committed to reducing its greenhouse gas emissions and met its target last year.

The pace and competitiveness of business is intensifying everywhere. Shell companies are harnessing the potential of e-business to change how they do business and serve customers.

Realising opportunities

We seek to make the most of what we have, gain new business and break new ground.

Shell people are our most important asset. We strive to make the best of their skills, experience and creativity. Expansion of stock option and purchase schemes allows them to share in the Group's success.

Learning from world-wide experience has delivered striking cost improvements, for example in drilling – helping to maintain our advantage over major competitors in such areas as finding, development and production costs. Having already met our target of $4 billion in annual unit cost improvements by 2001, we have raised it to $5 billion.

Significant further savings are expected from using the internet for procurement. Last year we helped form the major Trade-Ranger on-line energy and petrochemicals exchange.

The completion of the Chemicals restructuring was an important milestone – divesting 40% of the assets and cutting the number of manufacturing sites from 54 to 17. Reducing refinery capacity – by 17% in Europe in three years – has been another important thrust.

Exchanges and divestments of producing assets were more than outweighed by increasing oil and gas production – in the North Sea, Oman, the Gulf of Mexico deep water, Australia and Canada. It was a vintage year for exploration. Shell leadership in the expanding LNG business was confirmed.

Asia-Pacific is a vital area of new business. Shell companies are building relationships in China and India – working on developing resources, supplying LNG and marketing oil products. Shell interest in the Russian Sakhalin venture – where we aim to develop an LNG scheme – was increased. Fletcher Challenge Energy is being acquired in New Zealand and we have made an offer to other Woodside shareholders in Australia.

We are pursuing new oil and gas projects in major producing countries.

Liberalised markets offer new trading opportunities. Shell Trading – the Group's new integrated trading arm – builds on oil trading strengths. We are harnessing the potential of on-line exchanges. Commercialising Shell technology advances and capabilities – for example through Shell Global Solutions – is another important thrust.

The Group's proved Gas to Liquids technology converts gas into ultra-clean products in demand for raising fuel standards. Shell coal gasification technology – which we plan to apply in China – uses coal more efficiently and cleanly. We continue to develop our renewable energy businesses – where the proposed solar joint venture with Siemens is an important step – and pursue the possibilities of hydrogen.

Offering customers a choice of differentiated motor fuels – in 30 markets by the end of the year – has been particularly successful. Other customer-focused initiatives include integrated energy services for households and financial products for motorists. Shell companies are using the internet to extend and deepen relationships with customers.

Our reports tell much more of what the Group is doing. I believe they demonstrate we have the capabilities necessary for success, in particular:

- our technological skills and creativity,
- the strength of our brand,
- our global reach, and
- the value we place on our reputation.

How we succeed is as important as what we achieve. Our commitment to sustainable development encompasses everything Shell companies do, oil and gas as much as renewables. We are committed to delivering excellent returns and building value for the future – for the planet and its people, for our customers, employees and shareholders.

Let me end by thanking shareholders for all their support over the past four years. It was greatly appreciated, particularly in difficult times. It has been a privilege to be your Chairman as this great company enters its second century. Its future is in capable hands. I am sure Phil Watts will deserve your continued support.

Mark Moody-Stuart.

Sir Mark Moody-Stuart, Chairman
March 15, 2001

*In line with our commitment to integrating our reporting, The Shell Report Summary is being distributed to shareholders this year together with the Annual Report and Accounts.

Board of Directors

of The "Shell" Transport and Trading Company, p.l.c.

Managing Directors

Sir Mark Moody-Stuart KCMG Chairman

Born September 15, 1940. A Director and a Managing Director of the Company since 1991 and Chairman since 1997. A Group Managing Director since 1991. Joined the Group in 1966. Early practical experience as a geologist led to exploration positions in Brunei, Australia and the North Sea. From 1978 onwards, a number of general management positions in Europe, Asia and Africa were followed by appointment in 1991 to head the Group's Exploration and Production operations outside North America. Co-chairman of the G8 Task Force on Renewable Energy.

Philip Watts

Born June 25, 1945. A Director and a Managing Director of the Company and a Group Managing Director since 1997. Chief Executive Officer, Exploration and Production. Joined the Group as a seismologist in 1969, and held positions in Asia-Pacific region and Europe leading to Exploration Director, Shell UK 1983–85. Head of various Exploration and Production functions in The Hague 1985–91. Chairman and Managing Director in Nigeria 1991–94, and Co-ordinator, Europe 1994–95. Director Planning, Environment and External Affairs, Shell International 1996–97. Currently a member of the Executive Committee of the World Business Council for Sustainable Development. Also Chairman of the International Chamber of Commerce's UK governing body.

Paul Skinner

Born December 24, 1944. A Director and a Managing Director of the Company and a Group Managing Director since January 1, 2000. Chief Executive Officer, Oil Products. Joined the Group in chemicals in 1966, working in sales and marketing in the UK, Greece and Nigeria. Moved to the oil business in 1979, holding a succession of senior roles in the UK, New Zealand and Norway. Between 1991 and 1995 responsible for the oil trading business, and in 1995–96 additionally responsible for the shipping business. Director, Strategy and Business Services, Oil Products 1996–98. President, Shell Europe Oil Products 1998–99. Currently a member of the Board of INSEAD, the European/Asian business school.

Non-executive Directors

Teymour Alireza

Born September 7, 1939. A Director since 1997. A Saudi Arabian citizen. President and Deputy Chairman, The Alireza Group. Chairman National Pipe Company Ltd, Saudi Arabia. Director Arabian Gulf Investments (Far East) Ltd, Hong Kong. Member of the International Board of Trustees of the World Wide Fund for Nature.

Dr Eileen Buttle CBE

Born October 19, 1937. A Director since 1998. Retired in 1994 from a career of public scientific appointments. The UK member of the European Environment Agency's Scientific Committee. Member of a number of Government and Research Council scrutiny committees of environmental aspects of national and European research and of Boards of Trustees of environmental non-governmental organisations.

Luis Giusti*

Born November 27, 1944. A Venezuelan citizen. Appointed a Director on September 13, 2000. Joined the Venezuelan Shell oil company in 1966, and the Venezuelan state oil company, Petroleos de Venezuela, SA (PDVSA) in 1976. Chairman and CEO of PDVSA from 1994–99. Currently a Senior Adviser at the Center for Strategic and International Studies in Washington DC and also acts as a consultant in oil and energy.

Sir Peter Holmes MC

Born September 27, 1932. A Director since 1982. Chairman 1985–93 and a Group Managing Director 1982–93. A non-executive Director since 1993.

Sir John Jennings CBE FRSE

Born March 30, 1937. A Director since 1987. Chairman 1993–97. A Group Managing Director 1987–97. A non-executive Director since 1997. A Director of Det Norske Veritas, The MITIE Group and Robert Fleming & Co. Ltd. Member of Board of Counsellors of Bechtel Corporation and of International Advisory Board of Toyota Corporation.

Professor Robert O'Neill AO

Born November 5, 1936. A Director since 1992. An Australian citizen. A specialist in international political and strategic problems since 1971. Since 1987 Chichele Professor of the History of War, All Souls College, Oxford. Chairman of the International Institute for Strategic Studies, Co-Director of the All Souls Foreign Policy Studies Programme at Oxford, a Director of Capital Income Builder Inc. and the Capital World Growth and Income Fund, and an Advisory Board Member of the Investment Company of America.

Lord Oxburgh KBE FRS*

Born November 2, 1934. A Director since 1996. Scientific appointments 1960–87. Chief Scientific Adviser, Ministry of Defence 1987–93. Rector, Imperial College of Science, Technology and Medicine, 1993–2001.

Sir William Purves CBE DSO GBM

Born December 27, 1931. A Director since 1993. Retired from the Chairmanship of HSBC Holdings plc in May 1998 after 44 years service in that Group. Chairman of Hakluyt & Company Ltd, Deputy Chairman of Alstom s.a., Trustee of Reuters Founders Share Company Ltd, Director of Interpacific Holdings Ltd, Scottish Medicine plc, Trident Safeguards Ltd and World Shipping and Investment Co Ltd. Member of Hong Kong Chief Executive's International Advisory Council and a Member of Textron Inc International Advisory Council.

Company Secretary

Jyoti Munsiff

Joined Group in 1969 as a Legal Adviser. Appointed Company Secretary in 1993.

***Standing in 2001 for election or re-election as a Director of the Company.**

Report of the Directors

of The "Shell" Transport and Trading Company, p.l.c.

Activities of the Company

The Company is a holding company which, in conjunction with Royal Dutch Petroleum Company, a Netherlands company, owns, directly or indirectly, investments in the numerous companies constituting the Royal Dutch/Shell Group of Companies and collectively referred to as "the Group". Royal Dutch Petroleum Company has a 60% interest in the Group and the Company a 40% interest. The Operating Companies of the Group are engaged in various activities related to oil and natural gas, chemicals, power generation, renewable resources and other businesses throughout the world.

The structure of the Group is shown on the inside front cover and further described in Note 2 to the Financial Statements of the Company. The assets and income of the Company consist principally of its interest in the net assets, and its share in the net income of the Group.

Having regard to the fact that the Company has no subsidiaries, it is appropriate to draw attention to the Message from the Chairman (pages 2 and 3), Strategy (pages 20 and 21) and the Operational and Financial Review (pages 25 to 36) concerning Group companies generally which would have had to be included in this Report if such Group companies had been subsidiaries of the Company.

Financial Statements and dividends

The Financial Statements of the Company appear on pages 12 to 15. Earnings for the year amounted to £3,360.9 million, of which £2,308.3 million is available for distribution and £1,052.6 million represents the Company's share of earnings retained by companies of the Royal Dutch/Shell Group.

On September 20, 2000, an interim dividend of 5.7p per Ordinary share was paid.

The Directors have decided to recommend a final dividend for 2000 of 8.9p per Ordinary share which would make 14.6p per share for the year. Subject to approval at the Annual General Meeting, the final dividend will be paid on May 23, 2001 to Members on the Register on April 20, 2001 and to holders of Bearer Warrants who surrender Coupon No. 207.

Share capital

At the last Annual General Meeting shareholders approved an authority, expiring after a year, for the Company to purchase its own shares up to a maximum of 5% of the issued share capital. No such purchases were made during the year, but on February 8, 2001, the Board announced its intention to implement a share buyback programme with immediate effect via purchases on the London Stock Exchange. At March 13, 2001, 44,479,374 Ordinary shares (representing 0.45% of the Company's issued Ordinary share capital) had been purchased for cancellation for a total cost of £258.7 million including expenses at an average price of 578.5 pence per share. Shares purchased for cancellation on and before April 18, 2001, will not be entitled to receive the dividend payable on May 23, 2001.

Share buybacks are viewed by the Board as an important component in the ongoing financial management of the Company and a resolution will be proposed to the forthcoming Annual General Meeting to renew the authority for the Company to purchase its own shares for another year. This proposal is further explained in the letter from the Chairman which accompanies the Notice of the Annual General Meeting.

At March 13, 2001, there were no interests which had been notified to the Company in 3% or more of the Company's issued Ordinary share capital.

Directors

The current Directors of the Company are shown on page 4; all served as Directors throughout 2000 except for Luis Giusti, who joined the Board on September 13, 2000. Having been appointed by the Board, Mr Giusti will vacate office at the Annual General Meeting on May 17, 2001 and will offer himself for election by the shareholders.

Sir Antony Acland retired from the Board at the Annual General Meeting on May 9, 2000. The Directors retiring by rotation at the forthcoming Annual General Meeting are Sir John Jennings and Lord Oxburgh. Lord Oxburgh is eligible and will offer himself for re-election.

Sir John Jennings has decided not to offer himself for re-election and Sir Peter Holmes has indicated that he also wishes to retire from the Board following the conclusion of the Annual General Meeting. Sir John and Sir Peter previously each held office as a Group Managing Director and as Chairman of the Company, and following their retirement from Group service, continued as non-executive Directors to provide the Board with the benefit of their wisdom and wide experience of the energy business. The other Directors record their thanks for the significant contribution of both Sir John Jennings and Sir Peter Holmes to the Company and extend warm wishes to them for the future.

No Director has, or during the financial year had, a contract of service with the Company. No Director is or was materially interested in any contract subsisting during or at the end of the year that was significant in relation to the Company's business.

The Board's Statement on Corporate Governance is set out on pages 7 to 9, and the report to shareholders on Directors' Remuneration is set out on pages 10 and 11.

Chairman

Sir Mark Moody-Stuart will be retiring from the office of Chairman and Managing Director of the Company on June 30, 2001, the date of his retirement as a Group Managing Director of the Royal Dutch/Shell Group of Companies. The Board has elected Philip Watts as Chairman with effect from July 1, 2001.

The Board wishes to record its appreciation of the outstanding contribution to the Company's affairs made by Sir Mark and is pleased that he will remain on the Board as a non-executive Director.

Report of the Directors

continued

Directors' share interests in the Company

The interests of the Directors in Ordinary shares of Shell Transport, including any interests of a spouse or infant child, are set out below:

		25p Ordinary shares
	Jan 1, 2000	**Dec 31, 2000**
Sir Mark Moody-Stuart	500,000	**600,000**
Philip Watts	24,681	**24,681**
Paul Skinner	11,452	**31,919**
Teymour Alireza	27,626	**28,346**
Dr Eileen Buttle	900	**900**
Luis Giusti	–*	**-**
Sir Peter Holmes	61,103	**61,199**
Sir John Jennings	70,200	**70,200**
Professor Robert O'Neill	18,791	**18,998**
Lord Oxburgh	5,338	**5,477**
Sir William Purves	103,210	**103,210**

*at date of appointment

Notes: The above interests are all beneficial except that there were the following non-beneficial interests as trustee: Professor O'Neill – January 1, 2000: 11,110 Ordinary shares, December 31, 2000: 11,110 Ordinary shares; Sir William Purves – January 1, 2000: 100,210 Ordinary shares, December 31, 2000: 100,210 Ordinary shares.

No Director had an interest in either of the two classes of Preference shares during the year.

Changes in Directors' share interests during the period from December 31, 2000 to March 13, 2001 were: Philip Watts increased his holding by 34,700 Ordinary shares (on February 13, 2001), Paul Skinner increased his holding by 20,000 Ordinary shares (on February 8, 2001), and Dr Eileen Buttle increased her holding by 2,500 Ordinary shares (on February 13, 2001).

Share schemes

Certain Group companies have stock option plans, the operation of which during 2000 is summarised in Note 22 to the Group Financial Statements on pages 51 and 52.

The Shell Petroleum Company Limited is one of the companies with such a plan for executives, the shares involved being those of the Company and Royal Dutch Petroleum Company. Details of Managing Directors' interests in options relating to Shell Transport shares under this plan are set out on page 11.

Many UK employees continue to participate in the Sharesave Scheme operated by The Shell Petroleum Company Limited. The Scheme provides an opportunity to purchase shares in the Company after saving up to £250 per month for a three or five year period via an Inland Revenue approved contractual savings account with a financial institution. The Sharesave Scheme has been in operation since 1986 and, as indicated by the Chairman in his Message last year, opportunities to invest in Shell Transport or Royal Dutch shares are to be extended wherever practicable to all Shell people world-wide to encourage them to have a financial stake in the business. During 2000 The Shell Petroleum Company Limited and Shell Petroleum N.V. introduced a Global Employee Share Purchase Plan under which employees of Group companies can make regular savings up to a maximum equivalent to £250 per month which are invested on their behalf in shares of Shell Transport or Royal Dutch. If the shares bought with the savings during a 12-month period are kept within the Plan for a further 15 months, additional shares equivalent to 15% will be awarded. Eligible staff in the first group of 25 countries started contributing to the Plan in November 2000. Implementation on a world-wide basis in over 135 countries is planned to be completed during 2002. The Global Plan has been introduced for expatriate staff in the UK and the Sharesave Scheme continues in operation for other UK staff.

No issue of new shares is involved under any of the plans or schemes mentioned above.

Creditor payment policy

Statutory Regulations issued under the Companies Act 1985 require a public company to make a statement of its policy and practice on the payment of trade creditors. As a holding company with no business other than the holding of shares in companies of the Royal Dutch/Shell Group, the Company has no trade creditors. For the information of shareholders, the statement that will appear in the Directors' Report for 2000 of Shell U.K. Limited will confirm that Shell U.K. complies with the CBI's Better Payment Practice Code. Shell U.K. had approximately 32 days purchases outstanding at December 31, 2000 based on the average daily amount invoiced by suppliers during the year.

Auditors

PricewaterhouseCoopers have signified their willingness to continue in office, and a resolution for their reappointment will be submitted to the Annual General Meeting to be held on May 17, 2001.

Jyoti Munsiff

By Order of the Board
Jyoti Munsiff, Secretary
March 15, 2001

Corporate Governance

In 1998 the London Stock Exchange published the Combined Code, which sets out 17 principles of good governance, and a Code of Best Practice as guidance on the implementation of the principles. The Listing Rules of the Financial Services Authority require listed companies to publish each year in the Annual Report a statement of how the company has applied the principles of the Combined Code during the financial year. This statement sets out the position for the year 2000. The majority of the principles of the Combined Code have featured in the Company's approach to corporate governance for many years, and the Board's commitment to the highest standards of integrity and transparency in its governance of the Company is unchanged. Accordingly, much of this statement is in the same terms as in previous statements.

The sole activity of The "Shell" Transport and Trading Company, p.l.c. (Shell Transport) is the ownership of a 40% interest in the Royal Dutch/Shell Group of Companies of which it is not a part and in whose activities it does not engage. The other 60% is owned in like manner by Royal Dutch Petroleum Company (Royal Dutch). This arrangement has stood unaltered since 1907, subject only to changes of detail, and during this long period the Group has grown to be one of the largest global commercial enterprises. The Board considers that these enduring arrangements between Shell Transport and Royal Dutch have served shareholders well. It must be recognised, however, that the framework within which the Board operates is conditioned to some extent by Shell Transport's unique relationship with Royal Dutch, and this results in some special arrangements which may not be appropriate in other companies. For instance, the Board Committees dealing with audit and remuneration matters are joint committees of the Supervisory Board of Royal Dutch and the Board of Shell Transport. However, these governance arrangements are always designed with a view to upholding the best standards of corporate governance and are subject to ongoing review for improvement and adjustment for the changing demands of business.

The joint arrangements for supervising the governance of the operations of the Royal Dutch/Shell Group of Companies in over 135 countries are summarised in this statement under the heading *"Arrangements with Royal Dutch Petroleum Company"*. The remainder of this statement refers to the governance of Shell Transport itself.

Board structure and procedures

The current membership of the Board is shown on page 4. All Directors are equally accountable at law to the shareholders for the proper conduct of the business. The Directors aim for Board membership which provides a spread of knowledge and experience appropriate to the business. The actual composition of the Board varies from time to time, but for many years the Board has comprised:

- at least two Managing Directors of the Company, who were also Group Managing Directors;
- a Chairman, who was also one of the Managing Directors;
- a number of non-executive Directors, who constituted the majority of the Board.

For the greater part of 2000 there were 11 Directors of the Company; three were Managing Directors and the balance were non-executive Directors. Of the non-executive Directors, two – Sir Peter Holmes and Sir John Jennings – were former Managing Directors. The Board believes that there is great value to the Company in being able to access the specific experience in an integrated energy business of former Managing Directors, who retire from executive office at the age of 60. Of the eight non-executive Directors at the end of the year, Dr Eileen Buttle, Luis Giusti (appointed September 13, 2000), Professor Robert O'Neill, Lord Oxburgh and Sir William Purves are wholly independent of any personal business connection with the Company or members of the Royal Dutch/Shell Group. Sir Antony Acland, who retired in May, was also wholly independent and accordingly, the structure of the Board during the year observed the Combined Code provisions that non-executive Directors should comprise not less than one-third of the Board and a majority of the non-executives should be "independent". The Chairman of the Board is currently also the most senior executive Director, but this arrangement is not in conflict with the principle that one person should not have unfettered powers of decision (please see details of the Committee of Managing Directors on page 24). Sir Antony Acland was the senior non-executive Shell Transport Director and following his retirement the Board nominated Sir William Purves to be the senior non-executive Director.

The Articles of Association require one-third of the Directors to retire by rotation at each Annual General Meeting. The Combined Code suggests that all Directors should be subject to re-election at intervals of no more than three years, and suitable amendments to the Company's Articles of Association will be proposed to shareholders when the Articles are next revised. In the meantime, all Directors, including the Managing Directors, will retire by rotation to ensure compliance with the Combined Code. All Directors vacate office at age 70 at the latest.

Possible new non-executive Directors are reviewed by the Nomination Committee before any approach is made to the candidate. Any new appointment is made by the Board only after a recommendation from the Nomination Committee. The Chairman of the Board acts as Chairman of the Nomination Committee. In view of the essential requirement for potential Directors to understand the nature of the responsibilities of the Board and the extensive operations of the Group, it is considered vital for the Managing Directors to take part in the briefing of any nominees to the Board. Accordingly, the Nomination Committee is structured as a committee of the whole Board so that all Directors can participate in the nomination process.

The structure of the committee, known as the "Committee of Managing Directors", which considers and develops objectives and long-term plans of the Royal Dutch/Shell Group is set out on page 24. The members of this Committee are also known as "Group Managing Directors" and the Remuneration and Succession Review Committee (see page 9) reviews and endorses candidates for appointment to these positions. The Board of Shell Transport considers the appointment of new Directors of the Company in connection with proposals for appointment to the

Board structure and procedures continued
position of Group Managing Director and, where considered appropriate, either co-opts the person concerned as Director or, if timing allows, recommends the person to the shareholders for election at the forthcoming Annual General Meeting. It is normally the case that the Board also appoints the new Director as a Managing Director of the Company.

The Directors meet regularly as a Board to deal with business requiring Board approval and also hold meetings known as "Conference" with members of the Supervisory and Management Boards of Royal Dutch.

Going concern and internal controls
The Directors consider that, taking into account the assets and income of the Royal Dutch/Shell Group of Companies and the long and successful relationship between Shell Transport and Royal Dutch, Shell Transport has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going-concern basis for the financial statements of the Company.

Shell Transport safeguards its 40% interest in the Group, from which it derives virtually the whole of its income, by appointing a number of Directors to the Boards of the Group Holding Companies; and by the appointment of 50% of the membership of the Group Audit Committee.

The approach in the Group to risk management and internal control is set out on pages 34 and 35 which demonstrates that risk and control reporting was enhanced to provide from the beginning of 2000 a process designed to involve management in regular reviews of the risks that are significant to the fulfilment of the objectives of the businesses. These enhancements were designed to formalise the mechanisms for ongoing identification, evaluation, management and review of significant risks and the Directors consider that these internal control arrangements are compatible with the guidance for directors published in September 1999 (known as the Turnbull Report) in relation to the internal control provisions of the Combined Code.

The Directors are responsible for Shell Transport's own system of internal control and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against misstatement or loss. Shell Transport's own internal financial controls have for some years been the subject of periodic review by the Board in respect of process and effectiveness. This review was, for the year 2000, expanded to consider any other business risks including compliance risks.

The Directors accordingly confirm that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, that it has been in place for the year 2000 and up to the date of approval of the Annual Report and Accounts, and that the process is regularly reviewed by the Board and accords with the guidance for Directors referred to above.

Communications
The Board of Shell Transport recognises the importance of two-way communication with its shareholders and, in addition to giving a balanced report of results and progress at each Annual General Meeting, the Company responds to questions and issues raised by either institutions or private shareholders. Extensive information about Shell companies is available through many sites on the world wide web and in particular through www.shell.com, which includes a facility for questions to be raised through e-mail. A dialogue with institutional shareholders is maintained through the investor relations programme, and all major presentations are made available on www.shell.com. During the year the share registrar, Lloyds TSB Registrars, introduced for shareholders an online internet access facility providing details of their shareholdings, including recent movements in the number of shares held and indicative share prices.

Arrangements with Royal Dutch Petroleum Company
Shell Transport and Royal Dutch are independent companies, each obliged to observe the law and corporate practices of their country of incorporation – the United Kingdom and the Netherlands, respectively. Shell Transport and Royal Dutch have, over their long association, developed a number of special consultative arrangements as set out below to assist with the proper discharge of their responsibilities to their own respective shareholders for stewardship of the Parent Companies' interests in the Royal Dutch/Shell Group.

The structure of the Royal Dutch/Shell Group is shown on the inside front cover of this Annual Report, and the membership of the Boards of the Parent Companies is set out on pages 22 and 23.

Conference
Meetings of the Conference between the Directors of Shell Transport and members of the Supervisory and Management Boards of Royal Dutch are held regularly during the year. The purpose of the Conference is to receive information from Group Managing Directors about major developments within the Royal Dutch/Shell Group of Companies and to discuss reviews and reports on the business and plans of the Group. Senior executives of Group companies also attend meetings of the Conference to present strategic plans and proposals for major projects, giving Directors frequent opportunities to hear from and question those with first-hand experience of the business in addition to receiving fully documented reports and proposals.

Joint Committees
The joint Committees established by the Parent Companies to assist with their respective governance responsibilities are described below.

All three of these Committees are composed of six members, in each case three of whom are appointed by the Board of Shell Transport from among its members and three by the Supervisory Board of Royal Dutch from among its members.

Group Audit Committee
In 1976 the Board of Shell Transport, jointly with the Supervisory Board of Royal Dutch, established a Group Audit Committee. Under its terms of reference the Committee acts in an advisory capacity to the Boards, providing them with quarterly and annual updates regarding its activities and related recommendations. The Committee regularly considers the effectiveness of risk management processes and internal control within the Group and reviews the financial accounts and reports of the Royal Dutch/Shell Group of Companies. The Committee also considers both internal and external audit reports (including the results of the examination of the Group Financial Statements) and assesses the performance of internal and external audit. The Directors of Shell Transport appointed to the Committee are Sir Peter Holmes, Professor Robert O'Neill and Sir William Purves (Chairman of the Committee); the members appointed by the Supervisory Board of Royal Dutch are Aad Jacobs, Hennie de Ruiter and Jan Timmer.

Remuneration and Succession Review Committee
In 1967 the Board of Shell Transport, jointly with the Supervisory Board of Royal Dutch, established a Remuneration Committee. Following restatement of its terms of reference in 1980, this Committee was renamed as Remuneration and Succession Review Committee. The functions of the Committee are to make recommendations on all forms of remuneration with respect to Group Managing Directors and to review matters relating to the succession to the positions of Group Managing Directors.

The members appointed by the Board of Directors of Shell Transport are Dr Eileen Buttle, Sir John Jennings and Lord Oxburgh; the members appointed by the Supervisory Board of Royal Dutch are Jonkheer Aarnout Loudon, Professor Joachim Milberg and Lodewijk van Wachem (Chairman of the Committee). Given the complexity of the salary structures for Managing Directors in relation to other senior Group executives, the Boards of Royal Dutch and Shell Transport have considered it helpful to include former Managing Directors in the Committee, although not in the majority. The Chairman of the Committee is currently an appointee of Royal Dutch, namely Lodewijk van Wachem, Chairman of their Supervisory Board. Sir John Jennings has been nominated by the Board of Shell Transport to respond on its behalf to any questions relating to remuneration issues.

Social Responsibility Committee
In 1997 the Board of Shell Transport, jointly with the Supervisory Board of Royal Dutch, established a Social Responsibility Committee. The Committee reviews the policies and conduct of the Royal Dutch/Shell Group of Companies with respect to the Group's *Statement of General Business Principles* as well as the Group's Health, Safety and Environment Commitment and Policy.

The members appointed by the Board of Shell Transport are Teymour Alireza, Dr Eileen Buttle and Lord Oxburgh (Chairman of the Committee). The members appointed by the Supervisory Board of Royal Dutch are Maarten van den Bergh, Jonkheer Aarnout Loudon and Jan Timmer.

Shell companies have long been open about the values and principles which guide them, and the Group's *Statement of General Business Principles* has been publicly available for over 20 years. The latest version followed extensive internal and external consultation. It includes commitments to support fundamental human rights and to contribute to sustainable development.

Group companies publish a document entitled *The Shell Report* which reviews Group companies' progress in embodying sustainable development in the way they do business and meet the economic, environmental and social expectations of stakeholders. It includes the latest verified health, safety and environmental data.

Compliance with the Code of Best Practice
In addition to the principles of good governance, the Combined Code incorporates a Code of Best Practice, and the Financial Services Authority requires listed companies to indicate whether or not they have complied with the provisions of the Code of Best Practice throughout the year and to explain any non-compliance.

The Board of Shell Transport endorses the spirit of good governance exemplified by the Code of Best Practice and confirms its compliance with the Code throughout 2000 subject to variations discussed in this review which continue to reflect Shell Transport's alliance with the Netherlands-based Royal Dutch.

Remuneration Report

Philosophy
The philosophy for the remuneration of Group Managing Directors, including those who are also Directors of the Company, is consistent with that for senior management throughout the Group: to attract and retain high-quality staff at all levels and motivate them towards exceptional performance. It seeks to align all senior staff with the goals of the Group and its various businesses, and with shareholders' interests. The remuneration package is made up of base salary, short-term annual bonus and long-term incentives. The membership of the Group Remuneration and Succession Review Committee (REMCO) is set out on page 9.

Base salary
The base salary scales for Managing Directors are set by reference to internal and external market surveys of companies of similar size and international scope. Base salaries are reviewed annually and the scales were increased by 3.0% with effect from January 1, 2000. Progression of an individual Managing Director's salary to the target position is usually over a three-year period from appointment.

Annual bonus
An annual bonus is determined by REMCO by reference to the extent of achievement of challenging Group performance targets set as part of the annual Group business plan. The targets take into account financial, operational, social and environmental objectives. The maximum bonus payable is 50% of base salary. The bonus payable to Managing Directors in respect of the year 2000 is 45%. The annual bonus payment is non-pensionable.

Long-term incentives
Long-term incentives for Managing Directors are provided through the Group Stock Option Plans which have been in operation since 1967, and which are believed to create an effective method of aligning the interests of Managing Directors and other Group senior managers with those of shareholders. From 1998, options granted to the Managing Directors of Shell Transport are granted for 10 years with a three-year vesting period. The same terms apply to all other optionees under the Plans. The options granted to Managing Directors since 1998 have had performance conditions attaching to 50% of the grant. The performance conditions are based on the Total Shareholder Return over a three-year period, measured by the average weighted share price of Royal Dutch and Shell Transport over the 10-day period at the beginning and end of the said three-year period as compared with equivalent data for other major integrated oil companies and after taking into account such other factors as REMCO may deem appropriate. It is intended that a proportion of future grants to Managing Directors as well as to the most senior executives will be subject to similar performance conditions based on Total Shareholder Return. The proportion of the share options subject to the performance conditions which will either become unconditional or lapse will be determined for the Managing Directors at the absolute discretion of REMCO. In order that the stock option grant may follow the announcement of annual Group results as well as business and individual performance appraisals, the grant date was changed from December to March, commencing from March 2000. Thus, no grants were made in December 1999, but grants were made in March 2000. Further grants are proposed for March 2001.

The shares subject to the Plans are existing issued shares of the Company and no dilution of shareholders' equity is involved.

Consideration is given on an individual basis to the granting of options each year.

Total remuneration
Details of the total remuneration and benefits of each Director are set out on page 11.

Service contracts
The Managing Directors of Shell Transport do not have service contracts with their employing company, and their entitlement to notice is the standard for all senior staff – three months. There are no predetermined termination compensation arrangements in place for the Managing Directors.

Pensions/Retirement benefits
The principal sources of Managing Directors' pensions are the Shell Contributory Pension Fund (for service in the UK) and the Shell Overseas Contributory Pension Fund (for previous service overseas). Both Funds are defined benefit plans to which Managing Directors contribute 4% of relevant earnings. Managing Directors retire on June 30 following their 60th birthday, and the maximum pension is two-thirds of their remuneration, excluding bonuses. There are also provisions, as for all members of the above Funds, for a dependant's benefit of 60% of actual or prospective pension, and a lump-sum death-in-service payment of three times the annual salary.

During 2000 three Directors accrued retirement benefits under defined benefit plans (1999: two; 1998: two). No Director has accrued benefits under a money purchase benefit scheme.

Salaries/fees payable to Managing Directors, totalling £1,514,500 in 2000, £1,028,500 in 1999 and £906,932 in 1998, count for pension purposes in the Shell Contributory Pension Fund. The payment of employers' contributions to the Fund, which is open to United Kingdom employees of the member companies, has upon actuarial advice been suspended since January 1, 1990 because of the financial position of the Fund.

Sir Mark Moody-Stuart, Philip Watts and Paul Skinner accrued pension benefits during the year as detailed below. The transfer values are calculated using the cash equivalent transfer value method in accordance with Actuarial Guidance Note GN11.

					£ thousand
	Age as at 31.12.00	Years of Group service as at 31.12.00	Net increase in accrued pension during 2000	Transfer value of pension increase	Accumulated annual pension as at 31.12.00
Sir Mark Moody-Stuart	60	37	19	293	455
Philip Watts	55	31	10	117	269
Paul Skinner	56	37	9	121	285

Emoluments of Directors in office during 2000

£	2000	1999	1998
Sir Mark Moody-Stuart			
Salaries and fees	**710,427**	668,822	637,852
Benefits	**–**	–	–
Performance-related element	**321,300**	301,050	0
	1,031,727	969,872	637,852
Realised share option gains	**892,440**	811,620	370,462
	1,924,167	1,781,492	1,008,314
Philip Watts			
Salaries and fees	**496,302**	472,622	431,111
Benefits	**17,323**	17,275	14,535
Performance-related element	**225,000**	218,250	0
	738,625	708,147	445,646
Realised share option gains	**134,400**	112,200	32,321
	873,025	820,347	477,967
Paul Skinner			
Salaries and fees	**458,802**	–	–
Benefits	**15,620**	–	–
Performance-related element	**213,750**	–	–
	688,172	–	–
Realised share option gains	**349,704**	–	–
	1,037,876	–	–
Sir Antony Acland			
Directors' fees	**9,006**	25,000	25,000
Committee fees	**1,351**	6,250	3,750
	10,357	31,250	28,750
Teymour Alireza			
Directors' fees	**25,000**	25,000	25,000
Committee fees	**3,750**	3,750	3,024
	28,750	28,750	28,024
Dr Eileen Buttle			
Directors' fees	**25,000**	25,000	12,030
Committee fees	**5,625**	1,875	–
	30,625	26,875	12,030
Luis Giusti			
Directors' fees	**7,500**	–	–
Committee fees	**–**	–	–
	7,500	–	–
Sir Peter Holmes			
Directors' fees	**25,000**	25,000	25,000
Committee fees	**5,000**	6,875	6,774
Holding Company fees	**18,011**	18,503	18,883
	48,011	50,378	50,657
Pensions	**28,190**	27,342	26,460
	76,201	77,720	77,117
Sir John Jennings			
Directors' fees	**25,000**	25,000	25,000
Committee fees	**6,250**	7,500	5,000
Holding Company fees	**18,011**	18,503	18,883
	49,261	51,003	48,883
Pensions	**36,487**	35,389	34,433
Realised share option gains	**–**	1,047,540	945,000
	85,748	1,133,932	1,028,316

£	2000	1999	1998
Professor Robert O'Neill			
Directors' fees	**25,000**	25,000	25,000
Committee fees	**5,000**	6,250	5,000
	30,000	31,250	30,000
Lord Oxburgh			
Directors' fees	**25,000**	25,000	25,000
Committee fees	**11,850**	11,850	9,516
	36,850	36,850	34,516
Sir William Purves			
Directors' fees	**25,000**	25,000	25,000
Committee fees	**9,333**	7,467	9,333
	34,333	32,467	34,333

Note: The performance-related element is included in the year to which it relates.

Share options

The interests of Shell Transport Directors under all the stock option plans of Group companies during 2000 were:

Number of options						
At 1.1.00	Granted during the year	Exercised during the year	At 31.12.00	Exercise price	Market price at date of exercise	Expiry date
Sir Mark Moody-Stuart						
333,000	–	333,000	–	286p	554p	13.12.00
333,000	–	–	333,000	326p	–	11.12.01
387,000	–	–	387,000	439p	–	10.12.02
464,000	–	–	464,000	363p	–	21.12.08
–	487,000	–	487,000	505p	–	22.03.10
Philip Watts[a]						
60,000	–	60,000	–	286p	510p	13.12.00
194,700	–	–	194,700	326p	–	11.12.01
272,000	–	–	272,000	439p	–	10.12.02
325,000	–	–	325,000	363p	–	21.12.08
–	341,000	–	341,000	505p	–	22.03.10
Paul Skinner[a]						
139,200	–	75,000	–	286p	528p	13.12.00
		64,200		286p	548p	13.12.00
194,700	–	–	194,700	326p	–	11.12.01
139,200	–	–	139,200	439p	–	10.12.02
194,700	–	–	194,700	363p	–	21.12.08
–	341,000	–	341,000	505p	–	22.03.10

a In addition, Philip Watts and Paul Skinner each hold an option under The Shell Petroleum Company Limited Sharesave Scheme to purchase 5,214 Shell Transport Ordinary shares at 330p. These options were granted on December 12, 1996 and mature on February 1, 2002.

Notes

(i) All the above figures have been adjusted where necessary to reflect the 2-for-1 capitalisation issue effective on June 30, 1997, and certain adjusted exercise prices are rounded down to the nearest whole penny.

(ii) All the options listed above relate to Shell Transport Ordinary shares. No options lapsed during the year. All options are exercisable at market price (no discount) at grant. The options with an expiry up to and including 2002 were exercisable from grant. The remaining options were granted for 10 years and are not exercisable within three years of grant; 50% of those options are subject to a performance condition with the exception of those granted prior to appointment as a Director of the Company.

(iii) The middle market price of the Ordinary shares on December 31, 2000 was 549.00p and the price range during the year was 411.75p to 627.00p.

(iv) There were no changes in the above interests in options during the period from December 31, 2000 to March 13, 2001 except that Philip Watts has exercised the entire option with an expiry date on December 11, 2001 and Paul Skinner has exercised part of the option with an expiry date on December 11, 2001 to the extent of 100,000 shares. The market prices of the shares at the respective dates of exercise were 587p and 580p.

Financial Statements

of The "Shell" Transport and Trading Company, p.l.c.

Profit and Loss Account

£ million

	Note	2000	1999	1998
Income from shares in companies of the Royal Dutch/Shell Group	3	**2,307.4**	1,392.1	1,342.4
Interest and other income		**4.5**	5.2	8.3
		2,311.9	*1,397.3*	*1,350.7*
Administrative expenses		**3.3**	3.8	4.4
Profit on ordinary activities before taxation		**2,308.6**	1,393.5	1,346.3
Tax on profit on ordinary activities	4	**0.3**	0.4	1.2
Distributable profit for the year		**2,308.3**	1,393.1	1,345.1
Share of earnings retained by companies of the Royal Dutch/Shell Group/(Distributions from retained earnings)	5	**1,052.6**	730.5	(1,292.8)
Earnings for the year attributable to shareholders		**3,360.9**	2,123.6	52.3

All results relate to continuing operations.

Statement of Retained Profit

£ million

	Note	2000	1999	1998
Distributable profit for the year		**2,308.3**	1,393.1	1,345.1
Distributable retained profit at beginning of year		**20.6**	20.4	18.3
		2,328.9	1,413.5	1,363.4
deduct				
Dividends on non-equity shares	6			
First Preference shares		**0.1**	0.1	0.1
Second Preference shares		**0.7**	0.7	0.5
		0.8	0.8	0.6
		2,328.1	1,412.7	1,362.8
deduct				
Dividends on equity shares:				
25p Ordinary shares				
Interim of 5.7p in 2000, 5.5p in 1999 and 5.3p in 1998		**566.8**	546.9	527.0
Proposed final of 8.9p in 2000, final of 8.5p in 1999 and 8.2p in 1998		**885.0**	845.2	815.4
		1,451.8	1,392.1	1,342.4
Distributable retained profit at end of year		**876.3**	20.6	20.4

Earnings per 25p Ordinary share[a]

pence

	2000	1999	1998
Distributable profit for the year	**23.2**	14.0	13.5
Share of earnings retained by companies of the Royal Dutch/Shell Group/(Distributions from retained earnings)	**10.6**	7.4	(13.0)
Earnings for the year attributable to shareholders	**33.8**	21.4	0.5

Of the earnings per share amounts shown above, which are disclosed in accordance with Financial Reporting Standard No. 14, those relating to earnings for the year attributable to shareholders are, in the opinion of the Directors, the most meaningful since they reflect the full entitlement of the Company in the income of Group companies. There is no difference between basic and diluted earnings per share.

a On 9,943,509,726 shares in issue.

Balance Sheet

£ million

	Note	Dec 31 2000	Dec 31 1999
Fixed assets			
Investments			
Shares (unlisted) in companies of the Royal Dutch/Shell Group	5	**15,629.4**	14,153.2
Current assets			
Debtors			
Dividends receivable from companies of the Royal Dutch/Shell Group		**1,740.6**	845.2
Other debtors		**0.1**	0.1
		1,740.7	845.3
Cash at bank			
Short-term deposits		**29.5**	29.0
Cash		**0.9**	0.5
		1,771.1	874.8
Creditors: amounts due within one year			
Amounts due to companies of the Royal Dutch/Shell Group		**0.5**	0.4
Corporation tax		**0.2**	0.2
Unclaimed dividends		**8.0**	7.4
Other creditors and accruals		**2.5**	2.4
Preference dividends accrued		**0.3**	0.3
Ordinary dividend proposed		**885.0**	845.2
		896.5	855.9
Net current assets		**874.6**	18.9
Total assets less current liabilities		**16,504.0**	14,172.1
Capital and reserves			
Equity interests			
Called-up share capital	6		
Ordinary shares		**2,485.9**	2,485.9
Revaluation reserve	5	**13,129.8**	11,653.6
Profit and Loss Account		**876.3**	20.6
		16,492.0	14,160.1
Non-equity interests			
Called-up share capital	6		
First Preference shares		**2.0**	2.0
Second Preference shares		**10.0**	10.0
		12.0	12.0
Shareholders' funds	7	**16,504.0**	14,172.1

M Moody-Stuart

Sir Mark Moody-Stuart, Chairman and Managing Director
March 15, 2001

Notes to Financial Statements

Statement of Total Recognised Gains and Losses £ million

	Note	2000	1999	1998
Distributable profit for the year		**2,308.3**	1,393.1	1,345.1
Unrealised surplus/(deficit) on revaluation of investments in companies of the Royal Dutch/Shell Group	5	**1,476.2**	740.8	(1,168.5)
Total recognised gains and losses relating to the year		**3,784.5**	2,133.9	176.6

Statement of Cash Flows £ million

	2000	1999	1998
Returns on investments and servicing of finance			
Dividends received from companies of the Royal Dutch/Shell Group	**1,412.0**	1,362.3	1,318.5
Interest received	**4.3**	5.6	9.9
Preference dividends paid	**(0.8)**	(0.7)	(0.6)
Other	**(2.4)**	(3.2)	(3.8)
Net cash inflow from returns on investments and servicing of finance	**1,413.1**	1,364.0	1,324.0
Taxation			
Tax paid	**(0.3)**	(0.2)	(0.2)
Equity dividends paid			
Ordinary shares	**(1,412.0)**	(1,362.3)	(1,322.5)
Management of liquid resources (short-term deposits)			
Net cash (outflow)/inflow from management of liquid resources	**(0.5)**	32.9	80.1
Financing			
Net increase/(decrease) in amounts due to companies of the Royal Dutch/Shell Group	**0.1**	(59.9)	(69.2)
Increase/(decrease) in cash	**0.4**	(25.5)	12.2
Cash at January 1	**0.5**	26.0	13.8
Cash at December 31	**0.9**	0.5	26.0

Net funds, being amounts due to companies of the Royal Dutch/Shell Group less cash, increased during 2000 from £0.1 million to £0.4 million (1999: net debt decreased from £34.3 million to net funds of £0.1 million).

The Company adopts a policy of minimising cash holdings whilst ensuring that operating costs and the financing of dividend payments are met. The Company's debtors and creditors are short-term and are all denominated in sterling.

At December 31, 2000 the Company had £29.5 million (1999: £29.0 million) on short-term deposit with third-party banks. The fixed interest rate earned on these sterling deposits at year end was 5.8% (1999: 5.5%). The carrying amount and fair value of these deposits are the same.

1 Accounting policies and convention

The accounting policies of The "Shell" Transport and Trading Company, p.l.c. (Shell Transport) are explained in the relevant notes.

The Financial Statements on pages 12 to 15 herein have been prepared in accordance with the Companies Act 1985 and with applicable accounting standards. They have been prepared under the historical cost convention modified by the revaluation of the investments in companies of the Royal Dutch/Shell Group (see Note 5). The disclosures described in Note 3 have been derived from the Royal Dutch/Shell Group Financial Statements.

2 The Company

Shell Transport, one of the Parent Companies of the Royal Dutch/Shell Group of Companies, is a holding company which, in conjunction with Royal Dutch Petroleum Company (Royal Dutch), owns, directly or indirectly, investments in the numerous companies referred to collectively as "the Group". Shell Transport has no investments in associated undertakings other than in companies of the Group.

Arrangements between Royal Dutch and Shell Transport provide, *inter alia*, that notwithstanding variations in shareholdings, Royal Dutch and Shell Transport shall share in the aggregate net assets and in the aggregate dividends and interest received from Group companies in the proportion of 60:40. It is further arranged that the burden of all taxes in the nature of or corresponding to an income tax leviable in respect of such dividends and interest shall fall in the same proportion.

The 60:40 arrangements referred to above have been supplemented by further arrangements, beginning with Group dividends payable to the Parent Companies in respect of 1977, whereby each Parent Company is to bring into account towards its share in the 60:40 division of dividends from Group companies tax credits and other tax benefits which are related to the liability to tax of a Group company and which arise to the Parent Company or which would arise to the holders of its Ordinary shares if there were to be an immediate full onward distribution to them of Group dividends (for which purpose all such shareholders are assumed to be individuals resident and subject to tax in the country of residence of the Parent Company in question). The tax benefit to Shell Transport for the 1994 dividend through to the 1997 interim dividend amounted to 8% of total Group income divisible for 60:40 purposes.

In 1997 the UK government announced changes to tax law in respect of company distributions, including the abolition of advance corporation tax (ACT). In view thereof, the Parent Companies agreed that the tax benefit to Shell Transport for the 1997 final dividend and the 1998 interim dividend (which were paid as foreign income dividends) would be 4% of total Group income divisible for 60:40 purposes. It was also agreed that, as a result of the abolition of ACT as from April 6, 1999, there would be no tax benefit to Shell Transport for the 1998 final and subsequent dividends. This has the effect of Shell Transport receiving the whole of its entitlement in cash.

Notes to Financial Statements

continued

3 Share in the income and assets of Group companies
Shell Transport records income from shares in Group companies, in the form of dividends, in its profit and loss account. The Company's investments in Group companies are stated at the Directors' valuation at an amount equivalent to Shell Transport's 40% interest in the Group net assets as disclosed in the Group Financial Statements on pages 37 to 57 together with 40% of the carrying amount of Parent Companies' shares held by Group companies. The difference between the cost and the amount at which the investments are stated in the balance sheet has been taken to Revaluation reserve.

Shell Transport's share in certain items relating to the two Group Holding Companies and Shell Petroleum Inc., described in Note 5, is set out below. These companies own directly or indirectly the investments, which, with them, comprise the Group. The following supplementary information has therefore been provided in respect of the Group Holding Companies and Shell Petroleum Inc. in the aggregate and is derived from the Group Financial Statements on pages 37 to 57.

£ million

	2000	1999	1998
Sales proceeds	**50,589.5**	37,019.3	33,440.2
Sales taxes, excise duties and similar levies	**11,191.1**	10,964.4	10,781.7
Net proceeds	**39,398.4**	26,054.9	22,658.5
Operating profit after net currency gains/losses	**6,441.8**	3,766.8	751.9
Interest and other income	**257.3**	133.8	152.1
Interest expense	**349.7**	309.8	322.4
Income before taxation	**6,349.4**	3,590.8	581.6
Taxation	**2,977.9**	1,408.5	462.6
Minority interests	**11.6**	59.6	34.4
Net income for the year	**3,359.9**	2,122.7	84.6
Fixed assets including Parent Companies' shares	**19,013.3**	19,677.4	20,110.1
Current assets	**14,122.8**	8,735.3	6,580.6
Current liabilities	**11,427.7**	8,268.0	7,503.5
Long-term liabilities	**2,160.7**	2,286.0	2,091.3

The 1998 figures have been restated to include Parent Companies' shares held by Group companies.

This supplementary information has been calculated in conformity with the accounting policies on pages 40 to 42 of the Group Financial Statements. These policies differ in certain respects from accounting principles generally accepted in the United Kingdom, the principal difference being in respect of the provision for deferred taxation. If deferred taxation had been provided in the Group Financial Statements under UK accounting standard SSAP 15, it has been estimated that Shell Transport's share of Group net assets would increase by approximately £1.2 billion (1999: £1.3 billion). Shell Transport's distributions from Group companies were as follows:

£ million

	2000	1999	1998
Distributions from Group companies and tax benefit referable thereto	**2,307.4**	1,392.1	1,401.0
deduct referable tax benefit	**–**	–	58.6
Distributions from Group companies	**2,307.4**	1,392.1	1,342.4

The increased distributions from the Group companies in 2000 provide reserves available for the share buyback programme which commenced on February 8, 2001.

4 Tax on profit on ordinary activities

£ million

	2000	1999	1998
Corporation tax at 30% (1999: 30.25% and 1998: 31%) in respect of interest income less administrative expenses	**0.3**	0.4	1.2

No taxation liability arises in respect of income from shares in companies of the Group as this income consists of a distribution, which is not subject to taxation, from a UK resident company.

Shell Transport's share of taxation borne by Group and associated companies is given in Note 3.

5 Investments in Group companies
Shell Transport has 40% equity shareholdings in The Shell Petroleum Company Limited, which is registered in England and Wales, (consisting of the whole of its 102,342,930 issued "B" shares of £1 each) and in Shell Petroleum N.V., which is incorporated in the Netherlands (consisting of the whole of its 44 issued "B" shares of N.fl. 5,000,000 each). The remaining 60% equity shareholdings in these two companies (consisting of 153,514,395 "A" shares of £1 each of The Shell Petroleum Company Limited and 66 "A" shares of N.fl. 5,000,000 each of Shell Petroleum N.V.) are held by Royal Dutch.

Shell Transport also holds 1,600 Class "B" shares of US $1 each in Shell Petroleum Inc., which is incorporated in the State of Delaware, USA. These shares, together with the 2,400 Class "A" shares of US $1 each in that company held by Royal Dutch, carry voting control of Shell Petroleum Inc. but are restricted in regard to dividends to 12% of their par value per annum. Shell Petroleum N.V. holds the remaining 1,000 shares of US $1 each in Shell Petroleum Inc., which are unrestricted in regard to dividends.

The Shell Petroleum Company Limited, Shell Petroleum N.V. and Shell Petroleum Inc. own, directly or indirectly, the investments representing the total Group interest in the other companies which, with them, comprise the Group.

The Directors' valuation of Shell Transport's investments in Group companies comprises the following:

£ million

	2000	1999
Cost of Shell Transport's investments in Group companies	**178.4**	178.4
Shell Transport's share of:		
Profits capitalised by Group companies	**801.1**	800.8
Earnings retained by Group companies	**14,332.2**	13,279.9
Parent Companies' shares held by Group companies	**(350.8)**	(274.5)
Other comprehensive income[a]	**(1,226.1)**	(416.5)
Currency translation differences	**1,543.8**	310.6
	15,278.6	13,878.7
40% of carrying amount of Parent Companies' shares held by Group companies	**350.8**	274.5
	15,629.4	14,153.2

a Other comprehensive income comprises principally cumulative currency translation differences arising within the Group Financial Statements.

The movements in the Revaluation reserve are represented by:

£ million	2000	1999
As at January 1	**11,653.6**	10,912.8
Share of earnings retained by Group companies out of net income	**1,052.6**	730.5
Share of other comprehensive income for the year	**(809.6)**	(329.5)
Currency translation differences	**1,233.2**	339.8
	1,476.2	740.8
As at December 31	**13,129.8**	11,653.6

The earnings retained by Group companies have been, or will be, substantially reinvested by the companies concerned, and any taxation unprovided on possible future distributions out of any uninvested retained earnings will not be material.

The Company will continue to hold its investments in Group companies. However, as the investments are stated in the Balance Sheet on a valuation basis, it is necessary to report that, if the investments were to be disposed of for the amount stated, a taxation liability of approximately £1,259 million would arise (1999: £914 million).

6 Share capital and dividends

At December 31, 1999 and December 31, 2000 the authorised share capital of the Company was £2,500,000,000 divided into 9,948,000,000 Ordinary shares of 25 pence each, 3,000,000 First Preference shares of £1 each and 10,000,000 Second Preference shares of £1 each.

The allotted, called up and fully paid share capital at December 31, 1999 and December 31, 2000 was as follows:

	Number of shares	£
Equity shares		
Ordinary shares of 25p each	9,943,509,726	2,485,877,432
Non-equity shares		
First Preference shares of £1 each	2,000,000	2,000,000
Second Preference shares of £1 each	10,000,000	10,000,000
	9,955,509,726	2,497,877,432

The First and Second Preference shares (the Preference shares) confer on the holders the right to a fixed cumulative dividend and rank in priority to Ordinary shares. On a winding up or repayment the Preference shares also rank in priority to the Ordinary shares for the nominal value of £1 per share (plus a premium, if any, equal to the excess over £1 of the daily average price for the respective shares quoted in the Stock Exchange Official List for a six months period preceding the repayment or winding up) but do not have any further rights of participation in the profits or assets of the Company. The Preference shares do not have voting rights unless their dividend is in arrears or the proposal concerns a reduction of capital, winding up, sanctioning the sale of undertaking, an alteration of the Articles of Association or otherwise directly affects their class rights.

In accordance with the Finance Act 1972, dividends in respect of the First and Second Preference shares were payable between April 6, 1973 and April 5, 1999 at the rate of 3.85% per annum and 4.9% per annum respectively. Under the Finance Act 1998 the dividend rights on the Preference shares for payments after April 5, 1999 were restored to the respective nominal coupon rates of 5.5% per annum and 7% per annum.

The Preference shares are irredeemable and form part of the permanent capital of the Company. The number in issue has remained unchanged since 1922. The fair value of the Preference shares based on market valuations at December 31, 2000 was 101.4 pence per share (1999: 98.1 pence per share) for the First Preference shares and 112.8 pence per share (1999: 118.8 pence per share) for the Second Preference shares.

7 Reconciliation of movements in Shareholders' funds

£ million	2000	1999
Distributable profit for the year	**2,308.3**	1,393.1
Dividends	**(1,452.6)**	(1,392.9)
Unrealised surplus on revaluation of investments in companies of the Royal Dutch/Shell Group (Note 5)	**1,476.2**	740.8
Net addition to Shareholders' funds	**2,331.9**	741.0
Shareholders' funds at January 1	**14,172.1**	13,431.1
Shareholders' funds at December 31	**16,504.0**	14,172.1

8 Auditors' remuneration

Audit fees of Shell Transport amounted to £7,965 in 2000, £7,515 in 1999 and £7,515 in 1998. Other fees amounted to £8,050 in 2000, £7,130 in 1999 and £7,130 in 1998. All amounts are stated exclusive of value added tax.

9 Aggregate Directors' emoluments

£	2000	1999	1998
Salaries, fees and benefits	**1,974,161**	1,447,542	1,350,691
Performance-related element	**760,050**	519,300	0
	2,734,211	1,966,842	1,350,691
'Excess' retirement benefits (Note iii)	**34,056**	25,231	15,839
Realised share option gains	**1,376,544**	1,971,360	1,347,783

Notes

(i) The highest paid Director (including realised share option gains and excluding pensions) in 1998, 1999 and 2000 was Sir Mark Moody-Stuart.

(ii) Of the emoluments disclosed, £329,666 in 2000, £316,817 in 1999, and £294,427 in 1998 were borne by Shell Transport and charged in the Profit and Loss Account.

(iii) Excess retirement benefits are the amount of unfunded retirement benefits paid to or receivable by Directors and past Directors which exceed those to which they were entitled on the date on which the benefits first became payable or March 31, 1997, whichever is the later.

10 Post Balance Sheet event

A share buyback programme was approved by shareholders at the Annual General Meeting on May 9, 2000. Since the year end the Company had, under this programme, purchased on the market as at March 13, 2001, 44,479,374 Ordinary shares, representing 0.45% of the Company's issued share capital, for a total cost of £258.7 million including expenses at an average price of 578.5 pence per share.

Shares purchased under the buyback programme will be cancelled and will not rank for dividends but any shares purchased on or after April 18, 2001 will be entitled to the dividend payable on May 23, 2001.

Directors' responsibilities

in respect of the preparation of Financial Statements

The Companies Act 1985 requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the independent Auditors

To the Members of The "Shell" Transport and Trading Company, p.l.c.

We have audited the Financial Statements which comprise the Profit and Loss Account, the Statement of Retained Profit, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Statement of Cash Flows and the related notes. We have also examined the amounts disclosed relating to the emoluments, share options and pensions benefits of the Directors which form part of the Remuneration Report.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the Financial Statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the Financial Statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the Financial Statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements.

We review whether the Corporate Governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements.

Opinion

In our opinion, the Financial Statements give a true and fair view of the state of the Company's affairs at December 31, 2000 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London, March 15, 2001

Shell around the world

Energy links together the companies of the Royal Dutch/Shell Group, as they produce, process and deliver it. Operating in more than 135 countries, Shell companies make a significant contribution to economies in all parts of the world.

The nature of the operations carried out during the year in each listed country is indicated by the letters in the following key:

E Exploration
P Production
R Refining
M Marketing – oil products
G Downstream natural gas/power generation
C Chemicals – manufacturing/marketing
Rn Renewables

Western Europe

Austria E P M
Belgium M G C
Denmark E P R M G Rn
Finland M
France R M C
Germany E P R M G C Rn
Gibraltar M
Greece M G
Iceland M
Ireland, Republic of E M
Italy R M C
Luxembourg M C
Netherlands E P R M G C Rn
Norway E P R M G Rn
Portugal M C
Spain M G C
Sweden R M Rn
Switzerland M
United Kingdom E P R M G C Rn

CIS, Central and Eastern

Europe
Azerbaijan E M
Bulgaria M
Croatia M
Czech Republic R M
Estonia M
Hungary M
Kazakhstan E M
Latvia M
Lithuania M
Poland M
Romania M
Russia E P M
Serbia M
Slovakia M
Slovenia M
Turkmenistan M
Ukraine M
Uzbekistan M

Africa

Angola E
Benin M
Botswana M
Burkina Faso M
Cameroon E P R M
Cape Verde M
Chad M
Congo E Rn
Côte d'Ivoire E R M
Democratic Republic of Congo E P M
Djibouti M
Egypt E P M G
Eritrea M
Ethiopia M
Gabon E P R M
The Gambia M
Ghana M
Guinea M
Guinea-Bissau M
Kenya R M
Lesotho M
Madagascar M
Mali M
Mauritania E
Mauritius M
Morocco E M Rn
Mozambique M
Namibia E M
Niger M
Nigeria E P M G
Réunion M
Rwanda M
Senegal R M
South Africa R M C Rn
Sudan M
Swaziland M
Tanzania M
Togo M
Tunisia M
Uganda M
Zimbabwe M

Middle East and South Asia

Bangladesh E P M
India E M G C Rn
Iran P M
Jordan M
Lebanon M
Oman E P M G
Pakistan E P R M
Saudi Arabia R M C
Sri Lanka M Rn
Syria E P
Turkey R M G
United Arab Emirates E P M G C
Yemen M

Asia-Pacific

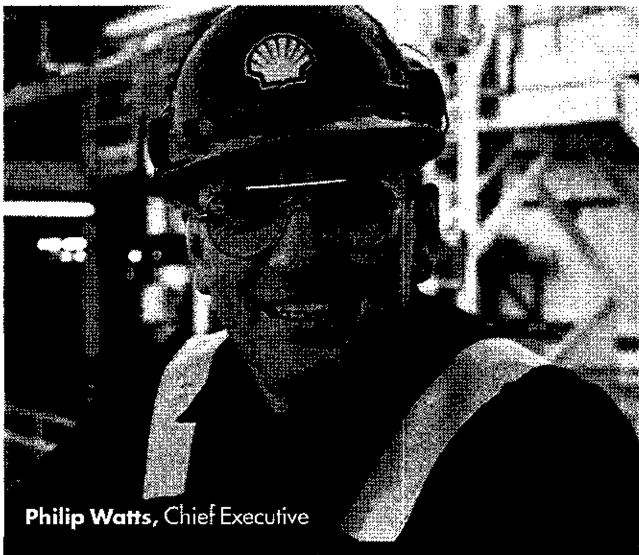
Australia E P R M G C
Brunei E P R M G
Cambodia E M
China E P M G C
Fiji M
Guam M
Indonesia E M C
Japan R M G C Rn
Laos M
Malaysia E P R M G C
New Zealand E P R M C Rn
Papua New Guinea E M
Philippines E P R M G C Rn
Singapore R M C
South Korea M C
Taiwan R M C
Thailand E P R M C
Vanuatu M
Vietnam M C

Americas

Argentina E P R M C Rn
Bahamas M
Barbados M
Belize M
Bermuda M
Bolivia M G Rn
Brazil E P M G C
British Antilles & Guyana M
Canada E P R M G C
Chile M C Rn
Colombia M G
Costa Rica M
Dominican Republic R M
Ecuador M
El Salvador R M
Falklands E
French Antilles & Guiana R M
Guatemala M
Haiti M
Honduras M
Jamaica M
Mexico M G C
Nicaragua M
Panama M
Paraguay M Rn
Peru E M
Puerto Rico M
Surinam E M
Trinidad & Tobago E M
Uruguay M Rn
USA E P R M G C
Venezuela P M C

Businesses at a glance

The objectives of the Royal Dutch/Shell Group of Companies are to engage efficiently, responsibly and profitably in the oil, gas, chemicals and other selected businesses and participate in the research and development of other sources of energy. Shell companies are committed to contribute to sustainable development. The portfolio includes a range of other businesses such as Shell Hydrogen, Shell Internet Works and Shell Capital.



Philip Watts, Chief Executive

Exploration and Production

Searching for oil and gas fields by means of seismic surveys and exploration wells; developing economically viable fields by drilling wells and building the infrastructure of pipelines and treatment facilities necessary for delivering the hydrocarbons to market.

Actions in 2000: As well as performing well against financial, production and reserves targets in 2000, the business has achieved significant successes in areas as diverse as the North Sea, Kazakhstan, Brazil, Nigeria, the Philippines and the Gulf of Mexico. Portfolio management has included increased shareholding in Sakhalin Energy to 55% in an asset exchange deal, the acquisition of Fletcher Challenge Energy based in New Zealand which is nearing completion, as well as ground-breaking agreements in China.

Linda Cook, Chief Executive

Downstream Gas and Power

Commercialising natural gas through investments in processing and transportation infrastructure, including liquefied natural gas (LNG), pipelines and Gas to Liquids; marketing and trading of natural gas and electricity to industrial and domestic customers; developing and operating independent power plants.

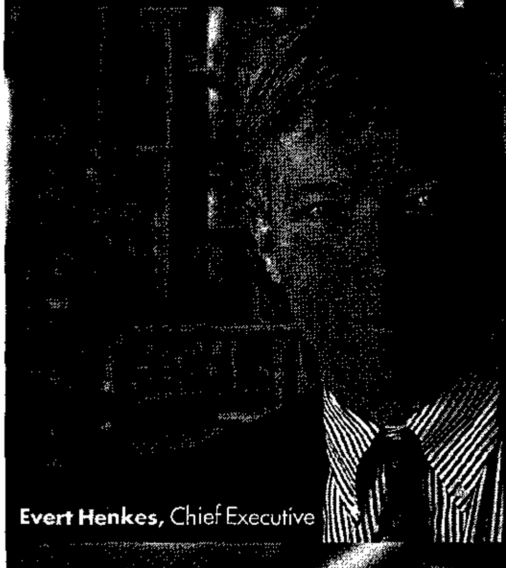
Actions in 2000: First cargoes of LNG were delivered from Oman and from the second LNG train in Nigeria. The Group's share of LNG capacity from projects in which it has an interest increased by 39% over 1999 levels. Progress was made in developing natural gas markets in India, Brazil and China. Financing was secured for six new power plants including three in Turkey. Feasibility studies are proceeding in four countries to develop Gas to Liquids plants. The gas and electricity marketing business, including e-business activities, has expanded with new ventures launched in Australia and Greece.

Paul Skinner, Chief Executive

Oil Products

Sales and marketing of transportation fuels, lubricants, speciality products and technical services. Refining, supply, trading and shipping of crude oil and petroleum products. Oil Products serves over 20 million customers a day through some 46,000 service stations, and more than one million industrial and commercial customers.

Actions in 2000: Availability of locally tailored retail fuels expanded to 30 countries. Range of e-business initiatives launched. Exceeded cost improvement targets set for end 2001. Further refinery rationalisation achieved by closure of Sola in Norway and sale of two refineries in Europe/USA. Improvements to retail portfolio continued via divestments and acquisitions in Europe, Africa and Latin America. New global trading organisation formed and growth in income secured from commercialisation of technical expertise.



Evert Henkes, Chief Executive

Chemicals

Producing and selling base chemicals, petrochemical building blocks and polyolefins globally. Products are widely used in plastics, coatings and detergents.

Actions in 2000: A programme creating a stronger business continued during 2000, and was completed in early 2001. The portfolio has now been reduced from over 21 business areas to 11. A programme of cost improvements generated results ahead of schedule. Organisational changes created common structures globally for the core processes of "buy, make and sell". Emphasis was placed on creating a work environment that promotes networking and creativity. In China, a joint venture agreement was concluded for a $4 billion petrochemical complex in Guangdong province. Basell, a 50:50 joint venture with BASF, was also created to form one of the world's largest polyolefins businesses.

Karen de Segundo, Chief Executive

Renewables

A generator of green electricity and provider of renewable energy solutions. Develops and operates wind farms and biomass power plants; manufactures and markets solar energy systems and grows forests to supply markets with sustainably managed wood products.

Actions in 2000: Delivered the UK's first offshore wind project, as part of the Blyth Offshore Wind consortium. In Germany a wind farm started to supply customers in Hamburg. A joint venture began operating a biomass-fuelled, combined heat and power plant in Sweden. Renewables' Latin American forestry operations were awarded Forest Stewardship certification for their sustainable management principles. Solar centres opened in Germany, Sri Lanka and India. The Climate Technology Initiative was presented to its Solar joint venture with ESKOM in South Africa for the introduction of climate-friendly technologies.

Strategy

- **Meeting society's expectations key to long-term success**
- **Fossil fuels will be mainstay of energy scene for at least 30 years**
- **Extensive portfolio of opportunities, strong brand, global reach**
- **Offering customers new products, services, e-business options**
- **Highly competitive in hydrocarbons – emphasis on gas**
- **Reducing carbon content of products, growing in hydrogen and renewables**

Shell companies need to deliver – and be seen to deliver – in two ways. We need the profitability that provides competitive returns to shareholders and funds investment. Profits are also a vital part of our ability to contribute to society. We must deliver on the economic, social and environmental requirements of sustainable development. Being trusted to meet societal expectations is key to long-term success.

To continue our history of continuous profitable growth, we must respond to a range of issues that define the context in which we do business. These include globalisation, liberalisation of political systems and markets, and the effects of new technologies such as the internet. The trends toward better education and growing prosperity are leading people to demand higher standards, greater choice and value. Prosperity is not universal and poverty in many parts of the world creates social problems. Factors such as lawlessness, corruption and poor education limit the growth of economies.

These trends have created an increasingly fast-moving and challenging business environment, with volatile markets, fierce competition, increasingly discerning consumers and high stakeholder expectations.

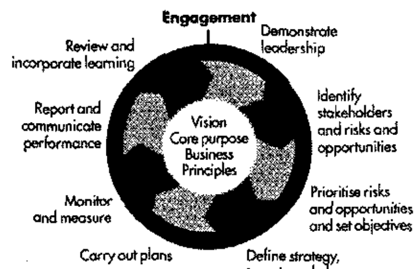
While profitability is essential for commercial success, society is demanding that companies should be accountable for more than just financial performance. They should, for example, be ever more transparent in the way they do business, respect human rights and meet ever stricter environmental and social standards. We believe that companies that understand and respond to these essentials will be best able to thrive.

"We believe a major challenge facing society today is posed by three inextricably linked issues:
- **the world's increasing demand for energy,**
- **the need for economic and social development of a growing population, and**
- **the need to assure a viable world for future generations.**

This threefold challenge has serious implications for the energy businesses, and concerns over climate change are at the heart of it."

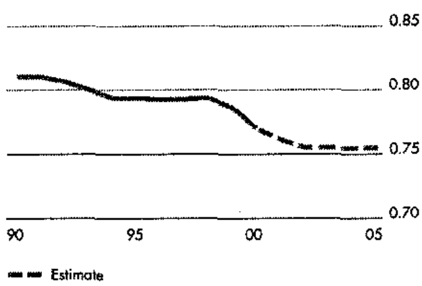
Sir Mark Moody-Stuart
Chairman of the Committee of Managing Directors

Sustainable development management framework



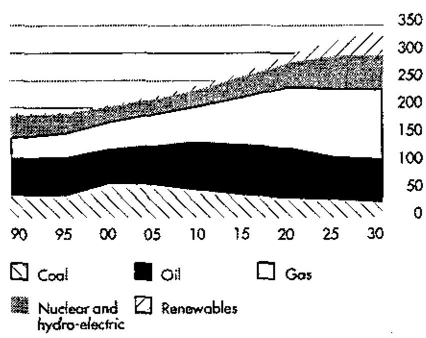
We take economic, environmental and social considerations into account in everything we do.

Shell carbon intensity 1990 to 2005
Shell share*
tonnes carbon/tonnes oil equivalents



*Shell share of total production of oil, gas, coal and renewables.

Total energy demand 1990 to 2030
The New Game scenario*
million barrels of oil equivalent daily



*Source: Shell Energy Scenarios.

Developments in energy
Demand for fossil fuels remains strong and will grow as population and living standards increase. Energy efficiency will help reduce the rise in demand in developed countries, but developing economies will need a lot more energy to grow – there can be no development without energy.

Concerns about the effects of fossil fuels on health and the environment, particularly climate change, are leading to a gradual move to cleaner fuels with lower carbon content. Nevertheless, our view is that hydrocarbons will remain the mainstay of the world energy scene for at least the next 30 years, with gas playing an ever-increasing role and renewables making a growing contribution. Hydrogen as a fuel has great potential longer-term.

Our success as a major energy and petrochemical enterprise depends on us reading these trends correctly and satisfying the demands of our customers and shareholders, while being sensitive to the concerns of the communities we operate in.

The way forward
We will continue to lead in the development of the energy market and set a world-class standard for operating excellence and value growth. We will do this by operating within a clearly defined, transparent financial framework and embedding sustainable development into our strategy and the daily conduct of operations.

This means integrating economic, environmental and social considerations into decision-making and balancing short-term priorities with longer-term needs. It also means engaging widely with those who are affected by our activities at the community and other levels. Our sustainable development management framework is designed to help us achieve the necessary integration and help us manage our business in ways that match society's needs and expectations. Doing so will enable us to maintain our competitive advantage and deliver robust profitability.

Our approach aims to achieve excellent returns on capital employed through:
- active portfolio management – being in the right business(es),
- cost improvements – being the most efficient,
- capital discipline – investment proposals must compete internally for funding, and
- personal accountability – ensuring all individuals are both accountable and empowered to act in ways aligned with the values, commitments and goals of Shell.

Our extensive portfolio of opportunities, together with our competitive technologies, strong brand and global reach, will enable us to deliver strong growth and competitive shareholder returns – even at lower oil prices than those seen recently. Our strategy is structured around three themes:
- making the most of what we have – continuously improving our existing business to provide the foundation for future growth,
- gaining new business – expanding current business into new areas, and
- breaking new ground – creating new types of business.

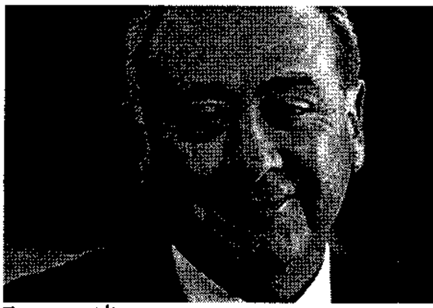
In pursuing these themes we will:
- use our global spread to be successful in developing economies such as China and India,
- deepen relationships with our customers by offering integrated solutions and, where appropriate, selling direct to the consumer,
- align our people and resources around major customer groups, and
- drive innovation in technology, products, services and grasp e-business opportunities.

In the medium-term we will remain highly competitive in the hydrocarbons business with an increasing emphasis on gas. We will use money, materials and energy ever more efficiently to create value and reduce environmental impact by:
- lowering the capital and material intensity of our businesses by adding more services,
- decreasing the carbon content of our products and finding new ways to "fix" or capture carbon to reduce the amount in the atmosphere, and
- growing our hydrogen and renewables businesses.

The transition to new energy sources will be one with many competing technologies and influences. We will maintain our position as a broad explorer of new energy solutions and, where economic, commit our expertise and financial strength to grow in these exciting areas.

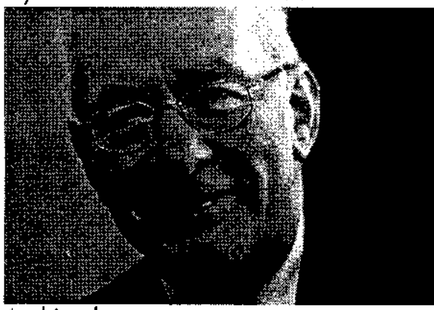
How we succeed is as important as what we achieve. Our commitment to sustainable development encompasses everything Shell companies do, oil and gas as much as renewables. We are committed to a strategy that delivers excellent returns while contributing to the planet and its people. We see no alternative.

The Boards of the Parent Companies


Teymour Alireza

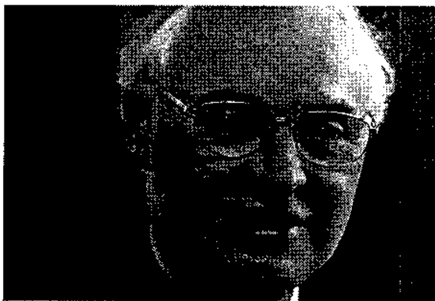

Maarten van den Bergh


Dr Eileen Buttle


Aad Jacobs


Sir John Jennings

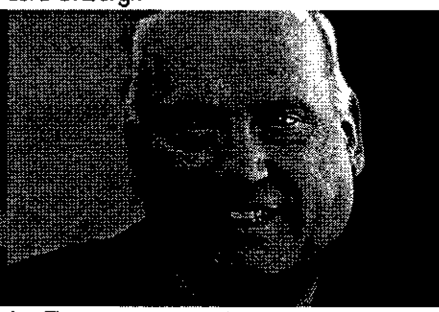

Jonkheer Aarnout Loudon


Professor Robert O'Neill

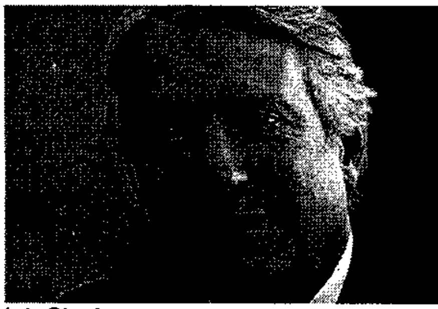

Lord Oxburgh


Sir William Purves


Paul Skinner


Jan Timmer


Jeroen van der Veer



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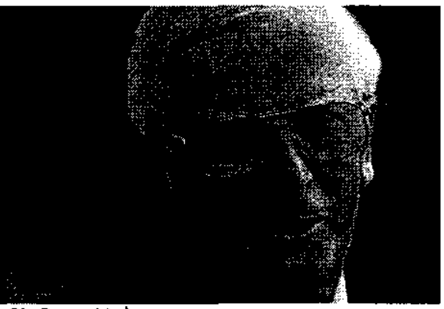
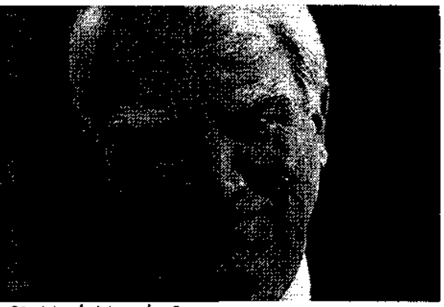
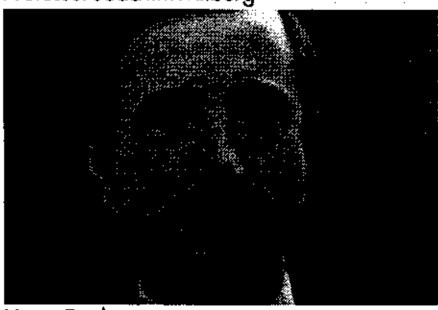


Sir Peter Holmes

Professor Joachim Milberg



Sir Mark Moody-Stuart



Harry Roels

Hennie de Ruiter

Lodewijk van Wachem

Philip Watts

Royal Dutch Supervisory Br

Lodewijk van Wachem
Chairman

Maarten van den Bergh
Aad Jacobs
Jonkheer Aarnout Loudon
Professor Joachim Milberg
Hennie de Ruiter
Jan Timmer

Royal Dutch Board of Management

Jeroen van der Veer
President and Managing Director
Harry Roels Managing Director

Shell Transport Board of Directors

Sir Mark Moody-Stuart
Chairman and Managing Director
Philip Watts Managing Director
Paul Skinner Managing Director

Teymour Alireza
Dr Eileen Buttle
Luis Giusti
Sir Peter Holmes
Sir John Jennings
Professor Robert O'Neill
Lord Oxburgh
Sir William Purves

The members of the Supervisory Board and the Board of Management of Royal Dutch Petroleum Company (Royal Dutch) and the Directors and Managing Directors of The "Shell" Transport and Trading Company, p.l.c. (Shell Transport) meet regularly during the year to receive information and discuss the major developments within the Royal Dutch/Shell Group.

Group Managing Directors and Principal Executives

The members of the Board of Management of Royal Dutch and the Managing Directors of Shell Transport are also members of the Presidium of the Board of Directors of Shell Petroleum N.V. and Managing Directors of The Shell Petroleum Company Limited, which are the Group Holding Companies. As such, they are generally known as Group Managing Directors. They are also appointed by the Boards of Shell Petroleum N.V. and The Shell Petroleum Company Limited to a joint committee known as the Committee of Managing Directors (CMD), which considers and develops objectives and long-term plans.

Group Managing Directors Business and functional responsibilities	Geographical responsibilities	Principal Executives		
Sir Mark Moody-Stuart Chairman of CMD Legal Finance Human Resources	USA and Canada	Legal **Pieter Folmer**	Finance **Stephen Hodge** – Director **Rupert Cox** – Controller **Neil Gaskell** – Treasurer	Human Resources **John Hofmeister**
Jeroen van der Veer Vice-Chairman of CMD Chemicals Renewables Shell Hydrogen Shell Capital	Europe, CIS, Middle East, North Africa and South Asia	Chemicals ***Evert Henkes*** – *Chief Executive* **Graham Ferris** **Jerry Golden** **Fran Keeth** **Lee Patterson** **James Smith** **Neil Sullivan** **Rein Willems**	Renewables ***Karen de Segundo*** – *Chief Executive*	Shell Hydrogen ***Don Huberts*** – *Chief Executive* Shell Capital **Mike Treanor** – Chief Executive
Philip Watts Exploration and Production Downstream Gas and Power		Exploration and Production **Philip Watts** – Chief Executive **Lorin Brass** **Carol Dubnicki** **Dominique Gardy** ***Zaharuddin Megat*** **Raoul Restucci** **Heinz Rothermund** **Bob Sprague** **Tim Warren**	Downstream Gas and Power **Linda Cook** – Chief Executive **Renger Bierema** **Veronica Carter** **Jon Chadwick** ***Dick de Jong*** **Liz Rayner** **Charles Watson** **Lew Watts** **Peter de Wit**	
Harry Roels Shell Services International Planning and Strategy Health, Safety and Environment External Affairs	Central and South America, Sub-Saharan Africa, East Asia and Australasia	Shell Services International **Clive Mather** – Chief Executive Planning, Environment and External Affairs **Rob Walvis**	International **John Withrington** Shell Internet Works **Tim Morrison**	Chief Information Officer **Alan Matula**
Paul Skinner Oil Products Shell Trading		Oil Products **Paul Skinner** – Chief Executive **Michiel Boersma** **Russell Caplan** **Frank Coopman** **Lynn Elsenhans** **Adrian Loader** **John Mills** **Hugh Mitchell** **David Pirret** **Leslie Van de Walle**	Shell Trading **Mike Warwick** – President	
Steve Miller		Steve Miller works with the CMD in the formation of Group strategy and in the development and		

Operational and Financial Review

Summary of Group Results

Financial Results

$ million

	2000	1999	1998
Net income	**12,719**	8,584	350
Change	***+48%***	*+2,353%*	*–95%*
Earnings on an estimated current cost of supplies (CCS) basis	**12,364**	7,561	901
Change	***+64%***	*+739%*	*–89%*
Special credits/(charges)	**(747)**	468	(4,245)
Adjusted CCS earnings[a]	**13,111**	7,093	5,146
Change	***+85%***	*+38%*	*–36%*

a Earnings on an estimated CCS basis excluding special items.

On an estimated current cost of supplies (CCS) basis excluding special items, earnings for the year – at $13,111 million – were 85% higher than those achieved a year ago. Reported net income for the year was $12,719 million, 48% above the 1999 result.

The overall business environment was more favourable as the benefit of higher oil and gas prices and higher refining margins more than offset the effects of lower marketing and chemicals margins. There was also a strong underlying earnings increase due mainly to cost improvements.

The cost improvement target for the end of 2001 (relative to the 1998 baseline), which was increased to $4 billion a year in December 1999, has been reached a full year ahead of schedule. The $4.0 billion achieved comprises $1.9 billion for Exploration and Production (of which $840 million was from exploration expense savings), $1.4 billion for Oil Products, $550 million for Chemicals and $130 million for other businesses. The new cost improvement target of $5 billion a year by the end of 2001, was announced in December 2000.

Capital investment for 2000 totalled $8.5 billion, 10% down from the 1999 figure. The return on average capital employed on a CCS earnings basis for the year was 19.5%; in 1999 it was 12.1%. The total debt ratio at the end of the year was 11.0%; cash, cash equivalents and short-term securities amounted to $11.4 billion.

Underlying oil production growth for 2000 was 5%. Including the effects of divestments and production sharing contracts, oil volumes were essentially unchanged. Underlying gas production was 7% higher than in the previous year. Including the effects of divestments and production sharing contracts, gas volumes were 4% higher than last year.

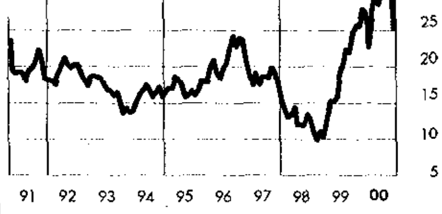
Oil products sales volumes in 2000 were 4% higher than in 1999. Chemical sales volumes were lower than in 1999, however, excluding the effects of divestments and the formation of Basell, underlying chemicals business growth was 7%.

In 2000, Brent crude prices averaged $28.50 a barrel compared to $17.95 a barrel in 1999. Oil prices climbed steadily during much of the year due to production restraints by the major oil exporting countries. These restraints prevented global oil stocks from recovering to normal seasonal levels. Uncertainties over both economic growth and oil supply mean that crude prices are expected to remain volatile in 2001.

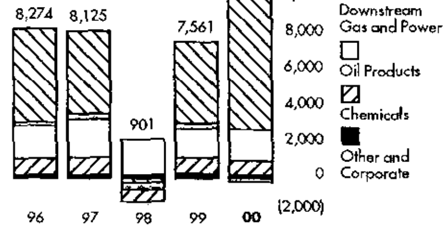
Industry refining margins recovered in all markets from the record low levels of 1999 as product stocks remained low throughout the year. Tighter product specifications and limited spare capacity in the USA and Europe are likely to support margins in these regions during 2001. In the Asia-Pacific region, margins are likely to be under pressure due to the regional over-capacity.

Chemicals trading conditions were particularly challenging. Towards the end of the year, cracker margins fell sharply to below the levels seen at the same time in 1999, and very difficult conditions prevailed in businesses downstream of the cracker. The outlook for Chemicals remains unsettled, especially in the USA, where there are uncertainties over economic growth and the cost of feedstocks and energy.

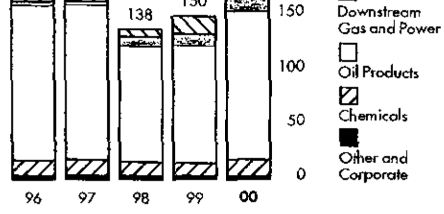
Crude oil prices
Brent Blend: average monthly spot prices



Segment earnings on a CCS basis
million



Gross sales proceeds
billion



Exploration and Production

	2000	1999	$ million 1998
Segment earnings	**9,880**	4,519	(247)
Special credits/(charges)	**623**	164	(2,221)
Adjusted segment earnings	**9,257**	4,355	1,974
Change	***+113%***	*+121%*	*–57%*

Earnings
Excluding special items, record adjusted earnings of $9,257 million were more than double the $4,355 million reported in 1999. The main reasons were higher oil prices (Brent was up 59%), higher gas realisations and volumes and lower operating and exploration expenses. Compared to the 1998 baseline, cost improvements reached $1.9 billion a year. This includes $840 million lower exploration expense.

Including a net special gain of $623 million, reported earnings amounted to $9,880 million. Special items comprised mainly the profits on sale of a number of assets in the USA, the UK and Australia.

Crude oil prices
Brent crude prices averaged $28.50 a barrel compared to $17.95 a barrel in 1999. Oil prices rose throughout much of the year due to production restraints by the major oil exporting countries which prevented global oil stocks from recovering to normal seasonal levels. Crude prices are expected to remain volatile in 2001.

Oil and gas production
Underlying oil production growth for the year was 5% as the benefits of new fields in the UK, USA, Oman and Canada and a lower impact from community disturbances in Nigeria were partly offset by normal field declines. Including the effects of divestments and production sharing contracts, oil volumes were essentially unchanged.

Underlying gas production for the year was 7% higher than in the previous year as increases in the UK, USA, Oman, Egypt and Nigeria more than offset decreases in the Netherlands and Germany. Including the effects of divestments and production sharing contracts, gas volumes were 4% higher than last year.

Combined oil and gas production between 2000 and 2005 is expected to grow at an average annual rate of 5%. This growth rate is based on a diverse global portfolio which includes onshore and both deep and shallow offshore locations. These planned increases may be impacted by further portfolio actions and price conditions prevailing in the coming years.

Portfolio actions
The exchange of certain of the Group's interests in the UK North Sea and in the Gulf of Mexico for Marathon's interest in Sakhalin Energy in Russia was completed. A 7.5% interest in Sakhalin Energy was subsequently sold to Mitsubishi, resulting in a Group share of 55% and the lead role in the development and operation of the Sakhalin project.

An offer was made for all of the shares in Woodside Petroleum Ltd, a company listed on the Australian stock exchange, in which the Group currently has a 34% interest. The offer per share comprises A$14.80 plus a call option over one Woodside share, exercisable if a proposal to merge certain Group assets with Woodside is approved by Woodside shareholders. The offer is conditional on approval by the Foreign Investment Review Board in Australia.

The New Zealand Commerce Commission approved the Group's application to acquire Fletcher Challenge Energy (FCE). In early March 2001 the Group's offer was approved by FCE shareholders. It is anticipated that the acquisition will be finalised in the first quarter of the year.

In March 2001 Shell Oil Company made a tender offer for all outstanding shares of Barrett Resources in the USA at $55 per share in cash, conditional upon, amongst other things, the acquisition of at least a majority of the outstanding shares.

In April 2000 the Group's 36% common interest in Altura – an associated company in the USA – was sold. The Group share of Altura's production in 1999 represented approximately 54,000 barrels of oil equivalent per day.

In Australia, the Group's interest in the Barrow and Thevenard Island (Carnarvon Basin) concessions was divested. In the UK, the divestment of the Group's interest in the Elgin and Franklin fields was concluded.

A letter of intent was signed to participate in the Saudi Natural Gas Initiative.

Capital investment
Capital investment of $5.0 billion was $0.4 billion lower than in 1999, reflecting continued investment discipline, stringent project selection, favourable exchange rate impact and project rephasing.

Reserves
The proved hydrocarbon reserves replacement ratio for 2000 was 105% (before the effects of a significant divestment and acquisition programme). Therefore production during the year of 1.4 billion barrels of oil equivalent was more than replaced. Including the net effect of divestments and acquisitions, the replacement ratio was 69%.

The three-year rolling average proved hydrocarbon reserves replacement ratio (including oil sands and portfolio activities) stands at 117%.

The three-year rolling average oil and natural gas proved reserves replacement ratio (excluding oil sands) stands at 102%.

The additions to proved reserves arose mainly from discoveries and extensions in the USA and West Africa, improved recovery in Oman and Canada and revisions in existing fields in Oman and Venezuela, offset by the divestment of the Altura interest in the USA.

Exploration and Production overview

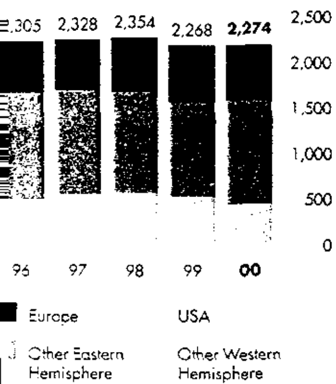
Strategy

Emphasise short-term profitability whilst maximising long-term value through cost leadership, investment discipline and production growth. Implement strategy by means of selective investments and active portfolio management. Take advantage of the Group's relationships, reputation, technology, skills and practices to support Group companies as the preferred partner of both resource holders and other companies in the industry.

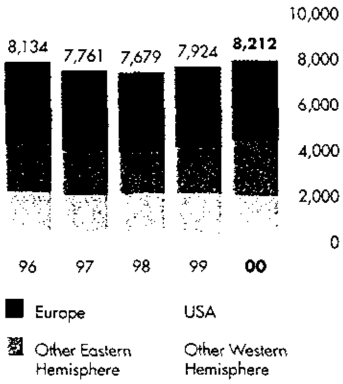
Outlook

Uncertainties over both economic growth and oil supply mean crude oil prices are likely to remain volatile in 2001. Gas prices in the USA are likely to stay above their historic (pre-2000) levels in 2001 as demand continues to grow and that market remains undersupplied. Gas prices in other major markets are expected to retain an oil price linkage. Global oil and gas demand are both expected to rise this year.

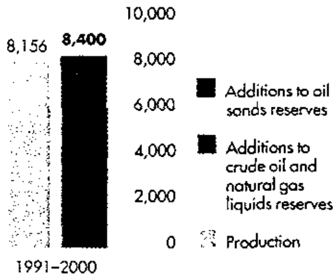
Oil production
including natural gas liquids
thousand barrels daily



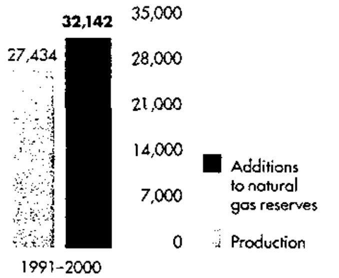
Natural gas production available for sale
million standard cubic feet daily



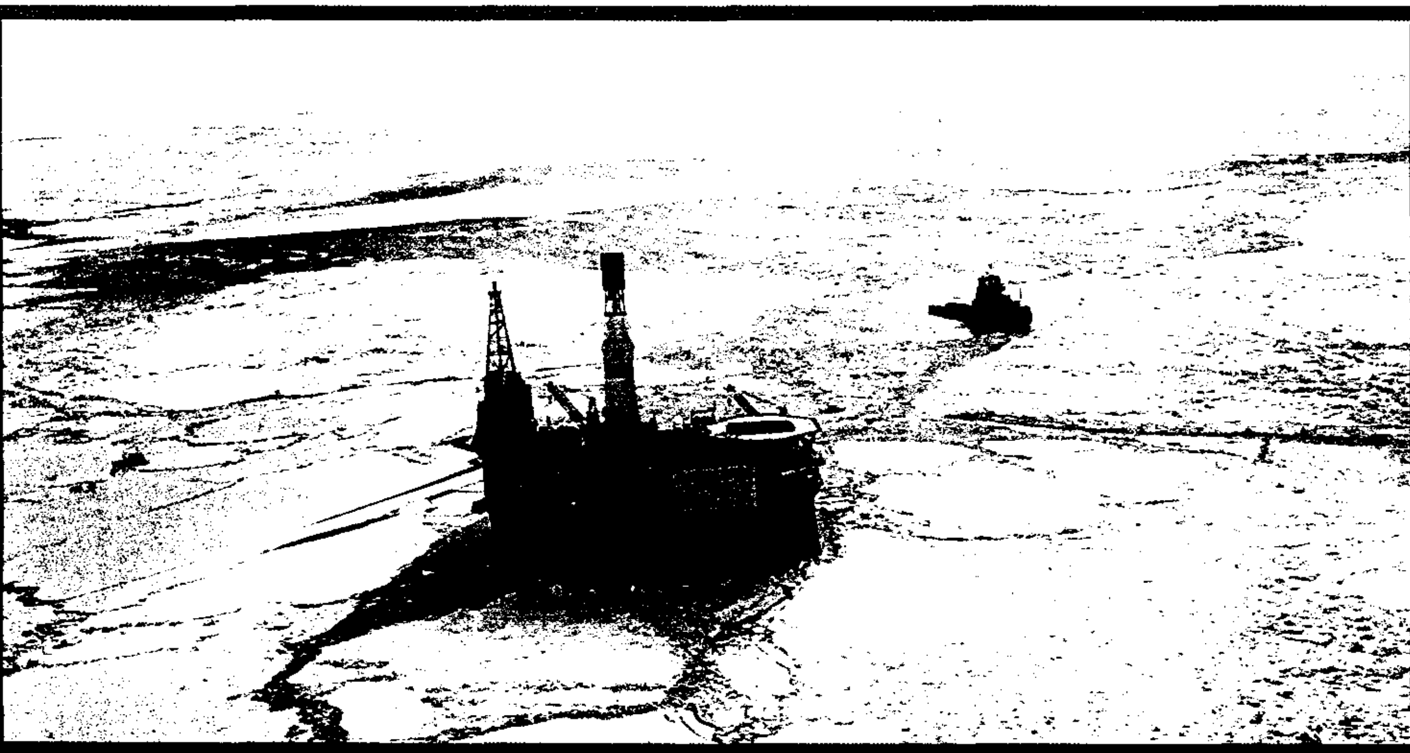
Hydrocarbon liquids reserves
million barrels



Natural gas reserves
billion standard cubic feet



All figures in the charts on this page comprise Group companies plus Group share of associated companies.



Taking over the lead role in development and operation of the Sakhalin project was one of the exciting initiatives in 2000 to strengthen the Group's already prominent position in the gas business. This will become one of the most important gas supply sources for the Asia-Pacific region by the second half of this decade.

Downstream Gas and Power overview

Strategy

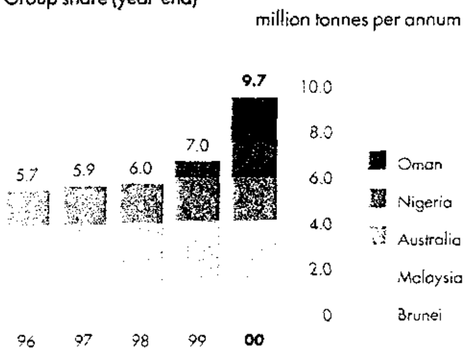
Profitably grow the business by accessing key markets. Maintain the industry-leading position in LNG and Gas to Liquids. Become a significant player in independent power generation, integrating this with fuel supply and expanding marketing and trading activities for gas and power. Exploit opportunities to offer attractive products and services to newly-accessible customers in liberalised markets, leveraging the Shell brand and market position.

Outlook

Global gas and electricity demand is expected to continue growing strongly. Gas is the environmentally preferred fuel for new power generation and will increasingly be used in conversion to ultra-clean liquid fuels. The business environment is changing rapidly. Liberalisation is creating challenges for existing businesses as well as opening new business opportunities including marketing energy directly to consumers.

Downstream Gas and Power offers natural gas and electricity and related services directly to customers around the globe – from governments, utilities and industrial users to residential customers in selected markets. Activities extend over 26 countries with project developments in a further 13.

LNG capacity
Group share (year-end)



Coral Energy is one of North America's leading providers of natural gas, power and related energy and financial services. This is the trading floor of Coral Energy, where, as part of the global Shell Trading operation, energy products and related services are bought and sold.

Operational and Financial Review
continued

Downstream Gas and Power

			$ million
	2000	1999	1998
Segment earnings	**(188)**	253	(349)
Special credits/(charges)	**(650)**	104	(583)
Adjusted segment earnings	**462**	149	234
Change	***+210%***	*−36%*	*−4%*

Earnings
Adjusted earnings of $462 million were more than triple those achieved in 1999. This was mainly due to income from new liquefied natural gas (LNG) plants in Nigeria and Oman, higher LNG margins, and higher marketing and trading earnings in North America. The Group share of LNG sales volumes reached 7 million tonnes in 2000, compared to 5 million tonnes in 1999.

Including special charges of $650 million, arising principally from the restructuring of assets in the USA, reported earnings amounted to a loss of $188 million.

Capital investment
Capital investment was $835 million. Major investments over the year related to power developments through InterGen and in South America, LNG shipping, Nigeria LNG, pipelines in the USA and finalisation of the rebuild of the Gas to Liquids plant in Malaysia.

Portfolio actions
A second LNG train came into operation in Nigeria in February 2000 and first cargoes of LNG were delivered from Oman in April.

Letters of intent were signed for the sale of up to 2 million tonnes of LNG a year to Japanese gas companies starting in 2004 from an expansion of the North West Shelf LNG plant in Australia. In Malaysia, the Group's interest in the Malaysia LNG Tiga plant was increased from 10% to 15%. A joint development agreement was signed to progress a Venezuelan LNG project. The Group and its partners in Nigeria and Oman agreed to look at expansion of their LNG projects.

A bid was successful for capacity in the US Cove Point LNG terminal which provides access to the growing US market. Agreements are also in place to develop a regasification terminal in Brazil and import projects are being developed in China and India.

In Greece, a 30-year franchise for the development and operation of the gas supply in the Athens region was awarded to a consortium in which the Group has a 19.6% interest. A joint venture company was set up to sell gas and electricity to customers in Victoria, Australia.

An expansion of the InterGen joint venture with Bechtel was completed. This involved the transfer of certain gas pipeline and power assets in the USA into the joint venture, and an increase of the Group's interest in InterGen from 50% to 68%. InterGen secured financing on six power plants in 2000. This brings the number of plants under construction to 12 in total and will add a further 5.2GW (gigawatts) to the current net operating capacity of 1.2GW.

The Shell Middle Distillate Synthesis (SMDS) plant in Bintulu, Malaysia restarted on schedule in May. Advances in Shell Gas to Liquids technology and economies of scale have led to the announcement that up to four plants, each with a capacity of 75,000 barrels per day, could be built in the next decade.

Oil Products

			$ million
	2000	1999	1998
Segment earnings[a]	**1,798**	1,687	2,028
Special credits/(charges)	**(682)**	157	(207)
Adjusted segment earnings	**2,480**	1,530	2,235
Change	***+62%***	*−32%*	*+1%*

a CCS earnings

Earnings
Adjusted CCS earnings of $2,480 million were 62% higher than in 1999. This reflected the benefit of higher refining margins as well as accelerated cost improvements, partly offset by a decline in fuels marketing margins. Cost improvements compared to the 1998 baseline reached $1.4 billion a year.

Special items for the year amounted to a net charge of $682 million. This included a net charge of $495 million from asset disposals and impairment, mainly comprising a charge of $512 million for the impairment of the Rayong refinery in Thailand. In addition there were charges of $187 million, principally related to provisions for litigation, environmental remediation, restructuring and redundancy.

In 2000 there were inventory holding gains of $355 million, as oil prices rose through the major part of the year. In 1999 there were higher inventory holding gains of $1,023 million. Inventory holding gains/losses are included in cost of sales in the Group Statement of Income. Including these holding gains, reported earnings were $2,153 million in 2000 compared to $2,710 million in 1999.

In 2000, industry refining margins recovered in all markets from the historically low levels of 1999 as product stocks remained low throughout the year. Refining margins increased from an average of $1.00 a barrel in 1999 to $3.00 a barrel in Rotterdam, from $0.65 to $1.65 in Singapore and from $1.95 to $4.50 on the US Gulf Coast.

Outside the USA, adjusted CCS earnings rose to $2,216 million, an increase of 55% over 1999. This reflected the benefits of higher refining margins and accelerated structural cost reduction, partly offset by a sharp decline in gross fuels marketing margins.

Refining earnings recovered sharply as industry margins strengthened. Lower unit refining costs further benefited earnings. There was also a higher contribution from trading operations as the benefits of the formation of the Group's global trading network continued to grow. A progressive decline in gross fuels margins negatively affected marketing earnings over the greater part of the year as supply costs rose faster than sales prices. Reductions in unit marketing expenses and the successful launch in 30 countries of a differentiated fuels programme provided a substantial offset to the lower gross margins. Total inland sales volumes for the year were 1% lower than in 1999.

Oil Products overview

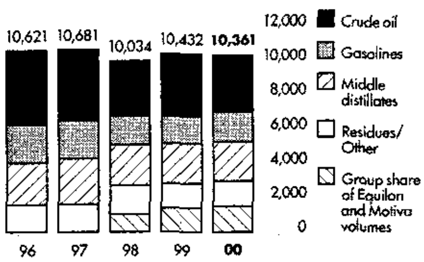
Strategy

Continue to focus on the millions of Shell customers around the world. Accelerate the roll-out of innovative customer offers, including differentiated fuels and electronic business. Pursue further portfolio optimisation. Build on the success of the cost reduction programme, while remaining committed to further improvement in environmental performance and continued development of the employee talent base.

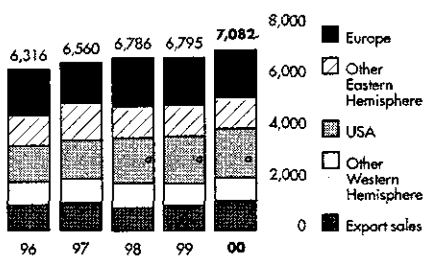
Outlook

Oil demand is forecast to increase by between 1.3 and 1.8 million barrels per day, dependent on the development of oil prices and the global economy. US and European refining margins are expected to gain support in the first half of the year from low gasoline stocks. Asia-Pacific margins are likely to continue weaker due to surplus capacity in the region. Pressure on fuels marketing margins will continue.

Oil sales
thousand barrels daily

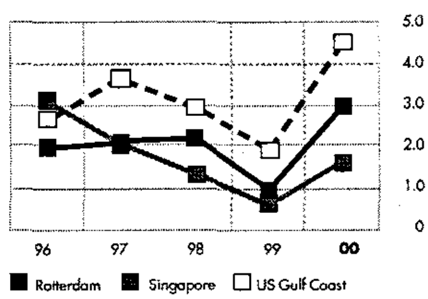


Oil product sales
excluding crude oil
thousand barrels daily



a Includes Group share of Equilon and Motiva volumes (2000: 1,508,000 b/d, 1999: 1,429,000 b/d, 1998: 1,070,000 b/d).

Refining margins
averages for the year
$ per barrel



Underpinned by detailed customer research, specially formulated fuels, such as Shell V-Power in South Africa, have been successfully launched in 30 countries around the world. Attendant Honest Nkasela explains the performance benefits of the fuel to the customer.

Operational and Financial Review
continued

Oil Products continued

In the USA, adjusted CCS earnings rose from $98 million in 1999 to $264 million in 2000. Motiva and Deer Park achieved income improvements whereas earnings in Equilon were lower. Refining earnings benefited from higher industry margins on the West and Gulf Coasts but marketing earnings declined, as rising supply costs squeezed margins in fuels and lubricants.

Capital investment

Capital investment during 2000 amounted to $1.6 billion compared to $1.4 billion in 1999. Marketing remained the prime focus, with the retail network attracting the highest proportion of capital expenditure.

Portfolio actions

Major progress was achieved in 2000 through the restructuring of refinery and retail portfolios and a programme of acquisition and divestment activities.

Actions to strengthen the refinery portfolio continued. In Europe the Sola refinery in Norway was closed and the Cressier refinery in Switzerland sold; in the USA Equilon's Wood River refinery was sold. Showa Shell in Japan announced that as part of its strategic alliance with Japan Energy, Showa Shell will close 50,000 barrels a day of capacity at its Yokkaichi refinery and Japan Energy will halt refining operations at its Chita refinery, both in 2001.

Re-shaping of the retail portfolio progressed with the integration of retail sites acquired via swap and purchase arrangements into the Shell networks in Greece, Italy, Poland, the Czech Republic and countries in West and East Africa. Sales of retail sites were completed in mid-west Brazil and south-eastern Italy. Arising from the Group's investment in Sinopec during 2000, a joint venture in Jiangsu province in China is due to commence in 2001, providing a platform for the Shell brand and customer offerings.

Shell Oil Company in the USA and Saudi Refining Inc. entered into discussions with Texaco Inc. concerning the possible restructuring of the ownership of Equilon and Motiva in the USA.

Chemicals

$ million	**2000**	1999	1998
Segment earnings	**819**	885	(718)
Special credits/(charges)	**67**	72	(1,170)
Adjusted segment earnings	**752**	813	452
Change	***–8%***	*+80%*	*–50%*

Earnings

Adjusted 2000 earnings were $752 million, which compares with $813 million in 1999, when there was a benefit from lower taxation. The adjusted 2000 earnings exclude special credits of $67 million, resulting mainly from a net gain from the divestment programmes, partly offset by provisions for litigation. Reported earnings for 2000 of $819 million compare with $885 million in 1999.

Chemicals sales volumes in 2000 were 3% lower than in 1999. Excluding the effects of divestments and the formation of Basell (see below), there was an underlying increase of 7% mainly due to expansions in styrene monomer/propylene oxide, lower olefins, ethylene oxide/glycols and phenol in the Netherlands, the USA and Singapore. Overall unit margins were down 11% while underlying unit margins were 5% lower as higher feedstock costs squeezed margins, particularly in businesses downstream of the cracker such as polyolefins. Cracker margins rose in the first half of the year but then fell significantly, especially towards the end of the year. Weaker currencies in Europe also adversely impacted margins. Underlying fixed costs fell by 1%. This, plus the increase in volumes, meant that underlying unit fixed costs fell by 7%. Cost improvements have now reached $550 million a year compared to the 1998 baseline.

Capital investment

Capital investment in 2000 was $1.0 billion, which compares with $1.6 billion in 1999. Significant items in 2000 included: an expansion of cracker capacity at Moerdijk, the Netherlands; expansion of higher olefins production at Geismar, USA; and completion and start-up of the monoethylene glycol unit at Scotford, Canada.

Portfolio actions

The Chemicals divestments programme announced in 1998 is now complete. The sale of the polyethylene terephthalate business was finalised in May and the resins and versatics business was sold in November, while the sale of the Kraton elastomers business was completed in February 2001. It is expected that the Carilon business will be discontinued during 2001. At the end of September, Basell, a 50:50 joint venture with BASF, was formed creating one of the world's largest polyolefins companies. The venture combined the assets of Montell and Targor, the polypropylene businesses of the Group and BASF respectively, and Elenac, the polyethylene joint venture formed in 1997 with BASF. Also during the year, the Group participated in the creation of Elemica, an independent e-marketplace.

Chemicals overview

Strategy

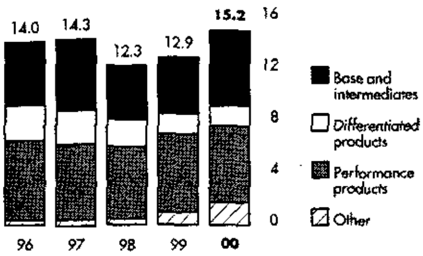
Through simplified global processes deliver major petrochemical building blocks to large industrial customers at lowest total delivered costs. Help customers enhance their performance by offering winning value propositions through leveraging Chemicals' global reach, technology and e-business opportunities. This is achieved by working in a spirit of inclusiveness where different ideas matter, different experiences are heard and different perspectives are valued.

Outlook

Outlook for trading conditions remains mixed. Feedstock prices may weaken but demand will be heavily dependent on the future of the global economy. Additional capacity may affect prices in the short term but is offset by growth potential in Asia in the medium to long term. Industry restructuring is expected to continue.

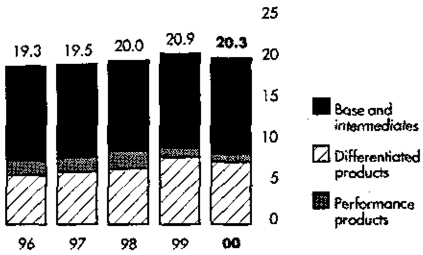
Chemical sales proceeds

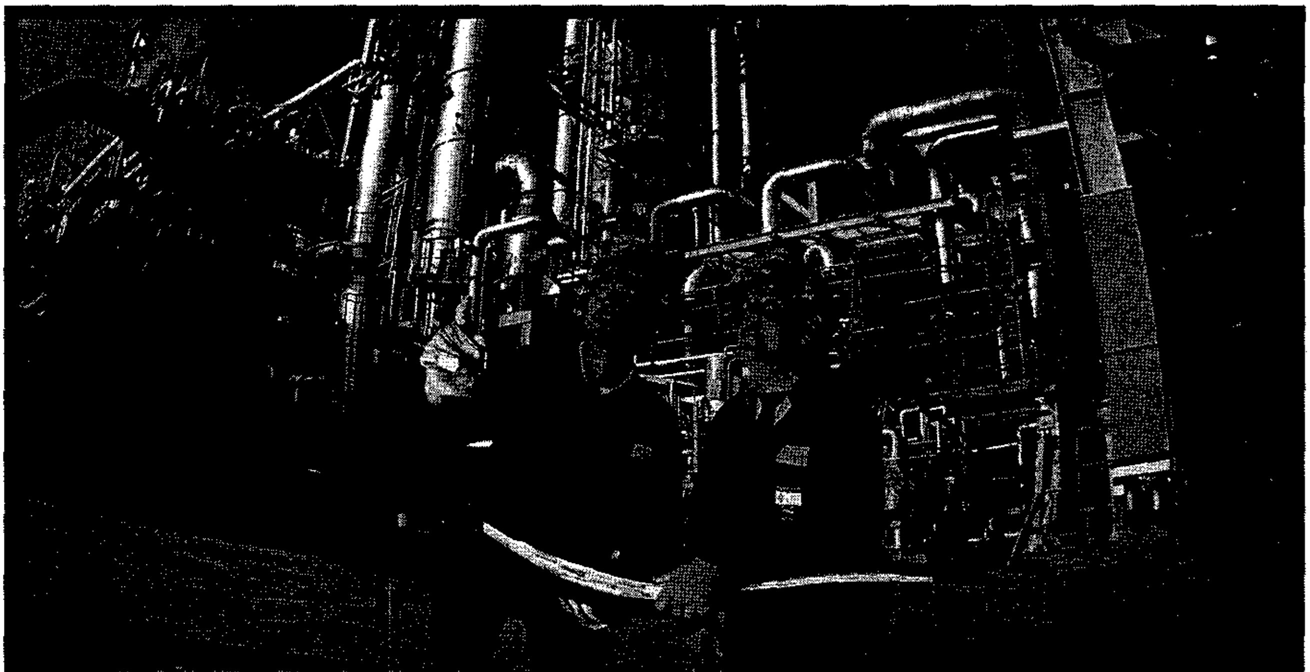
$ billion



Chemical sales volumes

million tonnes





Plant Co-ordinator Wilco Lambrechts and Assistant Plant Manager Roland Spronk of Shell Nederland Chemie's Moerdijk manufacturing site check on the progress of a cracker debottlenecking project. New ground has been broken by using state-of-the-art technology to boost output by 250 kilotonnes a year.

Chemicals continued

In China a joint venture contract was signed with CNOOC Petrochemicals Investment Limited for a $4 billion petrochemical complex (Group interest 50%) in the Guangdong province. It is planned to be a world-scale petrochemicals operation, designed with the most advanced technologies, annually producing 800 kilotonnes of ethylene as well as propylene, polyethylene, polypropylene and other chemical products aimed mainly at the domestic Chinese market. A final investment decision will be made by the partners by the end of 2002, and if approved, the complex is expected to start up in late 2005.

Other industry segments

Renewables

Renewables aims to position the Group as a leader in renewable energy. Amongst the "new" renewable electricity sources, wind energy is nearly as competitive as conventional electricity and the industry is growing at more than 30% a year. The first UK offshore wind farm at Blyth, in which the Group has a 33% interest, began operation, and generates enough electricity to supply 3,000 households. The aim is to gain a competitive position in offshore wind energy using the Group's skills in the design, implementation and operation of complex engineering projects.

In Solar, Renewables will build on the experience gained through existing operations in cell and module manufacture and marketing. The overall industry growth is some 20–25% a year, with the growth strongest in developed countries where the market is stimulated by strong government-supported programmes. Consolidation within the solar industry has led to a small number of large players emerging and continued pressure to reduce production costs. The proposed merger with Siemens Solar GmbH is an important development.

Biomass, while currently the largest provider of renewable energy, is growing more slowly. The Forestry business has achieved significant increases in sales volumes and reductions in costs in the face of depressed markets.

Coal

The Group's coal activities were sold in July 2000.

e-business

Every business actively pursued e-business initiatives during the year. In the business-to-business sector, Group companies have increasingly conducted e-business with customers and suppliers through dedicated extranets. At the same time, the Group has helped co-found, or participated in, nine business-to-business market places and exchanges. These are now seeking to increase their customer bases and grow liquidity. In the consumer area, Shell-branded initiatives have been undertaken in many markets, seeking to develop propositions which add value for individual Shell customers. Internally, the focus has been on digitising the business, and on the cost reductions and process efficiencies which this brings.

In addition, a new business, Shell Internet Works, was established early in 2000 to develop cross-business and novel internet-related opportunities. This managed the Group's participation in Trade-Ranger, the leading energy and petrochemicals e-procurement exchange, which has been operational since third quarter 2000. By end 2000 there were e-procurement sites across the Group, operating in eighteen locations in North America, Europe, Asia-Pacific and Africa. An equity investment was made in Currenex Inc., an internet-based foreign exchange service which has now started to provide services to the Group's Treasury. A corporate venture capital fund was established to invest in appropriate internet-related ventures.

Shell Capital

In 2000, Shell Capital continued to develop business lines in producer loans, consumer finance, structured finance and commercial lending. Shell Capital took over the management of the euroShell fuel card and multi-lingual portals were introduced across Europe for euroShell customers. A range of internet-enabled insurance products was launched in the Netherlands. A number of loan transactions with independent oil and gas companies were completed.

Corporate

In 2000, adjusted earnings of $280 million were $28 million above those achieved in 1999. This was due to higher net interest income partly offset by lower income from the Group insurance companies and the benefit in 1999 of lower taxation.

Reported earnings in 2000 included special charges totalling $188 million, mainly related to the impact of the endowment of the Shell Foundation. The Foundation has been established to reinforce and complement the Group's business approach to sustainable development and social performance. The Group has endowed the foundation with $250 million from which it will derive income to fund its programmes.

Liquidity and capital resources

Statement of Cash Flows

The net effect of the flow of funds for the year was an increase of $7.4 billion in cash and cash equivalents.

Cash flow generated by operations increased from $11.1 billion in 1999 to $18.4 billion in 2000, mainly reflecting the increase in income. Within cash flow used in investing activities (net $1.6 billion), capital expenditure and new investments in associates decreased by $1.0 billion to $7.4 billion. There were proceeds from sales of assets and disposals of investments in associates of $6.1 billion; in 1999 such proceeds amounted to $5.6 billion. Dividends of $5.2 billion were paid in 2000 to the Parent Companies, Royal Dutch and Shell Transport, and there was net debt repayment of $3.6 billion.

Financial condition

Cash, cash equivalents and short-term securities were $11.4 billion at the end of 2000 (the majority being held in dollars), up $7.3 billion on 1999, whilst the total of short- and long-term debt decreased by $5.5 billion to $7.4 billion. The total debt ratio decreased from 18.0% in 1999 to 11.0% in 2000.

Operational and Financial Review
continued

Liquidity and capital resources continued

Net assets increased by \$0.9 billion to \$57.1 billion during the year. Fixed and other long-term assets decreased by \$6.9 billion, to \$76.6 billion, mainly because of the effects of asset sales. Net current assets increased by \$6.3 billion, reflecting increased cash and cash equivalents. Available funds are considered to be sufficient to meet working capital needs.

Capital investment

Group companies' capital expenditure, exploration expense, new investments in associated companies and other investments fell by \$1.0 billion to \$8.5 billion in 2000. Exploration and Production expenditure, at \$5.0 billion (1999: \$5.4 billion), accounted for more than half of this total. Oil Products investment totalled \$1.6 billion (1999: \$1.4 billion). Chemicals investment was \$1.0 billion (1999: \$1.6 billion), whilst Downstream Gas and Power accounted for \$0.8 billion (1999: \$0.8 billion).

Capital investment in 2001 is expected to increase to around \$12 billion. Exploration and Production continues to be the major element of capital investment. The Group companies' investment programme is expected to be financed largely from internally generated funds.

Other matters

Risk management and internal control

The Group's approach to internal control is based on the underlying principle of line management's accountability for risk and control management. The Group's risk and internal control policy explicitly states that the Group has a risk-based approach to internal control and that management in the Group is responsible for implementing, operating and monitoring the system of internal control, which is designed to provide reasonable but not absolute assurance of achieving business objectives.

Consistent with the policy, a number of existing processes were strengthened and formalised in 2000. For example, the *Risk Policy & Guidelines* were issued in April 2000. These guidelines, which replace the 1992 *Business Control Guidelines*, describe the essential elements involved in developing and sustaining risk-based control frameworks, thereby providing a consistent basis for application of the policy and a common language for risk reporting.

Additionally, review and reporting processes were enhanced to bring risk management into greater focus and to enable Conference (meetings between the members of the Supervisory Board and the Board of Management of Royal Dutch and the Directors of Shell Transport) to regularly review the risk and control management system and facilitate their full annual review of the system's effectiveness.

At Group level and within each business, identification and evaluation of risks to achieving key objectives and consideration of appropriate responses have been made explicit via the development of 'baseline' risk profiles and high-level risk response frameworks in 1999. This was followed in 2000 with the introduction of risk reporting as part of the quarterly business performance review process. Each quarter, risk profiles which highlight the perceived impact and likelihood of significant risks are reviewed and discussed by the Committee of Managing Directors (CMD) and Conference. Each risk profile is supported by a summary of key controls and monitoring mechanisms. This information is updated to reflect, for example, new objectives agreed via the strategy development and planning process, changes in the operating environment and emerging issues. The quarterly risk reporting process complements the information which is considered by the Group Audit Committee.

During 2000, emphasis was placed on embedding a more structured approach to risk management and control at Group and business levels. Similar efforts to fully embed the risk-based approach to internal control are now being cascaded within the businesses. In addition, non-Group operated ventures and affiliates are being encouraged to adopt processes consistent with the Group's approach. Over time, these efforts will improve the understanding of significant risks at all levels, enhance consistency and facilitate sharing of knowledge.

The Group's approach to internal control also includes a number of general and specific risk management processes and policies. Within the essential framework provided by the *Statement of General Business Principles*, the Group's primary control mechanisms are self-appraisal processes in combination with strict accountability for results. These mechanisms are underpinned by controls including mandatory policies and defined procedures, guidelines and standards which relate to particular types of risk, structured investment decision processes, timely and effective reporting systems, and performance appraisal.

Examples of specific risk management processes include the Group Issue Identification and Management System, by which reputation risks are identified and monitored. A common health, safety and environment (HSE) policy has been adopted by Group companies. Substantially all Group companies have HSE management systems in place. For almost all major installations the environmental component of such systems was certified to international standards by the end of 2000; the remainder will follow in 2001. The *Group Financial Control Handbook* provides managers throughout the Group with guidance regarding the application of internal financial controls, and establishes a clear set of criteria against which managers can judge the standards achieved in their own companies. The management of particular risks related to property, liability and treasury is described separately below.

A procedure for identification and reporting of business control incidents continues to enable management and the Group Audit Committee to monitor incidents that have caused a potential loss as a result of breakdown in controls and to ensure appropriate follow-up actions have been taken. Lessons learned are captured and shared as a means of improving the Group's overall control framework.

Formalised self-appraisal and assurance processes are in place covering performance in the areas of financial reporting and business integrity (Letter of Representation), HSE and the *Statement of General Business Principles*. The Letter of Representation includes a declaration by the management of each of more than 2,000 companies regarding the operation of sound financial controls, the proper recording of transactions and any instances of bribes or illegal payments; the results of this process and any qualifications made are reviewed by the Group Audit Committee, and support representations made to the external auditors.

In addition, internal audit plays a critical role in the objective assessment of business processes and the provision of assurance. Audits and reviews of Group operations are carried out by internal audit to provide the Group Audit Committee with independent assessments regarding the effectiveness of risk and control management.

Taken together, these processes and practices provide confirmation to the Group Holding Companies that relevant policies are adopted and procedures implemented with respect to risk and control management.

Property and liability risks

The Group's Operating Companies insure against most major property and liability risks with the Group's captive insurance companies. These companies reinsure part of their major catastrophe risks with a variety of international insurers. The effect of these arrangements is that uninsured losses for any one incident are unlikely to exceed $400 million.

Treasury and trading risks

As further discussed in Note 28 on pages 56 and 57, Group companies, in the normal course of their business, use financial instruments of various kinds for the purposes of managing exposure to currency, commodity price and interest rate movements.

The Group has Treasury Guidelines applicable to all Group companies, and each Group company is required to adopt a treasury policy consistent with these guidelines. These policies cover financing structure, foreign exchange and interest-rate risk management, insurance, counterparty risk management and derivative instruments, as well as the treasury control framework. Wherever possible, treasury operations are operated through specialist Group regional organisations without removing from each Group company the responsibility to formulate and implement appropriate treasury policies.

Each Group company measures its foreign currency exposures against the underlying currency of its business (its "functional currency"), reports foreign exchange gains and losses against its functional currency and has hedging and treasury policies in place which are designed to minimise foreign exchange exposure so defined. The functional currency for most upstream companies and for other companies with significant international business is the US dollar, but other companies normally have their local currency as their functional currency.

The financing of most Operating Companies is structured on a floating-rate basis and, except in special cases, further interest rate risk management is discouraged.

Apart from forward foreign exchange contracts to meet known commitments, the use of derivative financial instruments by most Group companies is not permitted by their treasury policy.

Some Group companies operate as traders in crude oil, natural gas and oil products, using commodity swaps and options as a means of managing price and timing risks arising from this trading. In effecting these transactions, the companies concerned operate within procedures and policies designed to ensure that risks, including those relating to the default of counterparties, are minimised.

Other than in exceptional cases, the use of derivative instruments is generally confined to specialist oil and gas trading and central treasury organisations which have appropriate skills, experience, supervision, and control and reporting systems.

Environmental and decommissioning costs

Group companies operate in more than 135 countries throughout the world and are subject to a number of different environmental laws, regulations and reporting requirements. It is the responsibility of each Group company to implement a health, safety and environmental management system that is suited to its particular circumstances.

The costs of prevention, control, abatement or elimination of releases into the air and water, as well as the disposal and handling of wastes at operating facilities, are considered to be an ordinary part of business. As such, these amounts are included within operating expenses. An estimate of the order of magnitude of amounts incurred in 2000 for Group companies, based on allocations and managerial judgement, is $600 million (1999: $600 million).

Expenditures of a capital nature to limit or monitor hazardous substances or releases include both remedial measures on existing plants and integral features of new plants. Whilst some environmental expenditures are discrete and readily identifiable, others must be reasonably estimated or allocated based on technical and financial judgements which develop over time. Consistent with the preceding, estimated environmental capital expenditures made by companies with major capital programmes during 2000 were $400 million (1999: $500 million). Those Group companies are expected to incur environmental capital costs of at least $600 million per year during both 2001 and 2002.

It is not possible to predict with certainty the magnitude of the effect of required investments in existing facilities on Group companies' future earnings, since this will depend amongst other things on the ability to recover the higher costs from consumers and through fiscal incentives offered by governments. Nevertheless, it is anticipated that over time there will be no material impact on the total of Group companies' earnings. These risks are comparable to those faced by other companies in similar businesses.

At the end of 2000, the total provisions being carried for environmental clean-up were $475 million (1999: $505 million). In 2000 there were payments of $97 million and increases in provisions of $74 million.

Provisions being carried for expenditures on decommissioning and site restoration, including oil and gas platforms, amounted to $2,514 million (1999: $2,539 million).

Operational and Financial Review
continued

Other matters *continued*

Employees

Overall, the number of employees in Group companies has declined over the past year mainly as a result of the divestments in Chemicals, the disposal of the Coal business and the formation of associated joint ventures. Companies across the Group will continue with further streamlining over the coming year but this will be offset by the increase in personnel numbers resulting from the expansion in certain areas and activities.

Impact of the euro

Group companies based in Economic and Monetary Union (EMU) countries will transfer their accounting to euro during 2001. All of the main business segments are represented in the euro zone and their operations within the zone account for a significant amount of the Group's total business.

During the transitional period there is no compulsion for companies to use the euro for transactions nor is there any prohibition of its use: market forces will be the driver. So far, the demand for euro-denominated business transactions has been limited. The transitional period lasts until the end of 2001.

There are perceived continuing benefits to the Group arising from the introduction of the euro, against which may be offset certain costs and risks associated with implementation.

Long-term competitiveness could be improved by the results of price transparency created within the euro zone by the single currency. It is not currently possible to make an accurate assessment of the overall impact of this development.

The Group has been making preparations for the introduction of the euro since 1996. Costs include system modifications, preparing and converting retail sites and project staffing. Implementation costs have already been incurred and will continue for the next two years. Costs are expensed as incurred.

Cautionary statement

The Operational and Financial Review and other sections of this Report contain forward-looking statements that are subject to risk factors associated with the oil, gas, chemicals, power generation and renewable resources businesses. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a variety of variables which could cause actual results or trends to differ materially, including, but not limited to: price fluctuations; currency fluctuations, drilling and production results; reserve estimates; loss of market; environmental risks; physical risks; and legislative, fiscal and regulatory developments.

Report of the independent Auditors

To Royal Dutch Petroleum Company and
The "Shell" Transport and Trading Company, p.l.c.

We have audited the Financial Statements appearing on pages 37 to 57 of the Royal Dutch/Shell Group of Companies for the years 2000, 1999 and 1998. The preparation of Financial Statements is the responsibility of management. Our responsibility is to express an opinion on Financial Statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management in the preparation of Financial Statements, as well as evaluating the overall Financial Statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the Financial Statements referred to above present fairly, in all material respects, the financial position of the Royal Dutch/Shell Group of Companies at December 31, 2000 and 1999 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in accordance with generally accepted accounting principles in the Netherlands and the United States.

KPMG Accountants N.V., *The Hague*

PricewaterhouseCoopers, London
March 14, 2001

Financial Statements

Statement of Income

$ million

	Note	2000	1999	1998
Sales proceeds		**191,511**	149,706	138,274
Sales taxes, excise duties and similar levies		**42,365**	44,340	44,582
Net proceeds		**149,146**	105,366	93,692
Cost of sales		**118,328**	81,839	76,674
Gross profit		**30,818**	23,527	17,018
Selling and distribution expenses		**7,896**	8,195	9,342
Administrative expenses		**1,137**	830	1,414
Exploration		**755**	1,086	1,603
Research and development		**389**	505	799
Operating profit of Group companies		**20,641**	12,911	3,860
Share of operating profit/(loss) of associated companies	*6*	***3,859***	*2,321*	*(756)*
Operating profit		**24,500**	15,232	3,104
Interest and other income	7	**974**	541	629
Interest expense	8	**1,324**	1,253	1,333
Currency exchange gains/(losses)		**(114)**	1	5
Income before taxation		**24,036**	14,521	2,405
Taxation	9	**11,273**	5,696	1,913
Income after taxation		**12,763**	8,825	492
Income applicable to minority interests		**44**	241	142
Net income		**12,719**	8,584	350

Statement of Comprehensive Income and Parent Companies' Interest in Group Net Assets

$ million

	Note	2000	1999	1998
Net income	3	**12,719**	8,584	350
Other comprehensive income, net of tax:	5			
currency translation differences	19	**(2,717)**	(1,443)	482
unrealised gains/(losses) on securities		**(238)**	205	169
minimum pension liability adjustments		**(70)**	(95)	(13)
Comprehensive income		**9,694**	7,251	988
Net distributions to Parent Companies	3	**(8,579)**	(5,631)	(5,712)
Parent Companies' shares held by Group companies at January 1, 1998	22			(490)
Increase in Parent Companies' shares held by Group companies	22	**(200)**	(411)	(210)
Parent Companies' interest in Group net assets at January 1		**56,171**	54,962	60,386
Parent Companies' interest in Group net assets at December 31	4	**57,086**	56,171	54,962
Applicable to:				
Royal Dutch (60%)		**34,252**	33,703	32,977
Shell Transport (40%)		**22,834**	22,468	21,985
		57,086	56,171	54,962

Financial Statements

continued

Statement of Assets and Liabilities

	Note	Dec 31 2000	Dec 31 1999
			$ million
Fixed assets			
Tangible assets	10	**47,314**	56,598
Intangible assets	10	**1,005**	2,641
Investments			
associated companies	6	**18,648**	16,686
securities	14	**1,720**	1,680
other		**1,043**	924
Total fixed assets		**69,730**	78,529
Other long-term assets	11	**6,838**	4,962
Current assets			
Inventories	12	**7,884**	7,738
Accounts receivable	13	**26,611**	18,603
Short-term securities	14	**4**	8
Cash and cash equivalents	14	**11,431**	4,043
Total current assets		**45,930**	30,392
Current liabilities: amounts due within one year			
Short-term debt	15	**3,357**	6,922
Accounts payable and accrued liabilities	17	**26,613**	18,108
Taxes payable	9	**6,116**	5,092
Dividends payable to Parent Companies		**6,612**	3,341
Total current liabilities		**42,698**	33,463
Net current assets/(liabilities)		**3,232**	(3,071)
Total assets less current liabilities		**79,800**	80,420
Long-term liabilities: amounts due after more than one year			
Long-term debt	15	**4,070**	6,009
Other	18	**4,003**	3,243
		8,073	9,252
Provisions			
Deferred taxation	9	**7,008**	7,053
Pensions and similar obligations	21	**2,238**	2,563
Decommissioning and restoration costs	23	**2,514**	2,539
		11,760	12,155
Group net assets before minority interests		**59,967**	59,013
Minority interests		**2,881**	2,842
Net assets		**57,086**	56,171

Statement of Cash Flows (see Note 19)

	Note	2000	1999	1998
				$ million
Cash flow provided by operating activities				
Net income		**12,719**	8,584	350
Adjustments to reconcile net income to cash flow provided by operating activities				
Depreciation, depletion and amortisation	10	**7,885**	6,520	9,423
Profit on sale of assets		**(1,026)**	(1,366)	(241)
Movements in:				
inventories		**(1,268)**	(2,059)	1,107
accounts receivable		**(10,007)**	(5,049)	1,972
accounts payable and accrued liabilities		**9,741**	3,066	486
taxes payable		**967**	1,260	(559)
short-term securities		**(2)**	16	359
Associated companies: dividends more/(less) than net income	6	**(132)**	423	2,581
Deferred taxation and other provisions		**491**	(55)	(1,453)
Long-term liabilities and other		**(1,053)**	(522)	562
Income applicable to minority interests		**44**	241	142
Cash flow provided by operating activities		**18,359**	11,059	14,729
Cash flow used in investing activities				
Capital expenditure (including capitalised leases)	10	**(6,209)**	(7,409)	(12,859)
Proceeds from sale of assets		**3,852**	5,026	1,421
New investments in associated companies	6	**(1,161)**	(1,024)	(1,282)
Disposals of investments in associated companies		**2,283**	549	362
Movement in other investments		**(336)**	(165)	(142)
Cash flow used in investing activities		**(1,571)**	(3,023)	(12,500)
Cash flow used in financing activities				
Long-term debt (including short-term part)				
new borrowings		**945**	1,798	1,572
repayments		**(1,276)**	(1,575)	(1,532)
		(331)	223	40
Net increase/(decrease) in short-term debt		**(3,271)**	(922)	1,850
Change in minority interests		**(22)**	54	521
Dividends paid to:				
Parent Companies		**(5,239)**	(5,446)	(5,819)
minority interests		**(262)**	(165)	(174)
Cash flow used in financing activities		**(9,125)**	(6,256)	(3,582)
Increase in Parent Companies' shares held by Group companies		**(200)**	(411)	(210)
Currency translation differences relating to cash and cash equivalents		**(75)**	(43)	(26)
Increase/(decrease) in cash and cash equivalents		**7,388**	1,326	(1,589)
Cash and cash equivalents at January 1		**4,043**	2,717	4,306
Cash and cash equivalents at December 31		**11,431**	4,043	2,717

Notes to Financial Statements

1 The Royal Dutch/Shell Group of Companies
The Parent Companies, Royal Dutch Petroleum Company (Royal Dutch) and The "Shell" Transport and Trading Company, p.l.c. (Shell Transport) are holding companies which together own, directly or indirectly, investments in numerous companies known collectively as the Royal Dutch/Shell Group. Group companies are engaged in all principal aspects of the oil and natural gas business throughout the world. They also have substantial chemical interests. These activities are conducted in more than 135 countries and are subject to changing economic, regulatory and political conditions.

Arrangements between Royal Dutch and Shell Transport provide, *inter alia*, that notwithstanding variations in shareholdings, Royal Dutch and Shell Transport shall share in the aggregate net assets and in the aggregate dividends and interest received from Group companies in the proportion of 60:40. It is further arranged that the burden of all taxes in the nature of or corresponding to an income tax leviable in respect of such dividends and interest shall fall in the same proportion.

The 60:40 arrangements referred to above have been supplemented by further arrangements, beginning with Group dividends payable to the Parent Companies in respect of 1977, whereby each Parent Company is to bring into account towards its share in the 60:40 division of dividends from Group companies tax credits and other tax benefits which are related to the liability to tax of a Group company and which arise to the Parent Company or which would arise to the holders of its ordinary shares if there were to be an immediate full onward distribution to them of Group dividends (for which purpose all shareholders are assumed to be individuals resident and subject to tax in the country of residence of the Parent Company in question).

2 Accounting policies
Nature of the Financial Statements
The accounts of the Parent Companies are not included in the Financial Statements, the objective of which is to demonstrate the financial position, results of operations and cash flows of a group of undertakings in which each Parent Company has an interest in common whilst maintaining its separate identity. The Financial Statements reflect an aggregation in US dollars of the accounts of companies in which Royal Dutch and Shell Transport together, either directly or indirectly, have control either through a majority of the voting rights or the right to exercise a controlling influence. Investments in companies over which Group companies have significant influence but not control are classified as associated companies and are accounted for on the equity basis. Certain joint ventures are taken up in the Financial Statements in proportion to the relevant Group interest.

The Financial Statements have been prepared under the historical cost convention. They have been prepared in all material respects in accordance with generally accepted accounting principles in the Netherlands and the United States. Group accounting policies are also substantially consistent with accounting principles generally accepted in the United Kingdom, with the notable exception of the provision for deferred taxation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the Financial Statements and notes thereto. Actual results could differ from those estimates.

Currency translation
Assets and liabilities of non-dollar Group companies are translated to dollars at year-end rates of exchange, whilst their statements of income and cash flows are translated at quarterly average rates. Translation differences arising on aggregation are taken directly to a currency translation differences account, which forms part of Parent Companies' interest in Group net assets. Upon disinvestment or liquidation of a non-dollar Group company, cumulative currency translation differences related to that company are taken to income.

The dollar equivalents of exchange gains and losses arising as a result of foreign currency transactions (including those in respect of inter-company balances unless related to transactions of a long-term investment nature) are included in Group net income.

Securities
Securities of a trading nature are carried at fair value with unrealised holding gains and losses being included in net income. Securities intended to be held to maturity are carried at cost, unless permanently impaired in which case they are carried at fair value. All other securities are classified as available for sale and are carried at fair value, with unrealised holding gains and losses being taken directly to Parent Companies' interest in Group net assets. Upon sale or maturity, the net gains and losses are included in net income.

Short-term securities with a maturity from acquisition of three months or less and that are readily convertible into known amounts of cash are classified as cash equivalents. Securities forming part of a portfolio which is required to be held long term are classified under fixed assets – investments.

Parent Companies' shares held by Group companies are not included in the Group's net assets but reflected as a deduction from Parent Companies' interest in Group net assets.

Cash flows resulting from movements in securities of a trading nature are reported under cash flow provided by operating activities while cash flows resulting from movements in other securities are reported under cash flow used in investing activities.

Financial instruments
The accounting method used for derivative financial instruments is determined by whether or not the instrument is designated as a hedge of an existing exposure or a firm commitment and, if so, by the accounting method used for the item being hedged. Hedges of existing exposures are accounted for in the same way as the item being hedged. Forward exchange contracts and currency swaps used to hedge exchange rate exposure are valued at market, with resulting gains and losses taken to income when the gains and losses on the underlying hedged transactions are recognised. Gains or losses on hedges of firm commitments are deferred and recognised when any gains or losses on the hedged transactions are recognised. Derivative financial instruments that are not designated as hedges are valued at market, and gains and losses are taken to income.

The effect of derivative financial instruments is reflected in the Financial Statements as follows:

Statement of Income: Premiums or discounts on derivative instruments that are designated as hedges are reflected as adjustments to interest income or expense. Interest differentials on interest rate derivatives used to hedge debt or debt securities are included within interest expense and interest income respectively. Gains or losses on foreign currency contracts used to hedge assets or liabilities are included within currency exchange gains/losses. Gains or losses on commodity derivative contracts, other than those designated as hedges of firm commitments, are included within cost of sales.

Statement of Assets and Liabilities: The carrying amounts of foreign exchange derivatives that hedge debt or debt securities are included within investments – securities, short-term securities, cash and cash equivalents, short-term debt or long-term debt as applicable. The carrying amounts of other derivatives are included within current assets or liabilities.

Statement of Cash Flows: The effect of interest rate derivatives on interest payments and the effect of commodity derivative contracts are included within cash flow provided by operating activities. The effect of foreign exchange derivatives is included within the movement in the item being hedged.

Oil and gas trading
Oil and gas trading contracts such as futures and forward contracts and swaps are entered into by some Group companies, generally in order to hedge exposure to price fluctuations which arise on purchases and sales of crude oil, natural gas and oil products. Contracts designated as hedges are valued at market and resulting gains and losses are taken to income when the gains and losses on the underlying hedged transactions are recognised. The gains and losses on contracts that are not designated as hedges are taken to income in the period in which they arise, and open positions at year-end are reflected in deferred charges and prepayments, other payables or other long-term liabilities as appropriate.

Inventories
Inventories are stated at cost to the Group or net realisable value, whichever is lower. Such cost is determined for the most part by the first-in first-out method (FIFO), but the cost of certain North American inventories is determined on the basis of the last-in first-out method (LIFO). Cost comprises direct purchase costs, cost of production, transportation and manufacturing expenses and taxes.

Exploration costs
Group companies follow the successful efforts method of accounting for oil and gas exploration costs. Exploration costs are charged to income when incurred, with the exception that exploratory drilling costs are initially included in tangible fixed assets pending determination of commercial reserves. The determination of commercial reserves occurs within one year unless such reserves are in an area requiring major capital expenditure before production could begin. Should the efforts be determined unsuccessful, they are then charged to income.

Interest capitalisation
Interest is capitalised, as an increase in tangible fixed assets, on significant capital projects during construction. Interest is also capitalised, as an increase in investments in associated companies, on funds invested by Group companies which are used by associated companies for significant capital projects during construction.

Depreciation, depletion and amortisation
Tangible fixed assets related to production activities are depreciated on a unit-of-production basis over the proved developed reserves of the field concerned, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case the straight-line method is applied. Rights and concessions are depleted on the unit-of-production basis over the total proved reserves of the relevant area. Unproved properties are amortised as required by particular circumstances. Other tangible fixed assets are generally depreciated on a straight-line basis over their estimated useful lives. Goodwill, which is included within intangible fixed assets, is amortised over its estimated useful economic life, with a maximum of 40 years.

The carrying amounts of fixed assets are reviewed for possible impairment whenever events or changes in circumstances indicate. For this purpose, assets are grouped based on separately identifiable and largely independent cash flows. Where impairment is indicated, the carrying amounts of assets are written down to fair value, usually determined as the amount of estimated discounted future cash flows. Assets held for sale are written down to the amount of estimated net realisable value.

In the evaluation for impairment of oil and gas properties, future cash flows are estimated using risk assessments on field and reservoir performance and include outlooks on proved and unproved reserves, which are then discounted or risk-weighted utilising the results from projections of geological, production, recovery and economic factors.

2 Accounting policies continued

Environmental expenditures

Liabilities for environmental remediation resulting from past operations or events are recognised in the period in which an obligation to a third party arises and the amount can be reasonably estimated. Measurement of liabilities is based on current legal requirements and existing technology. Recognition of any joint and several liability is based upon Group companies' best estimate of their final pro-rata share of the liability. Liabilities are determined independently of expected insurance recoveries. Recoveries are recognised and reported as separate events and brought into account when reasonably certain of realisation. The carrying amount of liabilities is regularly reviewed and adjusted for new facts or changes in law or technology.

Decommissioning and restoration costs

Estimated decommissioning and restoration costs are based on current requirements, technology and price levels. In respect of oil and gas production activities, the estimated cost is provided over the life of the proved developed reserves on a unit-of-production basis. The recorded liabilities are reflected as a provision in the Statement of Assets and Liabilities. For other activities, the estimated cost is provided over the remaining life of a facility on a straight-line basis once an obligation crystallises and the amount can be reasonably estimated. Changes in estimates of costs are accrued on a prospective basis.

Deferred taxation

Deferred taxation is provided using the comprehensive liability method of accounting for income taxes based on provisions of enacted laws. Recognition is given to deferred tax assets and liabilities for the expected future tax consequences of events that have been recognised in the Financial Statements or in the tax returns. In estimating these tax consequences, consideration is given to expected future events. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance representing the amount of any tax benefits for which there is uncertainty of realisation.

Employee retirement plans

Retirement plans to which employees contribute and many non-contributory plans are generally funded by payments to independent trusts. Where, due to local conditions, a plan is not funded, a provision which is not less than the present value of accumulated pension benefits, based on present salary levels, is included in the Financial Statements. Valuations of both funded and unfunded plans are carried out by independent actuaries.

Pension cost primarily represents the increase in actuarial present value of the obligation for pension benefits based on employee service during the year and the interest on this obligation in respect of employee service in previous years, net of the expected return on plan assets.

Postretirement benefits other than pensions

Some Group companies provide certain postretirement health care and life insurance benefits to retirees, the entitlement to which is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the periods employees render service to the Group. These plans are not funded. A provision is included in the Financial Statements which is sufficient to cover the present value of the accumulated postretirement benefit obligation based on current assumptions. Valuations of these obligations are carried out by independent actuaries.

Sales proceeds

Sales proceeds are determined by reference to the sales price of goods delivered and services rendered during the period. Sales between Group companies are based on prices generally equivalent to commercially available prices.

Administrative expenses

Administrative expenses are those which do not relate directly to the activities of a single business segment and include expenses incurred in the management and co-ordination of multi-segment enterprises.

Research and development

Research and development expenditure is charged to income as incurred, with the exception of that on buildings and major items of equipment which have alternative use.

Reclassifications

Certain prior-year amounts have been reclassified to conform with current-year presentation.

3 Division of Group net income between the Parent Companies

The division of Group net income, in accordance with Note 1, is as follows:

2000	Total	Royal Dutch (60%)	Shell Transport (40%)
			$ million
Group net income	**12,719**	**7,631**	**5,088**
less net distributions to Parent Companies	**8,579**	**5,147**	**3,432**
Undistributed net income	**4,140**	**2,484**	**1,656**

1999	Total	Royal Dutch (60%)	Shell Transport (40%)
			$ million
Group net income	8,584	5,151	3,433
less net distributions to Parent Companies	5,631	3,379	2,252
Undistributed net income	2,953	1,772	1,181

1998	Total	Royal Dutch	Shell Transport
			$ million
Group net income	350		
Distributions from retained earnings	5,362		
Net distributions to Parent Companies	5,712	3,485	2,227
Tax benefit referable to net distributions accruing to Shell Transport	97	–	97
Divisible for 60:40 purposes	5,809	(60%) 3,485	(40%) 2,324
Distributions from retained earnings	5,362	(60%) 3,217	(40%) 2,145

4 Parent Companies' interest in Group net assets

	2000	1999	1998
			$ million
Invested by Parent Companies	**741**	741	741
Profits capitalised by Group companies	**3,242**	3,241	3,241
Retained earnings of Group companies	**59,130**	54,991	52,038
Parent Companies' shares held by Group companies (Note 22)	**(1,311)**	(1,111)	(700)
Cumulative currency translation differences	**(4,647)**	(1,930)	(487)
Unrealised gains/(losses) on securities	**129**	367	162
Minimum pension liability adjustments	**(198)**	(128)	(33)
Balance at December 31	**57,086**	56,171	54,962

Earnings retained by the subsidiary and associated companies of the Group Holding Companies (namely Shell Petroleum N.V. and The Shell Petroleum Company Limited) and Shell Petroleum Inc. amounted to $21,029 million at December 31, 2000 (1999: $21,812 million; 1998: $22,632 million). Provision has not been made for taxes on possible future distribution of these undistributed earnings as these earnings have been, or will be, substantially reinvested by the companies concerned. It is not, therefore, meaningful to provide for these taxes nor is it practicable to estimate their full amount or the withholding tax element.

5 Other comprehensive income

2000			$ million
			Credit/(Charge)
	Pre-tax	Tax	After tax
Currency translation differences	**(2,677)**	**(51)**	**(2,728)**
Reclassifications	**11**	**–**	**11**
Currency translation differences net of reclassifications	**(2,666)**	**(51)**	**(2,717)**
Unrealised gains/(losses) on securities	**(205)**	**8**	**(197)**
Reclassifications	**(50)**	**9**	**(41)**
Unrealised gains/(losses) on securities net of reclassifications	**(255)**	**17**	**(238)**
Minimum pension liability adjustments	**(115)**	**45**	**(70)**
Other comprehensive income	**(3,036)**	**11**	**(3,025)**

1999			$ million
			Credit/(Charge)
	Pre-tax	Tax	After tax
Currency translation differences	(1,485)	23	(1,462)
Reclassifications	19	–	19
Currency translation differences net of reclassifications	(1,466)	23	(1,443)
Unrealised gains/(losses) on securities	266	(31)	235
Reclassifications	(31)	1	(30)
Unrealised gains/(losses) on securities net of reclassifications	235	(30)	205
Minimum pension liability adjustments	(139)	44	(95)
Other comprehensive income	(1,370)	37	(1,333)

1998			$ million
			Credit/(Charge)
	Pre-tax	Tax	After tax
Currency translation differences	477	(16)	461
Reclassifications	21	–	21
Currency translation differences net of reclassifications	498	(16)	482
Unrealised gains/(losses) on securities	215	(29)	186
Reclassifications	(22)	5	(17)
Unrealised gains/(losses) on securities net of reclassifications	193	(24)	169
Minimum pension liability adjustments	(23)	10	(13)
Other comprehensive income	668	(30)	638

Notes to Financial Statements
continued

6 Associated companies

(a) Income

Associated companies engage in similar businesses to Group companies and play an important part in the overall operating activities of the Group. Consequently, the Group share of operating profits arising from associated companies is seen as a contribution to the total Group operating profit and is shown as such in the *Statement of Income*. The Group share of interest income, interest expense, currency exchange gains/losses and taxation of associated companies has been included within those items in the Statement of Income.

A summarised Statement of Income with respect to the Group share of net income from associated companies, together with a segment analysis, is set out below:

			$ million
	2000	1999	1998
Net proceeds	**60,896**	40,970	33,464
Cost of sales	**51,692**	33,646	30,944
Gross profit	**9,204**	7,324	2,520
Other operating expenses	**5,345**	5,003	3,276
Operating profit/(loss)	**3,859**	2,321	(756)
Interest and other income	**111**	76	75
Interest expense	**498**	339	313
Currency exchange gains	**7**	4	39
Income before taxation	**3,479**	2,062	(955)
Taxation	**1,515**	966	489
Net income	**1,964**	1,096	(1,444)

Cost of sales in 1998 includes $2,243 million relating to the impairment of certain fixed assets, primarily in the Exploration and Production segment, mainly resulting from the downward revision in expectation of long-term sustained oil prices. The related tax effects are not included in taxation above, but are reflected in the results of Group companies holding such investments.

Income by segment			$ million
	2000	1999	1998
Exploration and Production	**998**	459	(2,054)
Downstream Gas and Power	**343**	213	289
Oil Products	**535**	319	340
Chemicals	**115**	117	10
Other	**(27)**	(12)	(29)
	1,964	1,096	(1,444)

(b) Investments

				$ million
			2000	1999
	Shares	Loans	**Total**	Total
At January 1	**14,723**	**1,963**	**16,686**	16,686
New investments	**605**	**556**	**1,161**	1,024
Net asset transfers to associates, disposals and other movements	**1,167**	**(69)**	**1,098**	(392)
Net income	**1,964**	**-**	**1,964**	1,096
Dividends	**(1,832)**	**-**	**(1,832)**	(1,519)
Currency translation differences	**(364)**	**(65)**	**(429)**	(209)
At December 31	**16,263**	**2,385**	**18,648**	16,686

In 2000, the net asset transfers to associates, disposals and other movements mainly comprise the effects of the formation of Basell, the expansion of the InterGen joint venure, the exchange of assets for an additional interest in Sakhalin and the disposal of the Group's interest in Altura.

The formation of Basell involved the combination of the Group's polyolefins operations with those of BASF, namely Montell (Group interest: 100%), Elenac (Group interest: 50%; BASF: 50%) and Targor (BASF: 100%). The increase in the Group's interest in the InterGen joint venture from 50% to 68% was a result of transferring certain of the Group's gas pipeline and power assets in the USA to the InterGen joint venture. The Group does not exercise control over the InterGen joint venture and therefore accounts for its investment on the equity basis.

A summarised Statement of Assets and Liabilities with respect to the Group share of investments in associated companies is set out below:

		$ million
	2000	1999
Fixed assets	**24,184**	22,300
Current assets	**9,745**	8,590
Total assets	**33,929**	30,890
Current liabilities	**9,424**	8,690
Long-term liabilities	**5,857**	5,514
Net assets	**18,648**	16,686

An analysis by segment is shown in Note 24.

The Group's major investments in associated companies at December 31, 2000 comprised:

Segment Name	Group interest	Country of incorporation
Exploration and Production		
Aera	52%	USA
Brunei Shell	50%	Brunei
Sakhalin	55%	Bermuda
Woodside	34%	Australia
Downstream Gas and Power		
InterGen	68%	The Netherlands
Nigeria LNG	26%	Nigeria
Oil Products		
Equilon	56%	USA
Motiva	35%	USA
Showa Shell	50%	Japan
Chemicals		
Basell	50%	The Netherlands

(c) Transactions between Group companies and associated companies

Transactions between Group and associated companies mainly comprise sales and purchases of goods and services in the ordinary course of business and in total amounted to:

			$ million
	2000	1999	1998
Charges to associated companies	**15,590**	12,476	11,620
Charges from associated companies	**5,792**	4,016	4,046

Balances outstanding at December 31 in respect of the above transactions are shown in Notes 13 and 17.

7 Interest and other income

	2000	1999	1998
			$ million
Group companies			
Interest income	**627**	410	487
Other income	**236**	55	67
	863	465	554
Associated companies	**111**	76	75
	974	541	629

8 Interest expense

	2000	1999	1998
			$ million
Group companies			
Interest incurred	**877**	1,001	1,113
less interest capitalised	**51**	87	93
	826	914	1,020
Associated companies	**498**	339	313
	1,324	1,253	1,333

9 Taxation

(a) Taxation charge for the year

	2000	1999	1998
			$ million
Group companies			
Current tax charge	**9,251**	4,869	3,746
Deferred tax charge/(credit)	**507**	(139)	(2,322)
	9,758	4,730	1,424
Associated companies	**1,515**	966	489
	11,273	5,696	1,913

Reconciliations of the expected tax charge of Group companies to the actual tax charge are as follows:

	2000	1999	1998
			$ million
Expected tax charge at statutory rates	**9,763**	5,768	1,653
Adjustments of valuation allowance	**(261)**	(199)	(173)
Adjustments in respect of prior years	**(89)**	(79)	(135)
Other items	**345**	(760)	79
Taxation charge of Group companies	**9,758**	4,730	1,424

The taxation charge of Group companies includes not only income taxes of general application but also income taxes at special rates levied on income from exploration and production activities and various additional income and other taxes to which these activities are subject.

(b) Taxes payable

	2000	1999
		$ million
Taxes on activities of Group companies	**3,251**	2,385
Sales taxes, excise duties and similar levies and social law taxes	**2,865**	2,707
	6,116	5,092

(c) Provision for deferred taxation

The provision for deferred taxation comprises the following tax effects of temporary differences:

	2000	1999
		$ million
Tangible and intangible fixed assets	**9,370**	9,813
Other items	**3,021**	2,367
Total deferred tax liabilities	**12,391**	12,180
Tax losses carried forward	**(2,442)**	(2,820)
Provisions		
Pensions and similar obligations	**(609)**	(681)
Decommissioning and restoration costs	**(1,193)**	(1,275)
Environmental and other provisions	**(456)**	(365)
Other items	**(2,828)**	(2,439)
Total deferred tax assets	**(7,528)**	(7,580)
Asset valuation allowance	**2,145**	2,453
Net deferred tax assets	**(5,383)**	(5,127)
Net deferred tax liability	**7,008**	7,053

The Group has tax losses carried forward amounting to $6,686 million at December 31, 2000. Of these, $2,485 million can be carried forward indefinitely. The remaining $4,201 million expires in the following years:

	$ million
2001	7
2002	988
2003	280
2004	272
2005–2009	1,227
2010–2015	1,427

Notes to Financial Statements

continued

10 Tangible and intangible fixed assets

$ million

	2000 Tangible	2000 Intangible	2000 Total Group	1999 Total Group
Cost				
At January 1	**122,150**	**4,432**	**126,582**	132,599
Capital expenditure	**6,010**	**199**	**6,209**	7,409
Sales, retirements and other movements[a]	**(11,083)**	**(2,096)**	**(13,179)**	(8,844)
Currency translation differences	**(5,468)**	**(51)**	**(5,519)**	(4,582)
At December 31	**111,609**	**2,484**	**114,093**	126,582
Depreciation				
At January 1	**65,552**	**1,791**	**67,343**	69,213
Depreciation, depletion and amortisation charge	**7,172**	**713**	**7,885**	6,520
Sales, retirements and other movements[a]	**(5,261)**	**(1,005)**	**(6,266)**	(5,539)
Currency translation differences	**(3,168)**	**(20)**	**(3,188)**	(2,851)
At December 31	**64,295**	**1,479**	**65,774**	67,343
Net 2000	**47,314**	**1,005**	**48,319**	
1999	56,598	2,641		59,239

a Includes transfers to associated companies (refer to Note 6(b)).

Capital expenditure, together with new investments in associated companies, and the depreciation, depletion and amortisation charge are shown in Note 24, classified, consistent with oil and gas industry practice, according to operating activities. Such a classification, rather than one according to type of asset, is given in order to permit a better comparison with other companies having similar activities.

The net balances at December 31 include:

$ million

	2000	1999
Capitalised costs in respect of assets not yet used in operations		
Unproved properties	**2,167**	2,232
Proved properties under development and other assets in the course of construction	**4,434**	4,940
	6,601	7,172

Depreciation, depletion and amortisation charges for the year in the table above are included within the following expense headings in the Statement of Income:

$ million

	2000	1999	1998
Cost of sales	**6,689**	5,141	7,969
Selling and distribution expenses	**1,087**	1,225	1,260
Administrative expenses	**57**	88	100
Exploration	**10**	12	10
Research and development	**42**	54	84
	7,885	6,520	9,423

Depreciation, depletion and amortisation charges for 2000 include $1,345 million (1999: $147 million; 1998: $2,177 million) relating to the impairment of tangible fixed assets, and $440 million (1999: nil; 1998: $836 million) relating to the impairment of intangible fixed assets. Such charges are recorded within cost of sales. The 2000 impairment charges relate to assets held for use ($1,433 million; 1999: $133 million; 1998: $827 million) and to assets held for sale ($352 million; 1999: $14 million; 1998: $2,186 million). For 2000 the impairments mainly relate to Oil Products resulting from a downward revision in the long-term expectation of certain refinery margins, and to Downstream Gas and Power resulting from restructuring of the business in the USA. For 1998 the impairments mainly relate to Chemicals, resulting from the decision to dispose of a significant portion of the portfolio, to a disposal decision relating to certain Downstream Gas assets, due to a significant downturn in business conditions and a strategic review, and to Exploration and Production, mainly resulting from the downward revision in expectation of long-term sustained oil prices.

Net fixed assets at December 31, 2000 include assets held for sale totalling $0.9 billion (1999: $2.4 billion), consisting primarily of assets in the Chemicals and Other industry segments. It is expected that the sales of these assets will occur in 2001. Operating profits/(losses) included in the Statement of Income relating to these assets totalled $69 million in 2000 (1999: $100 million; 1998: $(14) million).

11 Other long-term assets

Reflecting their non-current nature, deferred charges and prepayments due after one year and other non-current assets are presented separately as "Other long-term assets". At December 31, 2000 these include $5,241 million (1999: $3,865 million) of deferred charges and prepayments (including assets from risk management activities), of which $3,844 million (1999: $3,082 million) relates to prepaid pension costs.

12 Inventories

$ million

	2000	1999
Inventories of oil and chemicals	**7,253**	6,981
Inventories of materials	**631**	757
	7,884	7,738

Of the total inventories, $807 million at December 31, 2000 (1999: $872 million) wholly in North America are valued by the LIFO method. The excess of FIFO cost over the carrying amount of such LIFO inventories was $551 million (1999: $334 million).

13 Accounts receivable

		$ million
	2000	1999
Trade receivables	**13,277**	11,535
Amounts owed by associated companies	**2,587**	2,626
Other receivables	**2,799**	3,181
Deferred charges and prepayments (Notes 17 and 28(d))	**7,948**	1,261
	26,611	18,603

Provisions for doubtful items deducted from accounts receivable amounted to $220 million at December 31, 2000 (1999: $210 million).

14 Investments – securities and short-term securities

(a) Investments – securities

Investments – securities mainly comprises a portfolio of equity and debt securities required to be held long term by the Group insurance companies as security for their insurance activities. These securities are classified as available for sale. Of these, $596 million at December 31, 2000 (1999: $580 million) are debt securities, the maturities of the greater part of which exceed five years.

(b) Short-term securities (including those classified as cash equivalents)

The total carrying amount of short-term securities, including those classified as cash equivalents, is $7,047 million at December 31, 2000 (1999: $781 million). Of these, $6,460 million are of a trading nature (1999: $495 million). The remainder are debt securities which are classified as available for sale.

Short-term securities at December 31, 2000 amounting to $174 million (1999: $121 million) are listed on recognised stock exchanges.

15 Debt

(a) Short-term debt

		$ million
	2000	1999
Debentures and other loans	**1,222**	4,885
Amounts due to banks and other credit institutions (including long-term debt due within one year)	**2,094**	1,991
	3,316	6,876
Capitalised lease obligations	**41**	46
Short-term debt	**3,357**	6,922
less long-term debt due within one year	**1,499**	1,668
Short-term debt excluding long-term debt due within one year	**1,858**	5,254

The following relates only to short-term debt excluding long-term debt due within one year:

		$ million
	2000	1999
Maximum amount outstanding at the end of any quarter	**3,384**	8,950
Average amount outstanding	**3,298**	7,131
Amounts due to banks and other credit institutions	**1,589**	1,536
Unused lines of short-term credit	**6,541**	7,104
Approximate average interest rate on:		
average amount outstanding	**7%**	6%
amount outstanding at December 31	**10%**	6%

(b) Long-term debt

		$ million
	2000	1999
Debentures and other loans	**1,649**	1,963
Amounts due to banks and other credit institutions	**2,166**	3,645
	3,815	5,608
Capitalised lease obligations	**255**	401
Long-term debt	**4,070**	6,009
add long-term debt due within one year	**1,499**	1,668
Long-term debt including long-term debt due within one year	**5,569**	7,677

Pledges of assets have been given, mainly in respect of bank loans, to the extent of $1,506 million at December 31, 2000 (1999: $1,594 million).

Unused lines of long-term credit amounted to $218 million at December 31, 2000 (1999: $767 million).

The remainder of this note relates to long-term debt including the short-term part but excluding capitalised lease obligations.

Long-term debt denominated in dollars amounted to $4,669 million at December 31, 2000 (1999: $5,806 million). The approximate weighted average interest rate in 2000 was 7% for dollar debt and 7% for total debt.

The aggregate maturities of long-term debts are:

	$ million
2001	1,458
2002	1,308
2003	959
2004	346
2005	194
2006–2010	1,008

Notes to Financial Statements

continued

16 Commitments

(a) Leasing arrangements

The future minimum lease payments under operating leases and capital leases, and the present value of net minimum capital lease payments at December 31, 2000 were as follows:

		$ million
	Operating leases	Capital leases
2001	1,401	49
2002	859	43
2003	711	61
2004	508	48
2005	399	46
2006 and after	2,056	209
Total minimum payments	5,934	456
less executory costs and interest		160
Present value of net minimum capital lease payments		296

In general, the above future minimum operating lease payments are calculated on a time basis. The figures represent minimum commitments existing at December 31, 2000 and are not a forecast of future total rental expense.

Total rental expense for all operating leases was as follows:

			$ million
	2000	1999	1998
Minimum rentals	**1,197**	1,223	1,615
Contingent rentals	**121**	162	167
Sub-lease rentals	**(107)**	(100)	(204)
	1,211	1,285	1,578

(b) Long-term purchase obligations

Group companies have unconditional long-term purchase obligations associated with financing arrangements. The aggregate amount of payments required under such obligations at December 31, 2000 is as follows:

	$ million
2001	241
2002	256
2003	299
2004	268
2005	243
2006 and after	3,228
	4,535

The agreements under which these unconditional purchase obligations arise relate mainly to the purchase of chemicals feedstock and of utilities and to the use of pipelines.

Payments under these agreements, which include additional sums depending upon actual quantities of supplies, amounted to $190 million in 2000 (1999: $181 million).

17 Accounts payable and accrued liabilities

		$ million
	2000	1999
Trade payables	**10,687**	9,282
Amounts due to associated companies	**1,314**	913
Pensions and similar obligations	**187**	192
Other payables (Notes 13 and 28(d))	**9,773**	3,280
Accruals and deferred income	**4,652**	4,441
	26,613	18,108

18 Long-term liabilities – Other

This includes amounts in respect of liabilities from risk management activities, advance payments under long-term supply contracts, deposits, liabilities under staff benefit programmes, deferred income and environmental liabilities. The amount includes $683 million at December 31, 2000 (1999: $562 million) which does not fall due until more than five years after the respective balance sheet dates.

19 Statement of Cash Flows

This statement reflects the cash flows arising from the activities of Group companies as measured in their own currencies, translated to dollars at quarterly average rates of exchange.

Accordingly, the cash flows recorded in the Statement of Cash Flows exclude both the currency translation differences which arise as a result of translating the assets and liabilities of non-dollar Group companies to dollars at year-end rates of exchange (except for those arising on cash and cash equivalents) and non-cash investing and financing activities. These currency translation differences and non-cash investing and financing activities must therefore be added to the cash flow movements at average rates in order to arrive at the movements derived from the Statement of Assets and Liabilities.

2000 — $ million

	Movements arising from currency translation	Movements from Statement of Cash Flows	Non-cash movements	Movements derived from Statement of Assets and Liabilities
Tangible and intangible fixed assets	**(2,331)**	**(8,441)**	**(148)**	**(10,920)**
Investments – associates	**(429)**	**927**	**1,464**	**1,962**
Inventories	**(535)**	**1,268**	**(587)**	**146**
Accounts receivable	**(838)**	**10,007**	**(1,161)**	**8,008**
Cash and cash equivalents	**(75)**	**7,463**	**–**	**7,388**
Short-term debt	**535**	**3,271**	**(206)**	**3,600**
Short-term part of long-term debt	**(159)**	**124**	**–**	**(35)**
Accounts payable and accrued liabilities	**(168)**	**(9,741)**	**1,404**	**(8,505)**
Taxes payable	**408**	**(967)**	**(465)**	**(1,024)**
Long-term debt	**169**	**1,793**	**(23)**	**1,939**
Deferred taxation and other provisions	**554**	**(491)**	**332**	**395**
Other	**(156)**	**(1,273)**	**(610)**	**(2,039)**
Adjustment for Parent Companies' shares held by Group companies and Other comprehensive income excluding currency translation differences	**308**	**200**	**–**	
	(2,717)	**4,140**	**–**	**915**

The main non-cash movements relate to the contribution of assets and liabilities to associated companies (refer to Note 6(b)).

Income taxes paid by Group companies totalled $8.8 billion in 2000 (1999: $4.6 billion; 1998: $4.0 billion). Interest paid by Group companies was $0.9 billion in 2000 (1999: $1.0 billion; 1998: $1.1 billion).

20 Employee emoluments and numbers

(a) Emoluments

$ million

	2000	1999	1998
Remuneration	**4,560**	4,980	5,260
Social law taxes	**390**	467	476
Pensions and similar obligations (Note 21)	**(577)**	(10)	245
	4,373	5,437	5,981

(b) Average numbers

thousands

	2000	1999	1998
Exploration and Production	**13**	14	16
Downstream Gas and Power	**2**	1	1
Oil Products	**58**	57	58
Chemicals	**14**	18	20
Other	**8**	9	7
	95	99	102

(c) Year-end numbers

thousands

	2000	1999	1998
Exploration and Production	**13**	13	15
Downstream Gas and Power	**2**	1	1
Oil Products	**58**	56	58
Chemicals	**10**	17	20
Other	**7**	9	8
	90	96	102

In addition to remuneration above, there were charges in 2000 relating to provisions for redundancy of $120 million (1999: $386 million; 1998: $616 million).

In 1999 the charges relate to 4,500 employees, mainly in the Exploration and Production, Oil Products and Chemicals segments; in 1998 the charges relate to 4,700 employees, mainly in the Oil Products and Chemicals segments. By December 31, 2000 a total of 7,600 of those affected had left employment.

The amounts of the provisions made in 1999 and 1998 and the related movements up to December 31, 2000 are given in the following table. Payment of the provisions remaining at December 31, 2000 is expected to take place during 2001.

$ million

Provisions recorded in 1999	Provisions recorded in 1998	Cumulative payments made at Dec 31 2000	Currency translation effects and other movements	Provisions at Dec 31 2000
386	616	**(719)**	**(104)**	**179**

21 *Employee retirement plans and other postretirement benefits*

Retirement plans are provided for permanent employees of all major Group companies. The nature of such plans varies according to the legal and fiscal requirements and economic conditions of the country in which the employees are engaged. Generally, the plans provide defined benefits based on employees' years of service and average final remuneration.

Some Group companies have established unfunded defined benefit plans to provide certain postretirement health care and life insurance benefits to their retirees, the entitlement to which is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period.

Plan assets principally comprise marketable securities and property holdings.

$ million

	Pension benefits		Other benefits					
	2000	1999	**2000**			1999		
			USA	Other	Total	USA	Other	Total
Change in benefit obligation								
Obligations for benefits based on employee service to date at January 1	**30,808**	34,265	**728**	**322**	**1,050**	912	394	1,306
Increase in present value of the obligation for benefits based on employee service during the year	**681**	758	**10**	**4**	**14**	17	10	27
Interest on the obligation for benefits in respect of employee service in previous years	**1,700**	1,719	**61**	**16**	**77**	54	17	71
Benefit payments made	**(1,651)**	(1,740)	**(48)**	**(17)**	**(65)**	(41)	(27)	(68)
Currency translation effects/other components	**(118)**	(4,194)	**87**	**(63)**	**24**	(214)	(72)	(286)
Obligations for benefits based on employee service to date at December 31[a]	**31,420**	30,808	**838**	**262**	**1,100**	728	322	1,050
Change in plan assets								
Plan assets held in trust at fair value at January 1	**48,141**	42,999						
Actual return on plan assets	**(1,254)**	9,610						
Employer contributions	**211**	232						
Plan participants' contributions	**21**	22						
Benefit payments made	**(1,651)**	(1,740)						
Currency translation effects/other components	**(3,135)**	(2,982)						
Plan assets held in trust at fair value at December 31[a]	**42,333**	48,141						
Plan assets in excess of/(less than) the present value of obligations for benefits at December 31	**10,913**	17,333	**(838)**	**(262)**	**(1,100)**	(728)	(322)	(1,050)
Unrecognised net (gains)/losses remaining from the adoption of current method of determining pension costs	**(136)**	(221)						
Unrecognised net (gains)/losses since adoption	**(9,120)**	(15,923)	**11**	**12**	**23**	(178)	21	(157)
Unrecognised prior service cost/(credit)	**1,159**	550	**(7)**	**–**	**(7)**	(9)	2	(7)
Net amount recognised	**2,816**	1,739	**(834)**	**(250)**	**(1,084)**	(915)	(299)	(1,214)
Amounts recognised in the Statement of Assets and Liabilities consist of:								
Prepaid benefit costs	**3,844**	3,082						
Accrued benefit liabilities	**(1,341)**	(1,541)	**(834)**	**(250)**	**(1,084)**	(915)	(299)	(1,214)
Accumulated other comprehensive income	**313**	198						
Net amount recognised	**2,816**	1,739	**(834)**	**(250)**	**(1,084)**	(915)	(299)	(1,214)

a For employee retirement plans with benefit obligation in excess of plan assets, the respective amounts at December 31, 2000 were benefit obligations of $2,526 million (1999: $2,885 million) and plan assets of $1,767 million (1999: $2,110 million). The obligation for pension benefits at December 31, 2000 in respect of unfunded plans was $623 million (1999: $670 million).

21 Employee retirement plans and other postretirement benefits continued

Benefit costs for the year comprise:

$ million

	Pension benefits			Other benefits								
	2000	1999	1998	**2000**			1999			1998		
				USA	Other	**Total**	USA	Other	**Total**	USA	Other	**Total**
Service cost	**681**	758	808	**10**	**4**	**14**	17	10	27	19	10	29
Interest cost	**1,700**	1,719	1,938	**61**	**16**	**77**	54	17	71	57	18	75
Expected return on plan assets	**(2,839)**	(2,637)	(2,695)									
Net total of other components	**(284)**	(32)	(6)	**(3)**	**2**	**(1)**	(3)	3	–	(31)	4	(27)
Cost of defined benefit plans	**(742)**	(192)	45	**68**	**22**	**90**	68	30	98	45	32	77
Payments to defined contribution plans	**75**	84	123									
	(667)	(108)	168	**68**	**22**	**90**	68	30	98	45	32	77

Discount rates, projected rates of remuneration growth and expected rates of return on plan assets vary for the different plans as they are determined in the light of local conditions. The weighted averages applicable for the principal plans in the Group are:

	Pension benefits		Other benefits			
	2000	1999	**2000**		1999	
			USA	Other	USA	Other
Discount rate	**6.1%**	6.0%	**7.5%**	**6.3%**	7.8%	6.1%
Projected rate of remuneration growth	**4.0%**	3.7%				
Expected rate of return on plan assets	**7.7%**	7.4%				
Health care cost trend rate in year after reporting year			**7.0%**	**2.8%**	6.0%	2.7%
Ultimate health care cost trend rate			**5.0%**	**1.5%**	5.0%	1.4%
Year ultimate health care cost trend rate is applicable			**2005**	**2002**	2002	2001

The effect of a one percentage point increase/(decrease) in the annual rate of increase in the assumed health care cost trend rates would be to increase/(decrease) annual postretirement benefit cost by approximately $13 million/($11 million) and the accumulated postretirement benefit obligation by approximately $139 million/($120 million).

22 Stock options and Parent Companies' shares held by Group companies

Certain Group companies have outstanding stock options granted to executives and other key employees of those and other Group companies. The options are granted, according to the particular option plan, for periods of not more than five or ten years at prices not less than the market value at the date of granting the option. Options for periods of ten years are subject to a vesting period of three years.

The Senior Executive Stock Option Scheme has been in operation for over 30 years providing stock options to the most senior executives of the Group outside the US and Canada from time to time. Beginning in 1995, options were granted to a larger group, now over 1,100 managers. This enlargement was part of a move to performance-related pay for the wider management cadre of the Group which, by aligning remuneration with shareholder interest, is intended to support the drive for continuous enhancement in business performance.

In 2000 50% of the stock options granted to the most senior executives were made subject to performance conditions with a three-year vesting period. Also in 2000 stock options were granted to senior and key staff of a US Group company under a new scheme of that company for a period of ten years with a 1–3 year vesting period and, for senior staff, subject to similar performance conditions.

22 Stock options and Parent Companies' shares held by Group companies continued
The following table shows, in respect of these plans, the options exercised and options granted during the year, and the number of shares under option at December 31, 2000:

	Exercised	Granted	Under option
Royal Dutch ordinary shares	*1,000,400*	*5,681,020*	*10,214,460*
Shell Transport Ordinary shares	5,948,020	13,551,400	41,936,904
Shell Canada common shares	*287,056*	*800,500*	*2,559,550[a]*

a Unissued.

In connection with other incentive compensation plans linked to the appreciation in value of Royal Dutch ordinary shares, at December 31, 2000 a Group company holds 8,603,200 (1999: 8,148,600) Royal Dutch ordinary shares in order to hedge a portion of these plans' obligations. The carrying amount of these shares at December 31, 2000 is $505 million (1999: $487 million).

The Shell Petroleum Company Limited and Shell Petroleum N.V. each operate a savings-related stock option scheme, under which options are granted over shares of Shell Transport at prices not less than the market value on a date not more than 30 days before the date of the grant of option and are normally exercisable after completion of a three-year or five-year contractual savings period.

The following table shows, in respect of these plans, the options exercised and options granted during the year, and the number of shares under option at December 31, 2000.

	Exercised	Granted	Under option
Shell Transport Ordinary shares	6,249,129	2,538,510	19,537,725

Parent Companies' shares held by Group companies at December 31 in connection with stock option plans were as follows:

	2000	1999
Royal Dutch ordinary shares	**8,092,206**	5,944,206
Shell Transport Ordinary shares	**60,277,872**	60,762,655

In addition, 33,600 shares of Royal Dutch were held by Group companies at December 31, 1999 and 2000.

The net cost of these shares at December 31, 2000 is $806 million (1999: $624 million) and, together with the shares with a carrying *amount of $505 million (1999: $487 million) held in connection with other incentive compensation plans, is reflected as a deduction from* Parent Companies' interest in Group net assets.

23 Decommissioning and restoration costs
For the purposes of calculating provisions for decommissioning and restoration costs, estimated total ultimate liabilities of $3.6 billion at December 31, 2000 (1999: $3.8 billion) were used. Such estimates are subject to various regulatory and technological developments.

24 Information by geographical area and by industry segment

(a) Geographical area

$ million

	2000 Net proceeds	2000 Fixed assets	1999 Net proceeds	1999 Fixed assets	1998 Net proceeds	1998 Fixed assets
Europe	**68,060**	**22,102**	51,820	26,336	44,374	29,487
Other Eastern Hemisphere	**34,144**	**22,767**	21,068	23,612	17,785	22,255
USA	**26,089**	**15,884**	17,306	19,815	16,603	22,426
Other Western Hemisphere	**20,853**	**8,977**	15,172	8,766	14,930	8,590
Total Group	**149,146**	**69,730**	105,366	78,529	93,692	82,758

(b) Industry segment

2000

$ million

	Total Group	Exploration and Production	Downstream Gas and Power	Oil Products	Chemicals	Corporate and Other
Sales						
third parties	**149,146**	**13,468**	**15,991**	**104,002**	**15,205**	**480**
inter-segment		**14,326**	**496**	**2,280**	**1,102**	**-**
Net proceeds		**27,794**	**16,487**	**106,282**	**16,307**	**480**
Operating profit/(loss)						
Group companies	**20,641**	**17,681**	**(360)**	**2,789**	**876**	**(345)**
Group share of associated companies	**3,859**	**2,007**	**646**	**990**	**240**	**(24)**
	24,500	**19,688**	**286**	**3,779**	**1,116**	**(369)**
Interest and other income	**974**	**136**	**198**	**223**	**64**	**353**
Interest expense	**1,324**	**15**	**473**	**763**	**275**	**(202)**
Currency exchange gains/(losses)	**(114)**	**(51)**	**(6)**	**(33)**	**(5)**	**(19)**
Taxation	**11,273**	**9,645**	**196**	**1,246**	**74**	**112**
Income applicable to minority interests	**44**	**233**	**(3)**	**(193)**	**7**	**-**
Net income	**12,719**	**9,880**	**(188)**	**2,153**	**819**	**55**
Total assets at December 31	**122,498**	**36,155**	**17,767**	**41,860**	**12,989**	**13,727**
Investments in associated companies at December 31	**18,648**	**4,225**	**3,929**	**6,527**	**3,899**	**68**
Capital expenditure and new investments in associated companies	**7,370**	**3,994**	**769**	**1,456**	**977**	**174**
Depreciation, depletion and amortisation charge						
Impairment	**1,785**	**105**	**697**	**824**	**104**	**55**
Other	**6,100**	**3,464**	**144**	**1,766**	**620**	**106**

24 Information by geographical area and by industry segment
(b) Industry segment continued

1999 $ million

	Total Group	Exploration and Production	Downstream Gas and Power	Oil Products	Chemicals	Corporate and Other
Sales						
third parties	105,366	9,474	9,729	72,450	12,886	827
inter-segment		8,849	295	1,570	748	–
Net proceeds		18,323	10,024	74,020	13,634	827
Operating profit/(loss)						
Group companies	12,911	8,510	84	3,646	880	(209)
Group share of associated companies	2,321	1,016	447	619	249	(10)
	15,232	9,526	531	4,265	1,129	(219)
Interest and other income	541	14	172	143	42	170
Interest expense	1,253	240	312	682	284	(265)
Currency exchange gains/(losses)	1	(23)	(5)	9	–	20
Taxation	5,696	4,599	139	952	(13)	19
Income applicable to minority interests	241	159	(6)	73	15	–
Net income	8,584	4,519	253	2,710	885	217
Total assets at December 31	113,883	36,717	8,743	43,203	17,737	7,483
Investments in associated companies at December 31	16,686	4,222	2,965	6,496	2,828	175
Capital expenditure and new investments in associated companies	8,433	4,350	840	1,365	1,581	297
Depreciation, depletion and amortisation charge						
Impairment	147	78	(69)	44	75	19
Other	6,373	3,411	155	2,001	682	124

1998 $ million

	Total Group	Exploration and Production	Downstream Gas and Power	Oil Products	Chemicals	Corporate and Other
Sales						
third parties	93,692	8,119	7,796	64,738	12,272	767
inter-segment		7,400	192	1,876	849	–
Net proceeds		15,519	7,988	66,614	13,121	767
Operating profit/(loss)						
Group companies	3,860	3,583	(688)	2,123	(921)	(237)
Group share of associated companies	(756)	(1,840)	478	513	121	(28)
	3,104	1,743	(210)	2,636	(800)	(265)
Interest and other income	629	104	108	163	44	210
Interest expense	1,333	256	278	919	325	(445)
Currency exchange gains/(losses)	5	(12)	(4)	27	3	(9)
Taxation	1,913	1,735	(78)	422	(361)	195
Income applicable to minority interests	142	91	43	8	1	(1)
Net income	350	(247)	(349)	1,477	(718)	187
Total assets at December 31	110,068	37,619	8,496	41,637	17,082	5,234
Investments in associated companies at December 31	16,686	3,991	2,280	7,226	2,995	194
Capital expenditure and new investments in associated companies	14,141	6,812	2,125	2,888	2,002	314
Depreciation, depletion and amortisation charge						
Impairment	3,013	747	755	196	1,315	–
Other	6,410	3,183	174	2,019	920	114

25 Oil and gas exploration and production activities

(a) Capitalised costs

The aggregate amount of tangible and intangible fixed assets of Group companies relating to oil and gas exploration and production activities and the aggregate amount of the related depreciation, depletion and amortisation at December 31 are shown in the table below:

$ million

	2000	1999	1998
Cost			
Proved properties	**57,136**	56,939	58,625
Unproved properties	**2,308**	2,394	2,696
Support equipment and facilities	**1,586**	1,724	1,654
	61,030	61,057	62,975
Depreciation			
Proved properties	**34,672**	33,157	33,403
Unproved properties	**141**	189	182
Support equipment and facilities	**1,033**	1,036	917
	35,846	34,382	34,502
Net capitalised costs	**25,184**	26,675	28,473

The Group share of associated companies' net capitalised costs was $3,831 million at December 31, 2000 (1999: $3,969 million; 1998: $4,644 million).

(b) Costs incurred

Costs incurred by Group companies during the year in oil and gas property acquisition, exploration and development activities, whether capitalised or charged to income currently, are shown in the table below. Development costs exclude costs of acquiring support equipment and facilities, but include depreciation thereon.

2000 $ million

	Eastern Hemisphere		Western Hemisphere		Total
	Europe	Other	USA	Other	
Acquisition of properties					
Proved	**1**	**–**	**69**	**–**	**70**
Unproved	**4**	**118**	**34**	**57**	**213**
Exploration	**79**	**421**	**305**	**115**	**920**
Development	**912**	**1,063**	**809**	**575**	**3,359**

1999 $ million

	Eastern Hemisphere		Western Hemisphere		Total
	Europe	Other	USA	Other	
Acquisition of properties					
Proved	4	4	–	–	8
Unproved	1	41	8	26	76
Exploration	169	468	324	146	1,107
Development	1,025	1,542	741	464	3,772

1998 $ million

	Eastern Hemisphere		Western Hemisphere		Total
	Europe	Other	USA	Other	
Acquisition of properties					
Proved	1	–	2	207	210
Unproved	40	133	91	183	447
Exploration	396	763	553	269	1,981
Development	1,756	1,710	1,119	564	5,149

The Group share of associated companies' costs incurred was $227 million in 2000 (1999: $335 million; 1998: $437 million).

(c) Earnings

Earnings of Group companies from exploration and production activities are given in the table below. These exclude certain financing items and related tax effects. In addition, certain purchases of traded product are netted into sales.

2000 $ million

	Eastern Hemisphere		Western Hemisphere		Total
	Europe	Other	USA	Other	
Sales					
third parties	**5,378**	**2,296**	**3,199**	**1,197**	**12,070**
intra-group	**3,714**	**7,763**	**2,165**	**666**	**14,308**
Net proceeds	**9,092**	**10,059**	**5,364**	**1,863**	**26,378**
Production costs[a]	**1,493**	**2,695**	**427**	**538**	**5,153**
Exploration expense	**89**	**399**	**190**	**75**	**753**
Depreciation, depletion and amortisation	**1,429**	**872**	**953**	**315**	**3,569**
Other income/(costs)	**207**	**530**	**378**	**(314)**	**801**
Earnings before taxation	**6,288**	**6,623**	**4,172**	**621**	**17,704**
Taxation	**2,792**	**4,266**	**1,404**	**173**	**8,635**
Earnings from operations	**3,496**	**2,357**	**2,768**	**448**	**9,069**

1999 $ million

	Eastern Hemisphere		Western Hemisphere		Total
	Europe	Other	USA	Other	
Sales					
third parties	4,637	1,690	1,542	649	8,518
intra-group	2,165	4,691	1,491	500	8,847
Net proceeds	6,802	6,381	3,033	1,149	17,365
Production costs[a]	1,541	2,155	537	295	4,528
Exploration expense	247	446	196	171	1,060
Depreciation, depletion and amortisation	1,648	711	851	279	3,489
Other income/(costs)	(226)	12	263	81	130
Earnings before taxation	3,140	3,081	1,712	485	8,418
Taxation	1,206	2,158	516	260	4,140
Earnings from operations	1,934	923	1,196	225	4,278

Notes to Financial Statements

continued

25 Oil and gas exploration and production activities

(c) Earnings continued

1998 — $ million

	Eastern Hemisphere		Western Hemisphere		Total
	Europe	Other	USA	Other	
Sales					
third parties	4,271	1,258	1,221	439	7,189
intra-group	1,873	3,602	1,448	476	7,399
Net proceeds	6,144	4,860	2,669	915	14,588
Production costs[a]	1,712	2,050	711	294	4,767
Exploration expense	351	591	361	288	1,591
Depreciation, depletion and amortisation	1,314	715	1,171	730	3,930
Other income/(costs)	(375)	209	(382)	(167)	(715)
Earnings before taxation	2,392	1,713	44	(564)	3,585
Taxation	1,096	1,149	(721)	72	1,596
Earnings from operations	1,296	564	765	(636)	1,989

Taxation includes benefits relating to impairment charges reflected *in associated companies' earnings.*

a Includes certain royalties paid in cash amounting to $1,923 million in 2000 (1999: $1,011 million; 1998: $814 million).

The Group share of associated companies' earnings was $990 million in 2000 (1999: $475 million; 1998: $(2,049) million) after deducting taxation of $1,017 million in 2000 (1999: $541 million; 1998: $208 million). These exclude certain financing items and related tax effects.

26 Auditors' remuneration

$ million

Remuneration of KPMG and PricewaterhouseCoopers	2000	1999	1998
Audit fees	**17**	18	18
Fees for non-audit services	**47**	30	41

27 Contingencies and litigation

Two production joint ventures, in which the Group has an interest and which are based in the Netherlands and in Germany respectively, have co-operated to extract gas on an equal basis from a common border area. In the process of the final redetermination of gas reserves in the common area it emerged that the German joint venture has in good faith received considerable quantities of gas in excess of its entitlement. A dispute between the parties involved relating to compensation in respect of the over-delivery was finally settled by an arbitral award rendered in 1999. There are however, other issues which remain outstanding: in particular, the recovery of royalties paid in respect of the over-delivery and governmental levies on the compensation awarded. At this time the ultimate cost cannot be established with reasonable certainty.

Certain other contingent liabilities of Group companies, arising mainly from guarantees for performance obligations, customs duties and *third-party indebtedness, amounted to $4.8 billion at* December 31, 2000 (1999: $1.9 billion).

Group companies are subject to a number of other loss contingencies arising out of litigation and claims brought by governmental and private parties. In the judgement of the Directors of the Group Holding Companies no losses, in excess of provisions made, which are material in relation to the Group financial position are likely to arise in respect of the foregoing matters, although their occurrence may have a significant effect on periodic results.

The operations and earnings of Group companies continue, from time to time, to be affected to varying degrees by political, legislative, fiscal and regulatory developments, including those relating to environmental protection, in the countries in which they operate. The industries in which Group companies are engaged are also subject to physical risks of various types. The nature and frequency of these developments and events, not all of which are covered by insurance, as well as their effect on future operations and earnings, are unpredictable.

28 Financial instruments

Group companies, in the normal course of business, use various *types of financial instruments which expose the Group to market* or credit risk. These include those recognised in the Statement of Assets and Liabilities (on-balance sheet) and derivative financial instruments. To the extent that financial instruments are used to manage exposures, estimated fair values of these instruments will offset, and be recognised concurrently with, gains and losses associated with the underlying transactions.

Group companies have procedures and policies in place to limit the amount of credit exposure to any counterparty or market. These procedures and the broad geographical spread of Group companies' activities limit the Group's exposure to concentrations of credit or market risk.

In the event of a counterparty defaulting on payments due to Group companies the resulting losses, if any, would be limited to the fair values of the instruments on which the default occurred. The contract/notional amounts of the financial instruments outstanding give an indication of the extent that these financial *instruments are used but not of the exposure to credit or* market risk.

A *new US accounting standard (FAS 133), as amended,* requires all derivative instruments to be recorded in the Statement of Assets and Liabilities at their fair value. The standard will be effective for the Group from 2001 and requires a transition adjustment as at January 1, 2001 to be recorded in the 2001 Financial Statements. Adoption of the standard will not have a significant effect on the Group's Financial Statements and the transition adjustment will be negligible.

Additional data related to derivatives and risk disclosures, required by the United States Securities and Exchange Commission, are given in the 2000 Annual Report on Form 20-F of Royal Dutch and Shell Transport. (See inside back cover for details of where to obtain a copy.)

28 Financial instruments continued

(a) On-balance sheet financial instruments

Financial instruments in the Statement of Assets and Liabilities include fixed assets: investments – securities, trade receivables, short-term securities, cash and cash equivalents, short-term and long-term debt. The estimated fair values of these instruments approximate their carrying amounts.

The remainder of this note relates to derivative instruments.

(b) Interest rate risk

Some Group companies, primarily those with specialist treasury operations, use derivatives, such as interest rate swaps/forward rate agreements and interest rate caps, to manage their exposure to movements in interest rates and thus to help achieve target levels of interest income or expense. The financing of most Operating Companies is structured on a floating-rate basis and, except in special cases, further interest rate risk management is discouraged. The effect of these derivatives is reflected, as appropriate, in interest expense or interest income.

The total contract/notional amounts and estimated fair values of Group companies' interest rate swaps/forward rate agreements and interest rate caps at December 31 are given in the table below:

$ million

	2000		1999	
	Contract/ notional amount	Estimated fair value	Contract/ notional amount	Estimated fair value
Interest rate swaps/forward rate agreements and interest rate caps	**3,113**	**(26)**	4,435	(54)

The amount of hedging gains or losses on these instruments which had been deferred at December 31, 2000 and at December 31, 1999 in respect of firm commitments was not significant.

(c) Foreign exchange risk

Foreign exchange derivatives, including forward exchange contracts and currency swaps/options, are used by some Group companies. Group companies do not trade in these derivatives, but rather use forward exchange contracts to maintain an appropriate currency balance for investments of a trading nature. Group companies also use these instruments to hedge future transactions and cash flows.

The total contract/notional amounts and estimated fair values of Group companies' forward exchange contracts and currency swaps at December 31 are given in the table below:

$ million

	2000		1999	
	Contract/ notional amount	Estimated fair value	Contract/ notional amount	Estimated fair value
Forward exchange contracts	**5,247**	**(52)**	4,583	(2)
Currency swaps	**1,031**	**24**	1,644	(29)

In addition, Group companies held put and call options at December 31, 2000 each with a contract/notional amount of $0.4 billion (1999: $0.4 billion) and a total estimated fair value of $(7) million (1999: $(4) million).

The amount of hedging gains or losses on these instruments which had been deferred at December 31, 2000 and at December 31, 1999 in respect of firm commitments was not significant.

(d) Commodities

Some Group companies operate as traders in crude oil, natural gas and oil products. These companies use commodity swaps and options in the management of their price and timing risks. In addition, some other Group companies use commodity swaps and options to hedge the price and timing risks on underlying business transactions. The effects of transactions in these instruments are reflected in sales and purchase costs.

The total contract/notional amounts and estimated fair values of Group companies' commodity swaps/options at December 31 are given in the table below:

$ million

	2000		1999	
	Contract/ notional amount	Estimated fair value	Contract/ notional amount	Estimated fair value
Trading purposes				
Assets	**22,115**	**8,144**	7,381	478
Liabilities	**21,068**	**(7,877)**	6,427	(491)
Not for trading purposes	**297**	**(46)**	180	6

The average fair values of commodity swaps/options used for trading purposes during 2000 were: assets of $2,834 million (1999: $314 million) and liabilities of $2,708 million (1999: $308 million). Trading gains of $589 million arising on commodity swaps/options were included in 2000 income (1999: gains of $64 million). These gains, which are offset in the Group's net income by losses on physical sales and purchases, and the significant increase in contract/notional amounts and estimated fair values compared with 1999, reflect the increase in US natural gas prices. With respect to these trading activities, the net exposure at December 31, 2000 to a movement in oil and gas prices is not significant.

Group companies also enter into forward sales and purchase contracts for commodities which may be settled by the physical delivery or receipt of the commodity. These contracts are not included in the above amounts.

Supplementary information – oil and gas

Reserves

Net quantities of proved oil and gas reserves are shown in the tables on this page and pages 59 and 60. Proved reserves are the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are those reserves which can be expected to be recovered through existing wells with existing equipment and operating methods. The reserves reported exclude volumes attributable to oil and gas discoveries which are not at present considered proved. Such reserves will be included when technical, fiscal and other conditions allow them to be economically developed and produced. Proved reserves are shown net of any quantities of crude oil or natural gas that are expected to be taken by others as royalties in kind but do not exclude certain quantities related to royalties expected to be paid in cash or those related to fixed margin contracts. Proved reserves include certain quantities of crude oil or natural gas which will be produced under arrangements which involve Group companies in upstream risks and rewards but do not transfer title of the product to those companies.

Oil and gas reserves cannot be measured exactly since estimation of reserves involves subjective judgement and arbitrary determinations. Estimates remain subject to revision.

Crude oil and natural gas liquids

Group companies' estimated net proved reserves of crude oil and natural gas liquids at the end of the year, their share of the net proved reserves of associated companies at the end of the year, and the changes in such reserves during the year are set out below.

Proved developed and undeveloped reserves — million barrels

	2000					1999					1998				
	Eastern Hemisphere		Western Hemisphere		**Total**	Eastern Hemisphere		Western Hemisphere		**Total**	Eastern Hemisphere		Western Hemisphere		**Total**
	Europe	Other	USA	Other		Europe	Other	USA	Other		Europe	Other	USA	Other	
Group companies															
At January 1	**1,330**	**6,143**	**578**	**458**	**8,509**	1,515	5,782	940	542	8,779	1,423	5,156	1,034	741	8,354
Revisions and reclassifications	**81**	**210**	**15**	**99**	**405**	1	430	(31)	22	422	268	884	40	(115)	1,077
Improved recovery	**45**	**143**	**–**	**91**	**279**	2	80	–	–	82	12	22	–	–	34
Extensions and discoveries	**12**	**188**	**126**	**1**	**327**	43	219	63	–	325	28	104	40	2	174
Purchases of minerals in place	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–	–	30	1	8	39
Sales of minerals in place	**(71)**	**(44)**	**(6)**	**–**	**(121)**	(4)	(27)	(279)	(66)	(376)	(1)	(40)	(31)	(47)	(119)
Transfers to associated companies in the USA	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–	–	–	(27)	–	(27)
Production	**(224)**	**(364)**	**(102)**	**(39)**	**(729)**	(227)	(341)	(115)	(40)	(723)	(215)	(374)	(117)	(47)	(753)
At December 31	***1,173***	***6,276***	***611***	***610***	***8,670***	*1,330*	*6,143*	*578*	*458*	*8,509*	*1,515*	*5,782*	*940*	*542*	*8,779*
Group share of associated companies															
At January 1	**1**	**448**	**817**	**–**	**1,266**	2	426	824	–	1,252	2	394	931	–	1,327
Revisions and reclassifications	**–**	**121**	**(26)**	**–**	**95**	(1)	25	59	–	83	–	56	(137)	–	(81)
Improved recovery	**–**	**17**	**2**	**–**	**19**	–	18	17	–	35	–	–	–	–	–
Extensions and discoveries	**–**	**55**	**1**	**–**	**56**	–	12	2	–	14	–	8	–	–	8
Purchases of minerals in place	**–**	**62**	**–**	**–**	**62**	–	3	1	–	4	–	–	77	–	77
Sales of minerals in place	**–**	**(12)**	**(302)**	**–**	**(314)**	–	–	(17)	–	(17)	–	–	–	–	–
Transfers from Group companies in the USA	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–	–	–	27	–	27
Production	**–**	**(52)**	**(51)**	**–**	**(103)**	–	(36)	(69)	–	(105)	–	(32)	(74)	–	(106)
At December 31	***1***	***639***	***441***	***–***	***1,081***	*1*	*448*	*817*	*–*	*1,266*	*2*	*426*	*824*	*–*	*1,252*
Total					**9,751**					9,775					10,031
Minority interests' share of proved reserves of Group companies															
At December 31	**–**	**54**	**–**	**78**	**132**	–	63	–	65	128	–	62	–	78	140

Oil sands — million barrels

Group companies (before deduction of minority interests)															
At December 31	**–**	**–**	**–**	**600**	**600**	–	–	–	600	600	–	–	–	–	–

Reserves

Crude oil and natural gas liquids continued

Proved developed reserves

million barrels

	2000					1999					1998				
	Eastern Hemisphere		Western Hemisphere		Total	Eastern Hemisphere		Western Hemisphere		Total	Eastern Hemisphere		Western Hemisphere		Total
	Europe	Other	USA	Other		Europe	Other	USA	Other		Europe	Other	USA	Other	
Group companies															
At January 1	916	2,505	340	274	4,035	963	2,314	502	271	4,050	794	1,991	513	342	3,640
At December 31	872	2,332	351	257	3,812	916	2,505	340	274	4,035	963	2,314	502	271	4,050
Group share of associated companies															
At January 1	1	213	638	–	852	1	178	673	–	852	1	172	688	–	861
At December 31	1	292	364	–	657	1	213	638	–	852	1	178	673	–	852

Natural gas

Group companies' estimated net proved reserves of natural gas at the end of the year, their share of the net proved reserves of associated companies at the end of the year, and the changes in such reserves during the year are set out below.

These quantities have not been adjusted to standard heat content.

Proved developed and undeveloped reserves

thousand million standard cubic feet

	2000					1999					1998				
	Eastern Hemisphere		Western Hemisphere		Total	Eastern Hemisphere		Western Hemisphere		Total	Eastern Hemisphere		Western Hemisphere		Total
	Europe	Other	USA	Other		Europe	Other	USA	Other		Europe	Other	USA	Other	
Group companies															
At January 1	24,828	21,086	3,400	3,533	52,847	24,848	22,139	4,185	3,161	54,333	24,848	17,136	4,604	3,177	49,765
Revisions and reclassifications	211	(548)	(39)	206	(170)	696	(322)	47	711	1,132	1,075	3,760	97	(75)	4,857
Improved recovery	105	215	–	–	320	13	65	–	–	78	6	1	–	–	7
Extensions and discoveries	55	178	656	29	918	549	392	329	1	1,271	185	107	374	80	746
Purchases of minerals in place	–	5	50	–	55	4	3	–	–	7	–	1,737	–	217	1,954
Sales of minerals in place	(117)	(139)	(78)	(32)	(366)	–	(674)	(522)	(118)	(1,314)	(10)	(153)	(133)	(50)	(346)
Transfers to associated companies in the USA	–	–	–	–	–	–	–	–	–	–	–	–	(139)	–	(139)
Production	(1,281)	(665)	(586)	(230)	(2,762)	(1,282)	(517)	(639)	(222)	(2,660)	(1,256)	(449)	(618)	(188)	(2,511)
At December 31	23,801	20,132	3,403	3,506	50,842	24,828	21,086	3,400	3,533	52,847	24,848	22,139	4,185	3,161	54,333
Group share of associated companies															
At January 1	52	5,047	595	–	5,694	44	5,605	480	–	6,129	34	5,793	539	–	6,366
Revisions and reclassifications	6	346	(209)	–	143	(1)	(396)	151	–	(246)	3	(48)	(150)	–	(195)
Improved recovery	–	–	2	–	2	–	–	–	–	–	–	–	–	–	–
Extensions and discoveries	4	147	5	–	156	15	56	25	–	96	12	86	–	–	98
Purchases of minerals in place	–	–	–	–	–	–	–	–	–	–	–	–	8	–	8
Sales of minerals in place	–	(19)	(292)	–	(311)	–	–	(4)	–	(4)	–	–	–	–	–
Transfers from Group companies in the USA	–	–	–	–	–	–	–	–	–	–	–	–	139	–	139
Production	(6)	(222)	(15)	–	(243)	(6)	(218)	(57)	–	(281)	(5)	(226)	(56)	–	(287)
At December 31	56	5,299	86	–	5,441	52	5,047	595	–	5,694	44	5,605	480	–	6,129
Total					56,283					58,541					60,462
Minority interests' share of proved reserves of Group companies															
At December 31	–	292	–	658	950	–	242	–	686	928	–	314	–	609	923

Supplementary information – oil and gas

continued

Reserves

Natural gas continued

Proved developed reserves

thousand million standard cubic feet

	2000					1999					1998				
	Eastern Hemisphere		Western Hemisphere		Total	Eastern Hemisphere		Western Hemisphere		Total	Eastern Hemisphere		Western Hemisphere		Total
	Europe	Other	USA	Other		Europe	Other	USA	Other		Europe	Other	USA	Other	
Group companies															
At January 1	**13,650**	**6,261**	**2,714**	**2,725**	**25,350**	14,633	5,142	3,117	1,706	24,598	12,372	3,712	3,017	1,830	20,931
At December 31	**12,986**	**6,314**	**2,347**	**2,542**	**24,189**	13,650	6,261	2,714	2,725	25,350	14,633	5,142	3,117	1,706	24,598
Group share of associated companies															
At January 1	**51**	**1,728**	**453**	**–**	**2,232**	42	2,259	398	–	2,699	33	2,477	380	–	2,890
At December 31	**53**	**1,735**	**66**	**–**	**1,854**	51	1,728	453	–	2,232	42	2,259	398	–	2,699

Standardised measure of discounted future cash flows

United States accounting principles require the disclosure of a standardised measure of discounted future cash flows, relating to proved oil and gas reserve quantities and based on prices[a] and costs at the end of each year, currently enacted tax rates and a 10% annual discount factor. The information so calculated does not provide a reliable measure of future cash flows from proved reserves, nor does it permit a realistic comparison to be made of one entity with another because the assumptions used cannot reflect the varying circumstances within each entity. In addition a substantial but unknown proportion of future real cash flows from oil and gas production activities is expected to derive from reserves which have already been discovered, but which cannot yet be regarded as proved.

$ million

	2000					1999					1998				
	Eastern Hemisphere		Western Hemisphere		Total	Eastern Hemisphere		Western Hemisphere		Total	Eastern Hemisphere		Western Hemisphere		Total
	Europe	Other	USA	Other		Europe	Other	USA	Other		Europe	Other	USA	Other	
Future cash inflows	**93,126**	**142,208**	**37,434**	**22,961**	**295,729**	83,826	155,408	19,957	12,436	271,627	70,770	86,910	17,664	9,001	184,345
Future production costs	**16,836**	**17,547**	**3,090**	**4,453**	**41,926**	18,126	18,101	3,057	2,604	41,888	21,340	18,115	5,973	2,781	48,209
Future development costs	**2,594**	**15,514**	**2,320**	**1,589**	**22,017**	3,168	16,289	1,256	956	21,669	4,551	18,864	2,591	1,028	27,034
Future tax expenses	**32,091**	**66,206**	**12,020**	**6,608**	**116,925**	24,928	72,218	5,580	2,559	105,285	17,989	27,227	2,614	1,812	49,642
Future net cash flows	**41,605**	**42,941**	**20,004**	**10,311**	**114,861**	37,604	48,800	10,064	6,317	102,785	26,890	22,704	6,486	3,380	59,460
Effect of discounting	**18,656**	**22,032**	**6,828**	**4,304**	**51,820**	15,920	26,196	3,107	2,763	47,986	12,592	12,587	2,030	1,582	28,791
Standardised measure of discounted future cash flows	**22,949**	**20,909**	**13,176**	**6,007**	**63,041**	21,684	22,604	6,957	3,554	54,799	14,298	10,117	4,456	1,798	30,669
Group share of associated companies					**6,120**					7,186					1,854
Minority interests	**–**	**360**	**–**	**895**	**1,255**	–	337	–	500	837	–	106	–	324	430

Change in standardised measure of discounted future cash flows

$ million

	2000	1999	1998
At January 1	**54,799**	30,669	45,276
Net changes in prices and production costs	**17,065**	63,847	(43,260)
Extensions, discoveries and improved recovery	**8,128**	3,684	1,628
Purchases/(sales) of minerals in place	**(404)**	(5,943)	615
Movements to associated companies in the USA	**–**	–	(146)
Revisions of previous reserve estimates	**(560)**	(4,994)	6,012
Development cost related to future production	**(1,967)**	(772)	(3,800)
Sales and transfers of oil and gas, net of production costs	**(21,225)**	(12,837)	(9,821)
Development cost incurred during the year	**2,952**	3,772	5,149
Accretion of discount	**9,538**	3,167	8,442
Net change in income tax	**(5,285)**	(25,794)	20,574
At December 31	***63,041***	*54,799*	*30,669*

a The weighted average year-end oil price in 2000 was $20.00/bbl (1999: $21.13/bbl; 1998: $10.68/bbl) and the weighted average year-end gas price in 2000 was $14.91/bbl of oil equivalent (1999: $11.06/boe; 1998: $10.44/boe).

Summarised financial data

Income data

$ million	2000	1999	1998	1997	1996
Sales proceeds					
Oil and gas	**175,372**	135,472	124,712	155,998	156,542
Chemicals	**15,658**	13,408	12,795	14,822	14,609
Other	**481**	826	767	837	813
Gross proceeds	**191,511**	149,706	138,274	171,657	171,964
Sales taxes, excise duties and similar levies	**42,365**	44,340	44,582	43,502	43,651
Net proceeds	**149,146**	105,366	93,692	128,155	128,313
Earnings by industry segment[a]					
Exploration and Production	**9,880**	4,519	(247)	4,569	4,871
Downstream Gas and Power	**(188)**	253	(349)	245	264
Oil Products	**1,798**	1,687	2,028	2,169	1,903
Chemicals	**819**	885	(718)	969	897
Other industry segments	**(37)**	(35)	(40)	122	(1)
Total operating segments	**12,272**	7,309	674	8,074	7,934
Corporate	**92**	252	227	51	340
Earnings on an estimated current cost of supplies (CCS) basis[b]	**12,364**	7,561	901	8,125	8,274
CCS adjustment	**355**	1,023	(551)	(372)	612
Net income	**12,719**	8,584	350	7,753	8,886

Assets and liabilities data (at December 31)

$ million	2000	1999	1998	1997	1996
Total fixed and other long-term assets	**76,568**	83,491	87,469	85,974	85,731
Net current assets/(liabilities)	**3,232**	(3,071)	(8,541)	(1,161)	5,317
Total debt	**7,427**	12,931	13,810	10,607	11,816
Parent Companies' interest in Group net assets	**57,086**	56,171	54,962	60,386	63,006
Minority interests	**2,881**	2,842	2,701	2,216	3,415
Capital employed	**67,394**	71,944	71,473	73,209	78,237

Cash flow data

$ million	2000	1999	1998	1997	1996
Cash flow provided by operating activities	**18,359**	11,059	14,729	16,730	16,619
Capital expenditure (including capitalised leases)	**6,209**	7,409	12,859	12,274	11,023
Cash flow used in investing activities	**1,571**	3,023	12,500	13,605	10,049
Dividends paid	**5,501**	5,611	5,993	5,382	5,149
Cash flow used in financing activities	**9,125**	6,256	3,582	6,088	5,753
Increase/(decrease) in cash and cash equivalents	**7,388**	1,326	(1,589)	(3,375)	943

Other statistics

	2000	1999	1998	1997	1996
Return on average capital employed[c]	**19.5%**	12.1%	2.8%	12.0%	12.0%
Total debt ratio[d]	**11.0%**	18.0%	19.3%	14.5%	15.1%

a Financing costs and minority interests are allocated to segments with effect from 1998. Comparative data for 1996 and 1997 have been restated.

b On this basis, cost of sales of the volumes sold in the period is based on the cost of supplies of the same period (instead of using the first-in first-out (FIFO) method of inventory accounting used by most Group companies) and allowance is made for the estimated tax effect. These earnings are more comparable with those of companies using the last-in first-out (LIFO) inventory basis after excluding any inventory drawdown effects.

c CCS earnings plus the Group share of interest expense, less tax on the interest expense, as a percentage of the Group share of average capital employed.

d Total debt as a percentage of capital employed.

Summarised financial data

continued

Capital investment

	2000	1999	1998	1997	1996
					$ million
Capital expenditure[a]					
Exploration and Production	**3,801**	4,137	6,474	5,724	4,995
Downstream Gas and Power	**288**	470	1,816	47	36
Oil Products	**1,258**	1,338	2,776	3,818	4,308
Chemicals	**726**	1,178	1,491	2,422	1,409
Other	**136**	286	302	263	275
	6,209	7,409	12,859	12,274	11,023
Exploration expense (excluding depreciation and release of currency translation differences)	**753**	1,062	1,595	1,160	1,122
New investments in associated companies	**1,161**	1,024	1,282	1,726	770
Other investments	**414**	–	–	–	–
Total capital investment*	**8,537**	9,495	15,736	15,160	12,915
*comprising					
Europe	**1,881**	2,654	4,889	5,185	4,832
Other Eastern Hemisphere	**3,170**	3,646	3,987	3,749	3,161
USA	**1,861**	1,822	4,695	4,232	3,671
Other Western Hemisphere	**1,625**	1,373	2,165	1,994	1,251
	8,537	9,495	15,736	15,160	12,915

Quarterly income data

	2000				1999				1998			$ million
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Gross proceeds	**50,811**	**49,478**	**46,042**	**45,180**	43,799	40,147	34,368	31,392	34,604	33,141	34,579	35,950
less sales taxes, excise duties and similar levies	**10,538**	**10,802**	**10,111**	**10,914**	11,586	11,361	10,772	10,621	11,662	11,160	11,179	10,581
Net proceeds	**40,273**	**38,676**	**35,931**	**34,266**	32,213	28,786	23,596	20,771	22,942	21,981	23,400	25,369
Cost of sales	**31,999**	**31,429**	**28,204**	**26,696**	25,341	22,441	18,189	15,868	21,378	17,170	18,499	19,627
Gross profit	**8,274**	**7,247**	**7,727**	**7,570**	6,872	6,345	5,407	4,903	1,564	4,811	4,901	5,742
Operating profit	**5,891**	**6,016**	**6,512**	**6,081**	4,713	4,471	3,240	2,808	(4,716)	2,081	2,518	3,221
Net income[b]	**3,113**	**3,060**	**3,211**	**3,335**	2,582	2,378	1,946	1,678	(3,739)	896	1,497	1,696
Earnings on an estimated current cost of supplies basis[c]	**3,490**	**2,768**	**3,025**	**3,081**	2,285	2,004	1,667	1,605	(3,568)	918	1,606	1,945

a Capital expenditure includes tangible and intangible fixed assets acquired on purchase of new Group companies and additional joint venture interests.

b The large decline in net income in the fourth quarter 1998 reflects special charges due mainly to the impairment of assets and to restructuring and redundancy charges. See Notes 6(a), 10 and 20 to the Group Financial Statements.

c On this basis, cost of sales of the volumes sold in the period is based on the cost of supplies of the same period (instead of using the first-in first-out (FIFO) method of inventory accounting used by most Group companies) and allowance is made for the estimated tax effect. These earnings are more comparable with those of companies using the last-in first-out (LIFO) inventory basis after excluding any inventory drawdown effects.

Operational data

Crude oil production
(including Group share of associated companies) — thousand barrels daily

	2000	1999	1998	1997	1996
Europe	**613**	622	590	551	560
Africa	**342**	333	377	423	423
Middle East	**481**	453	476	455	456
Asia-Pacific	**314**	247	261	264	290
USA	**417**	504	521	491	451
Other Western Hemisphere	**107**	109	129	144	125
	2,274	2,268	2,354	2,328	2,305
					million tonnes a year
Metric equivalent	**114**	113	118	116	115

Natural gas production available for sale
(including Group share of associated companies) — million standard cubic feet daily

	2000	1999	1998	1997	1996
Europe	**3,515**	3,529	3,455	3,481	3,603
Other Eastern Hemisphere	**2,424**	2,013	1,848	1,958	2,094
USA	**1,644**	1,774	1,738	1,596	1,684
Other Western Hemisphere	**629**	608	638	726	753
	8,212	7,924	7,679	7,761	8,134
					billion standard cubic metres a year
Metric equivalent	**85**	82	79	80	84

Tanker fleets
(owned/demise-hired and time-chartered, at December 31) — number of ships

	2000	1999	1998	1997	1996
Oil tankers	**48**	51	61	73	75
Gas carriers	**3**	3	6	7	7
					million deadweight tonnes
Oil tankers	**4.9**	5.5	6.1	7.7	8.2
					thousand cubic metres
Gas carriers	**214**	216	435	461	358

Chemicals sales: net proceeds
$ million

	2000	1999	1998	1997	1996
Europe	**5,657**	5,365	5,381	6,468	6,449
Other Eastern Hemisphere	**1,921**	1,621	1,324	1,573	1,468
USA	**7,095**	5,327	4,991	5,582	5,305
Other Western Hemisphere	**532**	573	576	632	784
	15,205	12,886	12,272	14,255	14,006

Employee numbers (at December 31)
thousands

	2000	1999	1998	1997	1996
Total	**90**	96	102	107	102

Refinery processing intake
thousand barrels daily

	2000	1999	1998	1997	1996
Crude oil	**2,787**	2,989	3,207	4,057	3,771
Feedstocks	**136**	148	164	200	193
	2,923	3,137	3,371	4,257	3,964
Europe	**1,394**	1,602	1,670	1,723	1,675
Other Eastern Hemisphere	**971**	983	1,034	1,133	995
USA	**198**	192	308	1,045	970
Other Western Hemisphere	**360**	360	359	356	324
	2,923	3,137	3,371	4,257	3,964
					million tonnes a year
Metric equivalent	**147**	157	169	213	198

Oil sales
thousand barrels daily

	2000	1999	1998	1997	1996
Gasolines	**1,794**	1,635	1,687	2,271	2,218
Kerosines	**542**	567	594	704	664
Gas/diesel oils	**1,731**	1,757	1,787	1,976	1,860
Fuel oil	**723**	710	748	773	748
Other products	**784**	697	900	836	826
Total oil products	**5,574**	5,366	5,716	6,560	6,316
Crude oil	**3,279**	3,637	3,248	4,121	4,305
Total oil sales	**8,853**	9,003	8,964	10,681	10,621
					million tonnes a year
Metric equivalent	**444**	450	448	534	531

Group share of Equilon and Motiva volumes
(not included above) — thousand barrels daily

	2000	1999	1998	1997	1996
Refinery processing intake	**656**	797	656	n/a	n/a
Total oil products sales	**1,508**	1,429	1,070	n/a	n/a

The figures shown in the tables on this page represent the totals reported by Group companies, reflecting their dealings with third parties and with associated companies. However, crude oil production and natural gas production available for sale include the Group share of these associated companies. A separate table has been given in respect of associated companies Equilon and Motiva. Crude oil production, refinery processing intake and oil sales figures include natural gas liquids.

Shareholder information

Annual General Meeting

The 103rd Annual General Meeting of The "Shell" Transport and Trading Company, p.l.c. will be held at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE, on Thursday May 17, 2001 at 11:00 a.m. The Notice convening the Meeting is enclosed.

Shareholder base

The estimated geographical distribution of shareholdings in the Parent Companies at the end of 2000 was:

	Royal Dutch	Shell Transport	Combined %
United Kingdom	1	96	39
Netherlands	46	*	28
USA	41	4	26
Switzerland	8	*	5
France	3	*	2
Germany	1	*	*
Others	*	*	*

* *Less than 1%.*

Share prices

London Stock Exchange pence per 25p Ordinary share

	2000	1999	1998	1997	1996
Highest	**627**	541	464	485	352
Lowest	**412**	304	316	331	276
Year end	**549**	515	369	440	337

New York Stock Exchange dollars per New York Share[a]

	2000	1999	1998	1997	1996
Highest	**54.06**	52.56	46.50	47.31	34.38
Lowest	**40.00**	30.50	31.00	33.25	25.54
Year end	**49.38**	49.00	37.19	43.75	34.13

a One New York Share = six 25p Ordinary shares.

Capital gains tax

For the purposes of United Kingdom capital gains tax, the market values of the Company's shares were:

	April 6, 1965	*March 31, 1982*
Ordinary shares of 25p each		
Registered	9.17p	41.67p
Bearer	9.24p	42.11p
First Preference shares of £1 each	78.75p	37.50p
Second Preference shares of £1 each	97.81p	49.50p

All share data on this page have been restated where necessary to reflect all capitalisation issues since the relevant date, the most recent of which became effective on June 30, 1997, whereby two 25p Ordinary shares were issued for each 25p Ordinary share outstanding.

Earning and dividends

pence per 25p Ordinary share

	2000	1999	1998	1997	1996
Dividends					
Interim	**5.7**	5.5	5.3	5.1	4.8
Final	**8.9**[a]	*8.5*	*8.2*	*8.0*	*7.5*
	14.6	14.0	13.5	13.1	12.3
Earnings	**33.8**	21.4	0.5	17.8	21.3
Adjusted CCS earnings (pro forma)[b]	**34.9**	17.6	12.2	18.4	19.2
Net assets	**166.0**	*142.4*	*135.0*	*146.7*	*149.6*

a Proposed final dividend, subject to approval at the Annual General Meeting of the Company on May 17, 2001. The final dividend will be paid on May 23, 2001 to Members on the Register on April 20, 2001 and to holders of Bearer Warrants who surrender Coupon No. 207.

b Group net income is shared between Royal Dutch and Shell Transport in the proportion of 60:40 (as described in Note 1 on page 40). For the purpose of this pro forma calculation, adjusted current cost of supplies (CCS) earnings are also shared in the proportion 60:40.

dollars per New York Share[a]

	2000	1999	1998	1997	1996
Dividends					
Interim	**0.48**	0.54	0.53	0.64	0.59
Final	[c]	0.77	0.80	0.78	0.93
	[c]	1.31	1.33	1.42	1.52
Earnings	**3.07**	2.07	0.05	1.75	1.99
Adjusted CCS earnings (pro forma)[b]	**3.16**	1.71	1.21	1.81	1.80
Net assets	**14.89**	13.83	13.44	14.58	15.21

a One New York Share = six 25p Ordinary shares.

The current Double Taxation Conventions between the United Kingdom and the United States of America and Canada provide for the payment to qualifying United States and Canadian residents of an amount equal to the relevant tax credit, less United Kingdom income tax at the rate of 15% on the sum of the dividend and the tax credit. The final dividend of 2000 will have a tax credit of 10/90ths. In this case, the withholding tax at 15% would be more than the tax credit, and consequently the payment is treated as being reduced to zero. The tax authorities in the United States have ruled that US shareholders may elect to be treated as having received a gross dividend equal to the net dividend plus the tax credit of 10/90ths and claim a foreign tax credit for the 10/90ths which is treated as tax paid in the UK.

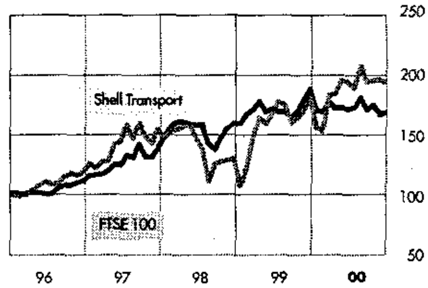
The 1997 final dividend and the 1998 interim dividend were paid as foreign income dividends and consequently did not carry a tax credit. United States and Canadian resident shareholders were therefore not entitled to receive any additional amount under the terms of the respective Double Taxation Conventions in respect of these dividends.

The 1997 interim dividend and 1996 dividend amounts are shown as US dollar equivalents of the dividend and tax credit at time of payment before deduction of income tax at 15%.

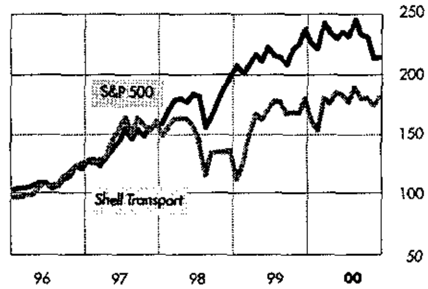
b Group net income is shared between Royal Dutch and Shell Transport in the proportion of 60:40 (as described in Note 1 *on page 40). For the purpose of this pro forma calculation,* adjusted current cost of supplies (CCS) earnings are also shared in the proportion 60:40.

c *The actual amount to be paid will be determined by the* $/£ exchange rate ruling on May 23, 2001.

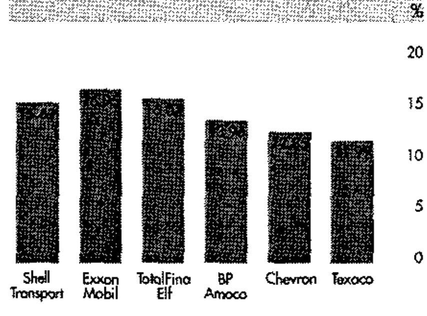
Share price
Shell Transport/FTSE 100 Index
Index: December 31, 1995 = 100



Share price
Shell Transport ADR/Standard & Poor's 500 Index
Index: December 31, 1995 = 100



Total shareholder return[a] 1991–2000



a Total shareholder return is a recognised measure of long-term financial performance. It combines changes in share price with dividends. An investment 10 years ago in shares of the companies shown, with all dividends reinvested, would have yielded the indicated annualised returns as at the end of 2000. *The calculation is based on quarterly reinvestment of* gross dividends expressed in dollars. Source: Bloomberg (TotalFinaElf data not available for 1991).

Financial calendar

Financial year ends	December 31, 2000

Announcements

Full-year results for 2000	February 8, 2001
First quarter results for 2001	May 3, 2001*
Second quarter results for 2001	August 2, 2001*
Third quarter results for 2001	November 1, 2001*

Dividends – Ordinary shares (UK Register)

2000 Final	
Proposed dividend announced	February 8, 2001
Ex-dividend date	April 18, 2001
Record date	April 20, 2001
Payment date	May 23, 2001

2001 Interim	
Announced	August 2, 2001*
Ex-dividend date	August 15, 2001*
Record date	August 17, 2001*
Payment date	September 19, 2001*

Dividends – ADRs (New York Register)

2000 Final	
Proposed dividend announced	February 8, 2001
Ex-dividend date	April 18, 2001
Record date	April 20, 2001
Payment date	May 30, 2001

2001 Interim	
Announced	August 2, 2001*
Ex-dividend date	August 15, 2001*
Record date	August 17, 2001*
Payment date	September 25, 2001*

Dividends – Preference shares: Payment dates

5½% First Preference shares	April 1 and October 1
7% Second Preference shares	February 1 and August 1

Annual Report and Accounts 2000

Publication	April 6, 2001

Annual General Meeting	May 17, 2001

*The dates shown are provisional and subject to final confirmation.

Dividend Reinvestment Plan

The last day for receipt of applications to join or leave the Dividend Reinvestment Plan in respect of the final dividend payable on May 23, 2001 is April 30, 2001. Share certificates for shares purchased under the Plan on the payment date will be dispatched to shareholders on June 8, 2001.

Share Registrar
Lloyds TSB Registrars
The Causeway, Worthing
West Sussex BN99 6DA
Freephone: 0800 169 1679 (UK only)
Tel: +44 (0) 870 600 3997
Fax: +44 (0) 879 600 3980
Website: **www.shareview.co.uk**
for online information about your holding. (Shareholder reference number will be required – shown on your share certificates and tax vouchers.)

American Depositary Receipts (ADRs)
The Bank of New York
Investor Relations
PO Box 11258
Church Street Station
New York, NY 10286-1258, USA
Tel: 888 269 2377 (USA only)
+1 908 769 9711 (international)
Fax: +1 212 815 5918
E-mail: shareowner-svcs@bankofny.com
Website: **www.adrbny.com**

Royal Dutch/Shell Group activities and policies
Group Communications
Shell International Limited
Shell Centre
London SE1 7NA
Tel: +44 (0)20 7934 2323

Shell customer services in the UK
Shell Customer Service Centre
Rowlandsway House
Rowlandsway, Wythenshawe
Manchester M22 5SB
Freephone: 0800 731 8888 (UK only)
Fax: +44 (0)161 499 8088

Company Secretary
For any other private shareholder enquiries please write to:
Company Secretary
The "Shell" Transport and Trading Company, p.l.c.
Shell Centre
London SE1 7NA
Tel: +44 (0)20 7934 3363
Fax: +44 (0)20 7934 5153

Investor Relations
Enquiries from institutional shareholders may be addressed to:

London
Shell International Limited
Group Investor Relations
Shell Centre
London SE1 7NA
United Kingdom
Tel: +44 (0)20 7934 3856
Fax: +44 (0)20 7934 3702
E-mail: ir-london@si.shell.com

The Hague
Shell International B.V.
Group Investor Relations
PO Box 162
2501 AN The Hague
The Netherlands
Tel: +31 (0)70 377 4540
Fax: +31 (0)70 377 3115
E-mail: ir-hague@si.shell.com

New York
Shell Oil Company
630 Fifth Avenue
Suite 1970
New York, NY 10111
USA
Tel: +1 212 218 3113
Fax: +1 212 218 3114
E-mail: ir-newyork@shellus.com

For access to investor relations information, visit the website at **www.shell.com/investors**

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For more on Shell
www.shell.com


Annual Report and Accounts 2000
The Annual Reports of The "Shell" Transport and Trading Company, p.l.c. and Royal Dutch Petroleum Company.
Also available at **www.shell.com/annualreport**


Summary Annual Report and Accounts 2000
Abridged versions of the Annual Reports of The "Shell" Transport and Trading Company, p.l.c. and Royal Dutch Petroleum Company.

The Shell Report
A review of Group companies' progress in embodying sustainable development in the way they do business and meet the economic, environmental and social expectations of stakeholders; includes the latest verified health, safety and environmental data.
Also available at **www.shell.com/shellreport**

The Shell Report Summary
Abridged version of The Shell Report.

Contact any of the addresses below for copies of publications

Shell International B.V.
FSK Division, PO Box 162
2501 AN The Hague
The Netherlands
Tel: +31 (0)70 377 4540
Fax: +31 (0)70 377 3115

Shell International Limited
PXXC (Publications), Shell Centre
London SE1 7NA, UK
Tel: +44 (0)20 7934 5293
Fax: +44 (0)20 7934 5555

Shell Oil Company
630 Fifth Avenue, Suite 1970
New York, NY 10111, USA
Tel: +1 212 218 3113
Fax: +1 212 218 3114

Or access www.shell.com
for the Parent Companies' Annual Reports and Accounts and published Group information.

People, planet & profits

The Shell Report

Summary

The objectives of the Royal Dutch/Shell Group of Companies are to engage efficiently, responsibly and profitably in the oil, gas, chemicals and other selected businesses and participate in the research and development of other sources of energy. Shell companies are committed to contribute to sustainable development.

Contributing to sustainable development – at a glance

Economic
- Exceptional profits in a year of high oil prices
- Cost improvements of $4 billion
- Return on average capital employed (ROACE) of 19.5%
- Motorists once again rank Shell top brand

Environmental
- Greenhouse gas emissions 11% below 1990 levels
- Volume of oil spills halved
- Cost of carbon included in major project decisions
- Global biodiversity expectations set

Social
- Unacceptable rise in fatalities
- Stress arising from work identified as a serious issue
- Nigeria – focus on engagement and community needs

Managing our business
- Incompatibility with Shell's Business Principles – 106 contracts terminated and two joint ventures divested
- Over 90% of major installations certified to ISO14001
- Four incidents of bribery resulting in seven dismissals
- Steady progress in integrating sustainable development thinking

Contents

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Managing our business	**12**
Transparency	**13**
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"Tell Shell"	**13**

Find out more on the web.

Exploration and Production
Searching for oil and gas fields by means of seismic surveys and exploration wells; developing economically viable fields by drilling wells and building the infrastructure of pipelines and treatment facilities necessary for delivering the hydrocarbons to market.

Downstream Gas and Power
Commercialising natural gas through investments in processing and transportation infrastructure, including liquefied natural gas (LNG), pipelines and Gas to Liquids; marketing and trading of natural gas and electricity to industrial and domestic customers; developing and operating independent power plants.

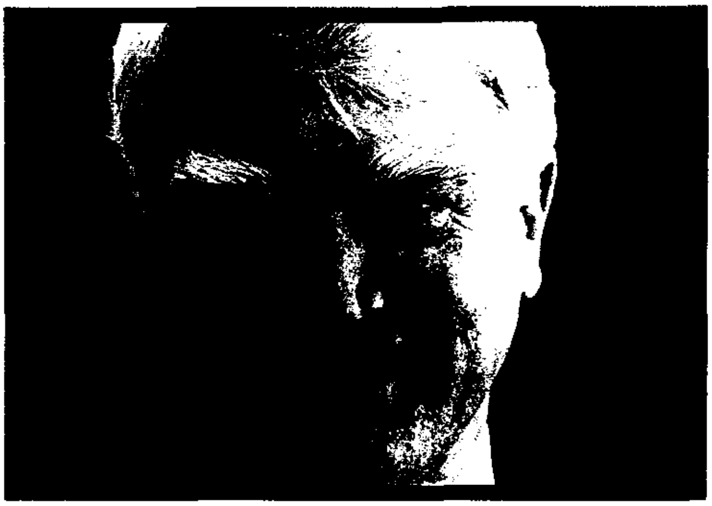
Oil Products
Sales and marketing of transportation fuels, lubricants, speciality products and technical services. Refining, supply, trading and shipping of crude oil and petroleum products. Oil Products serves over 20 million customers a day through some 46,000 service stations, and more than one million industrial and commercial customers.

Chemicals
Producing and selling base chemicals, petrochemicals and polyolefins globally. Products are widely used in plastics, coatings and detergents.

Renewables
A generator of green electricity and provider of renewable energy solutions. Develops and operates wind farms and biomass power plants; manufactures and markets solar energy systems and grows forests to supply markets with sustainably managed wood products.

Other businesses
The portfolio includes a range of other businesses such as:
Shell Hydrogen
Shell Internet Works
Shell Capital

Message from the Chairman



During 2000, we made progress in fulfilling our commitments and met most performance targets. Excellent returns reflect considerable business achievements, as well as exceptionally high oil prices.

We must deliver – and be seen to deliver – in two ways. We need the profitability that provides competitive returns and funds investment. Profits are an important part of our ability to contribute to society. Shell companies also accept their responsibility to help deliver the economic, social and environmental requirements of sustainable development. Being trusted to meet societal expectations is essential for long-term profitability. We are committed to transparency, and to developing and integrating our reporting.*

Our success rests on the quality and commitment of Shell people, who inspire our confidence. I thank them most sincerely, as well as all the others who have worked with us.

Exceptionally high oil prices and cost improvements helped deliver adjusted earnings** of $13.1 billion, 85% up on 1999.

Shell companies contributed to local economies in over 135 countries. In addition, we endowed the non-profit Shell Foundation with $250 million to support social and environmental projects.

A rise in fatal accidents – mostly on the road in developing and emerging countries – is unacceptable. We must embed a culture of safety in the hearts and minds of all who work for us.

In our latest global staff survey nearly two thirds of Shell people reported often feeling under intense pressure. We are working hard to create a workplace where people feel respected. The survey confirmed that over 80% of Shell people believe we act responsibly in the communities where we operate, and in relation to the environment.

Compared to last year, our environmental performance has been mixed. Our greenhouse gas emissions were up slightly but remain on line to meet our 2002 target. We halved the volume of oil spilled. Safeguarding the diversity of biological life (biodiversity) is also vital. We have set expectations for how Shell companies will address biodiversity.

Sustainable development underlies our strategy and is being integrated into everything Shell companies do – in oil and gas as much as renewables. How we succeed is as important as what we achieve. We are committed to delivering excellent returns and building value for the future – for the planet and its people, for our customers, employees and shareholders.

Mark Moody-Stuart

Sir Mark Moody-Stuart
Chairman of the Committee of Managing Directors

Jeroen van der Veer, Group Managing Director

"In my view the successful companies of the future will be those that integrate business and employees' personal values. The best people want to do work that contributes to society with a company whose values they share, where their actions count and their views matter."

Harry Roels, Group Managing Director

"We've taken the ideas of transparency and openness fully on board – even when it is difficult. I'm not sure how this will play out but a lot of people in Shell – particularly our younger people – are very pleased with it."

Phil Watts, Group Managing Director

"The challenge is no longer to operate better – but to help change the way the world meets its energy needs. My interest in sustainable development is severely practical – philosophy is one thing but it is action that will make the difference."

Paul Skinner, Group Managing Director

"We have learned much over the last decade about engaging with stakeholders to help us develop business approaches that secure economic benefits for shareholders and society while limiting negative environmental and social impacts."

* In line with our commitment to integrating our reporting, the Annual Report and Accounts is being distributed to shareholders this year together with the Summary Shell Report. **On a current cost of supplies basis and excluding special items.

Strategy

Sir Mark Moody-Stuart
Chairman of the Committee of Managing [illegible]

"We believe a major challenge facing society today is posed by three inextricably linked issues:

- ***the world's increasing demand for energy***
- ***the need for economic and social development of a growing population***
- ***the need to assure a viable world for future generations.***

This threefold challenge has serious implications for the energy businesses, and concerns over climate change are at the heart of it."

Shell companies need to be profitable to deliver returns for shareholders and fund investment. But to thrive we must respond to a range of non-financial issues, such as transparency, respect for human rights and tougher environmental standards. Being trusted to meet societal expectations is key to long-term success.

Demand for fossil fuels remains strong and will grow as populations and living standards particularly in developing countries increase – there can be no development without energy. Concerns about the environment and health are leading to a gradual move to cleaner fuels. Hydrocarbons will remain the main source of energy for at least the next 30 years, with gas playing an ever-increasing role. Renewables will begin to contribute and hydrogen has great potential as a fuel longer-term.

The way forward

We will continue to lead in the development of the energy market and set a world-class standard for operating excellence and value growth. We will do this within a clear, transparent financial framework and embed sustainable development into our strategy and operations. This means integrating economic, environmental and social considerations into decision-making and balancing short-term priorities with longer-term needs. It also means engaging widely with those who are affected by our activities at the community and other levels.

Using this approach, our extensive portfolio of opportunities, technology, strong brand and global reach, we will be able to deliver strong growth and competitive shareholder returns – even at oil prices lower than those seen recently.

Our strategy is structured around three themes:

- making the most of what we have – continuously improving our existing business
- gaining new business – expanding into new areas
- breaking new ground – creating new types of business.

In pursuing these themes we will:

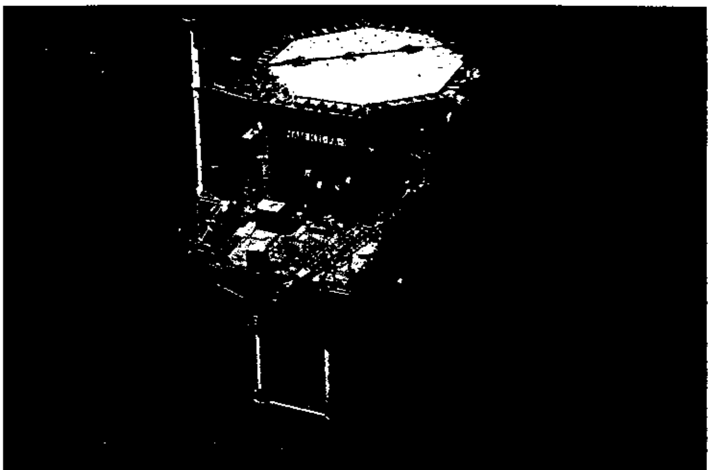
- use our global spread to grow in developing economies
- provide customers with integrated solutions
- align our people and resources around major customer groups
- drive innovation in technology, products, services and e-business.

In the medium-term we will remain highly competitive in the hydrocarbons business, with an increasing emphasis on gas. We will use money, materials and resources evermore efficiently by:

- lowering the capital and material intensity of our businesses by adding more services
- decreasing the carbon content of our products and finding new ways to 'fix' or capture carbon to reduce the amount in the atmosphere
- growing our hydrogen and renewables businesses.

We are committed to a strategy that delivers excellent returns while contributing to the planet and its people. We see no alternative.

Making the most of what we have



More than 98% of the K11 offshore platform was recycled.

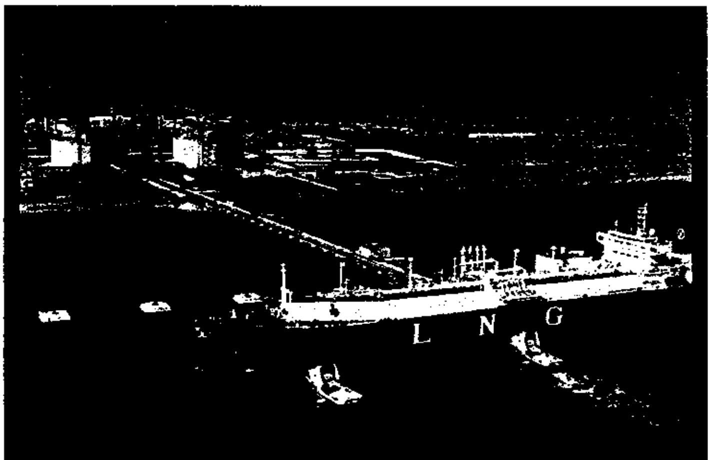
We have developed advanced technologies, built up expertise, strong market positions and a powerful brand. We are making the most of what we have – improving financial performance, reducing environmental impact and contributing to the communities we operate in.

Our 'smart' wells, for example, are further **improving the way oil fields are managed**. They combine sensors and automated control down the borehole with computer models of what is happening in the reservoir. These wells manage the oil field automatically and re-inject produced water before it is brought to the surface.

Smart wells lower costs and help us reduce our environmental impact, as does **recycling**. For example, more than 98% of an oil platform operated by a Shell-Exxon joint venture, has been recycled or the parts re-used. Only 1.6% of the material was sent to landfill. The platform, which used to stand off the Dutch coast, was transported to the UK for recycling.

Our revolutionary gas processing technology, called Twister, will lead to cheaper, more efficient and **emission-free natural gas processing**. Unwanted water and hydrocarbons have to be removed from natural gas before distribution. Twister is a physical process that has no emissions or moving parts. It needs little maintenance and could reduce conditioning costs by 25%. Licencing it will spread the benefits and generate revenue.

Finding markets for previously unwanted natural gas, currently flared (burnt off), is a constant goal. Flaring is not only economically wasteful but the resulting carbon dioxide (CO_2) is a greenhouse gas associated with climate change. A third phase of the liquefied natural gas (LNG) plant on Bonny Island, Nigeria scheduled for completion in 2002 will further reduce the amount of gas flared in the region. Shell has a 25.6% interest in the venture, which started production of LNG in 1999. The project provides many jobs during construction – over 6,500 people will work on building the third phase – and has an extensive community programme to improve living conditions and the local environment.



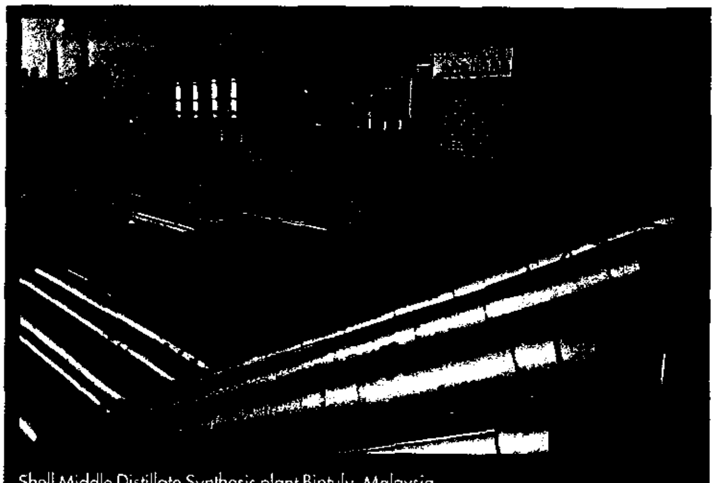
An LNG tanker loading at the new Oman LNG plant.

Environmental gains should also flow from **Shell's 'Super Site' strategy** of siting many of our chemical plants along-side refineries. The close proximity of the sites creates greater efficiencies (lower cost, reliable feedstock supply, energy saving and **less waste**) and reduces the environmental and safety risks of transporting hazardous materials long distances by ship, road and pipeline.

Applying the latest e-business techniques such as global e-procurement is important in ensuring our portfolio performs profitably. So is the selling, acquiring and swapping of assets. For example, swapping retail interests in the UK for sites in Greece and buying sites in Africa provide opportunities for **growth**. We have set up a global network to enhance the value of Shell's trading activities in crude oil, refined products, gas, electrical power and chemicals.

We are offering customers innovative solutions in the form of combinations of products and services often featuring environmental benefits. Komatsu, a leading maker of heavy mining and construction equipment, has chosen Shell for a global lubricants supply agreement, including **biodegradable oils**.

Gaining new business



Shell Middle Distillate Synthesis plant Bintulu, Malaysia.

As the demand for lower-carbon energy sources and cleaner products grows we see many opportunities to combine our technical and commercial experience with innovative technologies, to satisfy this need and gain new business.

Across the world we are participating in fast-liberalising energy markets and pursuing gas, power and other **trading opportunities**. We are developing new electronic channels to our customers, such as Ocean-connect – an internet-based trading site for the shipping industry. We are looking to begin operations in areas of the world new to us – as we have in China and Iran – and expand in countries such as Saudi Arabia and Brazil.

We are extending the number of countries where we market specially **tailored automotive fuels**, such as Shell Pura and Optimax that offer environmental benefits.

Part of our attraction as a business partner are our advanced technologies that help us provide **energy solutions**, including the production of cleaner fossil fuels. This is especially useful in many regions where coal and gas are in abundant supply and are often the only viable fossil fuels much needed for development.

When hydrocarbons are burnt in conventional ways emissions of carbon dioxide (CO_2) and sulphur dioxide (SO_2) are given off. We have the necessary technology to dramatically reduce these impacts, particularly for coal, centred on gasification. This involves partial combustion and is the key to a range of exciting technologies that make it possible to use gas, coal and other hydrocarbons to produce **ultra-clean fuels and electricity**.

Shell **gasification technology** partially oxidises coal, gas (and even oil and biomass) to make syngas. Syngas is as clean burning as natural gas and when used in combined electricity generation it produces 90% less SO_2 and 15% less CO_2 than conventional coal-fired plants.

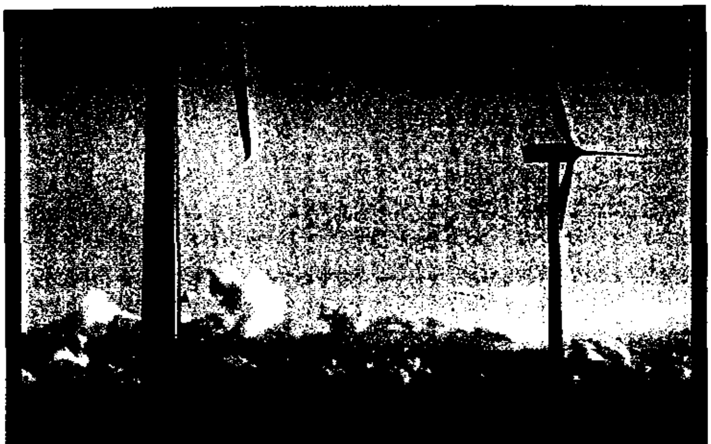
Syngas can also be processed to produce chemical feedstock, ultra-clean fuels or electricity using the **Shell Middle Distillate Synthesis** (SMDS) process. SMDS fuels are completely free from aromatic and sulphur components, leading to greatly reduced exhaust emissions. Shell's first SMDS plant has been operating in Bintulu, Malaysia for eight years. Major advances in our catalyst technology have dramatically improved the process and larger-scale plants are proposed for Egypt, Indonesia, Iran and Trinidad. The potential benefits of the by-product water in desert regions particularly hold great promise.

Alternatively, the carbon monoxide in the syngas can be removed as carbon dioxide on reaction with water and stored underground in depleted oil or gas reservoirs. The resulting **hydrogen** can then be used in fuel cells in vehicles, homes and power stations. Many predict that hydrogen could be the fuel that provides the basis for a future 'hydrogen economy'.

Shell already has a growing renewables business that does not rely on traditional hydrocarbons. We have established a network of **Solar Centres** across Germany to meet the needs of local consumers for solar electricity. Solar Centres are also being opened in Sri Lanka to provide consumers in rural communities with access to electricity for the first time. We have set up a joint venture with a Swedish utility company to operate a combined heat and power plant, using wood-wastes, to supply domestic heat. The use of this renewable **bio-fuel** is carbon-neutral.

- Visit Shell Chemicals at **www.shell.com/chemicals**
- We are partners in e-supply chain management through Trade-Ranger, the internet marketplace. See more at **www.trade-ranger.com**
- Shell Geostar offers a comprehensive travel-planning service for European motorists. Try it at **www.shellgeostar.com**
- Learn about our Renewables business at **www.shell.com/renewables**
- Visit Shell Hydrogen at **www.shell.com/hydrogen**

Breaking new ground



Shell is a joint-venturer in the North Sea's first offshore wind farm generating electricity off the UK coast.

In response to evolving energy markets and increased demand for quality service from a trustworthy brand we are commercialising technology, developing strategic alliances, getting closer to the consumer and preparing the way for the emerging hydrogen economy.

While new technologies hold much promise, a lot can be done now to create value by **commercialising our non-strategic technologies** and providing **consultancy services to industry**. These include solutions for improving the efficiency, reliability and health, safety and environmental performance of, for example, refineries. This improves our own performance and that of others while generating income.

We are using expertise from across our businesses to provide solutions to governments helping them meet their energy needs and grow their economies. We have signed a **strategic alliance** with Sinopec* in China to develop jointly opportunities in exploration and production, oil products and gas marketing, and coal gasification.

In well-established markets we are **extending the use of our brand** getting closer to the consumer and developing new business opportunities without the need for high capital expenditure. We recognise the vital importance of the internet in growing new e-related businesses. Products and services range from **financial services** (venture capital to car insurance) to providing pick-up points at our service stations for goods ordered on the internet. We are aiming to expand our consumer marketing activity by, for instance supplying gas, electricity and energy advice.

Shell – a major supplier of raw materials for detergents – is an investor in **CleanWave**, an overnight pick-up and delivery laundry service in the USA. Home laundry consumes energy, water and chemicals with limited scope to improve efficiency. This venture gives us the means to evaluate ways to reduce water, energy and detergent use, with benefits to the environment.

We are broadening our investment in alternative energy sources. We are a joint-venturer in the North Sea's first **offshore wind farm** and in Germany we have also installed two wind turbines on our refinery. The electricity generated is sold to domestic consumers.

Geothermal energy can be tapped as a sustainable source of energy. Our new **hot fractured rock technology** involves drilling into rock, pumping water in and extracting steam for heat and power. The condensed water is re-injected.

Hydrogen is expected to be the prime energy carrier of the future with the potential to replace carbon longer-term. The gas can be converted into electricity in fuel cells that emit only water. **Fuel cells** can be used in vehicles to power electric engines and on a larger scale to generate electricity for buildings and the grid.

Hydrogen is currently expensive to make and difficult to store. There are as yet no large-scale distribution systems for it, such as filling stations. We are working with International Fuel Cell, to develop and sell **fuel processors**. These convert fossil fuels to hydrogen emitting CO_2 and water. They provide a bridge to emerging technologies, encouraging new fuel cell applications and paving the way for **future investment in hydrogen** storage and distribution systems.

Fuel cells could also produce **electricity from natural gas without the release of CO_2**. Shell is a partner with Siemens Westinghouse trialing a solid oxide fuel cell power plant in Norway. The plant burns natural gas producing CO_2 and steam. The CO_2 can be stored underground without release to the atmosphere.

You told Shell
Unknown

"The geopolitics of oil and gas is not simple and simplistic, hysterical solutions do not help. We do not live in a post-petroleum world. We have to work with energy companies – and they have to work with us. Congratulations to Shell for trying to sort out their responsibilities in such a complicated world."

You told Shell
Singapore

"If your research can produce hydrogen cheaper than petrol ten years down the road you will be distributing hydrogen instead of petrol."

* China Petroleum and Chemical Corporation (Sinopec Corp.)

Economic
Winning with principles?

You told Shell
Unknown

"As a shareholder I must say don't get so caught up in the liberal, leftist social agenda that you shortchange your shareholders."

You told Shell
USA

"It is very clear to me that Shell is committed to preserving the environment, while protecting shareholder's profits. You are to be commended – we can only help support you as customers. You have 100% of my family's business from this day forward. Keep up the great work!"

Financially, 2000 was an exceptional year resulting in exceptional profits. A high crude oil price and cost improvements boosted earnings and helped Shell make a significant contribution to the global economy.

Our objective is to create and increase value – providing competitive returns to investors, meeting customers' needs, generating prosperity and contributing to overall economic development. We have made a strong contribution in these areas in 2000.

Compared with 1999, adjusted earnings* in 2000 increased 85% to $13.1 billion – mainly due to high crude oil prices and cost savings. We met the target to achieve $4 billion cost improvements annually one year early (in 2000 instead of 2001) and our return on average capital employed (ROACE) was 19.5%.

Capital investment for 2000 totalled $8.5 billion. Significant actions included investments in China, Russia, Malaysia and Africa, and divestments in the USA, UK and Australia. The Group's coal activities were sold. In 2000 the Group announced a worldwide employee share purchase scheme to encourage a sense of unity and affiliation.

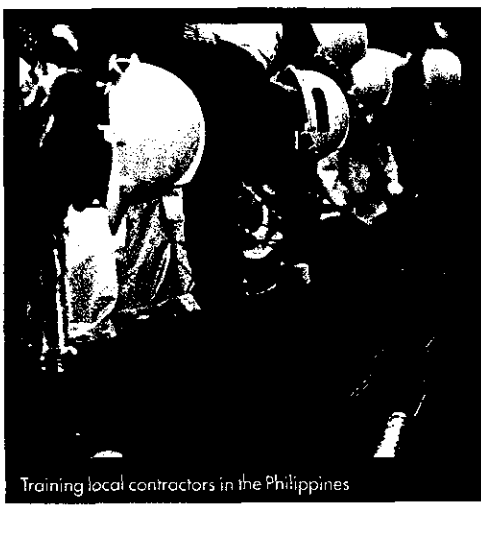
We listen to our customers and in response have developed a range of specially tailored fuels offering performance and environmental benefits. For the fourth year running, in our Brand Tracker survey, motorists globally ranked Shell as their top brand.

In line with our Business Principles, we seek to compete fairly and ethically – and do not tolerate breaches of competition law. In 95 countries Shell companies operate a procedure to ensure their operations do not compromise such laws.

We contribute to local economies where we operate through employment and the use of local companies. We spend billions of dollars a year on materials and services and although global procurement and e-commerce play an increasing role, we still spend over a third locally. In 106 countries Shell companies spent more than 50% of the total spend on goods and services inside the country in which they operate.

Through our economic activity in 2000 Shell companies generated more than $51 billion of taxes – a significant contribution to the global economy.

*On a current cost of supplies basis and excluding special items.



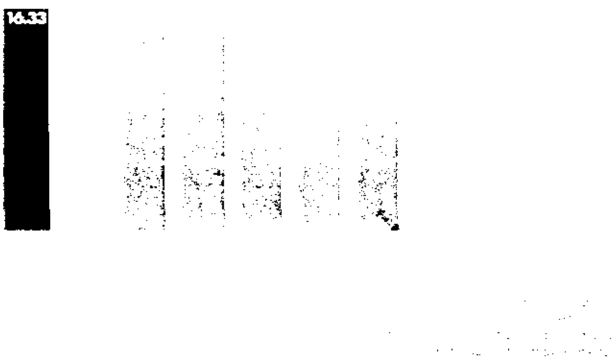
Training local contractors in the Philippines

Mora McLean
President, Africa America Institute (AAI)

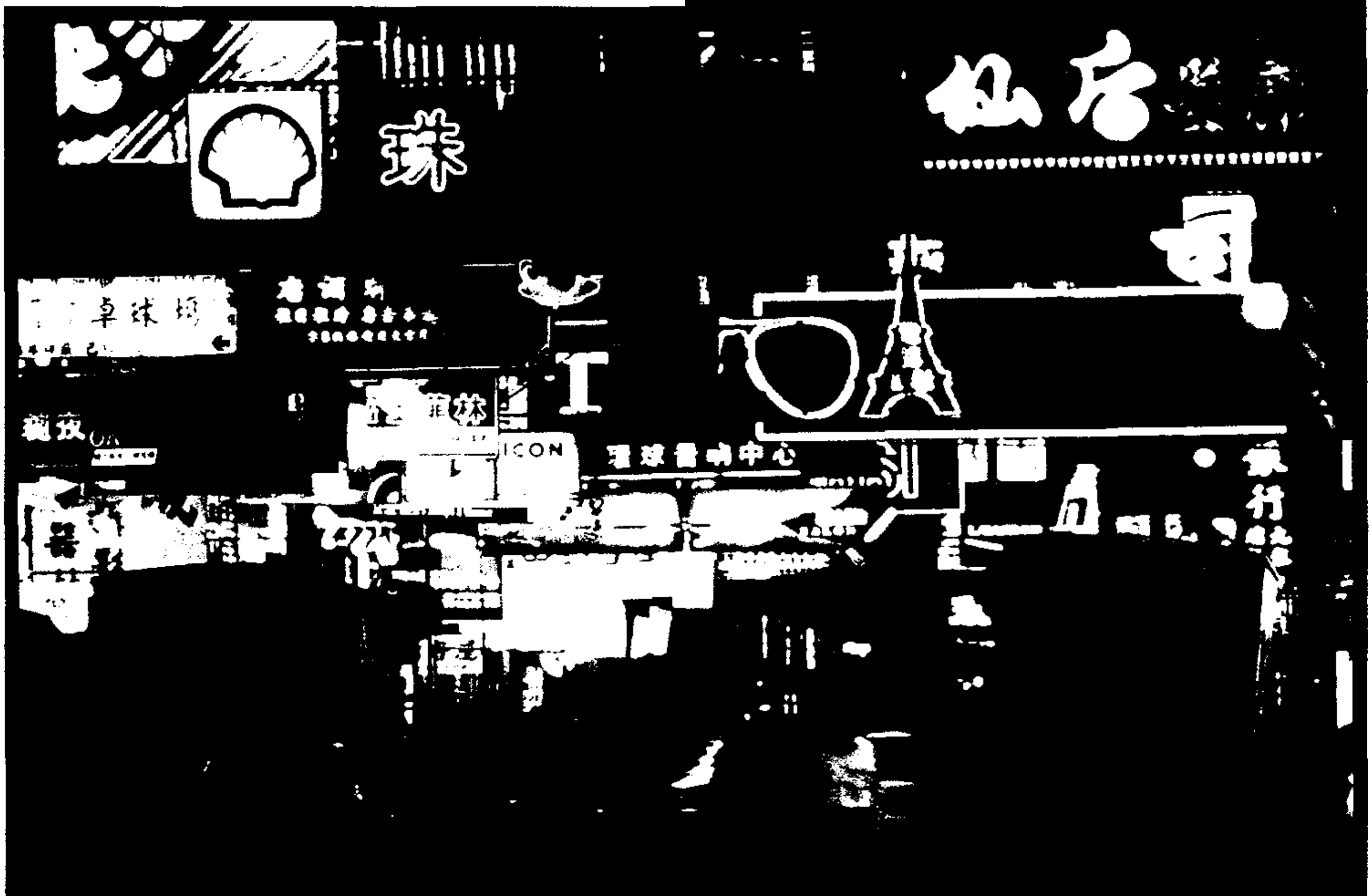
"While Africa has not fared well historically with western mining and energy companies, it is also true that these companies can help spur African economic progress. Shell's dialogue with its critics is laudable. AAI encourages Shell to invest long-term in increasing the numbers of highly skilled African technical professionals."

The acquisition of Agip's oil products operations in five key countries demonstrates Shell's continuing commitment to long-term business in Africa

Total shareholder return* 1991 to 2000



Offering customers a choice of fuels with environmental and performance benefits as here in Argentina.



Competing in global markets

- Visit our investor relations website where you can see quarterly results and access analysts presentations at **www.shell.com/investors**
- Read our Parent Companies' Annual Report and Accounts at **www.shell.com/annualreport**
- More about our approach to ensuring fair and ethical competition is at **www.shell.com/competition**
- For more details of our economic performance go to **www.shell.com/profits**

Case Study **Shell Haven**

Shell UK made a determined effort to find a sustainable solution when closing the Shell Haven refinery in 1998 with the loss of 300 jobs. An agreement has been signed with P&O, the international logistics and transport company, who will regenerate the 1500-acre site as a major container port, distribution and commercial centre creating up to 10,000 jobs. We have helped secure new jobs for the majority of staff – supporting them during this difficult time has been our priority.

Environmental
Clearing the air?

Jonathan Lash
President, World Resources Institute

"The Sustainable Energy Program is a concrete and significant step in implementing Shell's commitment to clean energy. By investing in alternative energy, community development, and innovations in sustainable energy, Shell provides a glimpse of a better future and takes a real step toward getting there."

Jeff McNeeley
Chief Scientist, World Conservation Union (IUCN)

"I am very glad to see that Shell has made a particular effort to reach out to ecologists and other field scientists to ensure that its operations in ecologically significant sites take full consideration of the biodiversity that often make such areas a source of conservation concern."

Reducing emissions to air, water and land is critical to our business success and our contribution to sustainable development. We set ourselves tough improvement targets but did not meet all of them in 2000.

Our environmental expectations set minimum standards worldwide, which form the platform for further improvement. We have made good progress in achieving external certification of over 90% of our major installations to internationally recognised environmental standards. All our manufacturing plants have reduced emissions, which can contribute to local air pollution and acid rain, to within ranges permitted by OECD* countries.

Climate change remains one of the most important environmental issues of our time and as an energy business we have an important role to play in finding solutions. Despite the failure of the United Nations negotiations in 2000, we remain committed to reducing our greenhouse gas emissions (GHGs) – these are now 11% below 1990 levels in line with our reduction target.

Our GHGs increased slightly in 2000, mainly as a result of higher production in Nigeria which meant that more gas was burnt off (flared). We now include the possible financial cost of GHGs in major project decisions. Our experimental internal carbon trading system is also helping us prepare for a time when there may be a financial penalty associated with carbon use.

In 2000, Shell companies paid a total of $3.1 million in fines and settlements. At the end of the year, the Group was carrying total liabilities of $3 billion relating to environmental clean-up, decommissioning and site restoration.

We met our aggressive target to reduce oil spills with volumes down by nearly 50% on last year.

We have set expectations for how Shell companies will address biodiversity (diversity of biological life). A healthy debate on operating in protected environments continues with our conservation partners.

*Organisation for Economic Cooperation and Development.

Case Study **Shell Sustainable Energy Programme (SEP)**

Over 30 projects are so far being supported by SEP, a Shell Foundation initiative to promote sustainable energy worldwide. Projects include: helping Mexican villages in environmentally protected areas use renewable energy to reduce dependence on firewood; spreading biogas technology in rural China for cooking, lighting and heating greenhouses; helping set up an emissions advice website; spreading good practice in managing urban air quality; raising energy awareness in primary schools.

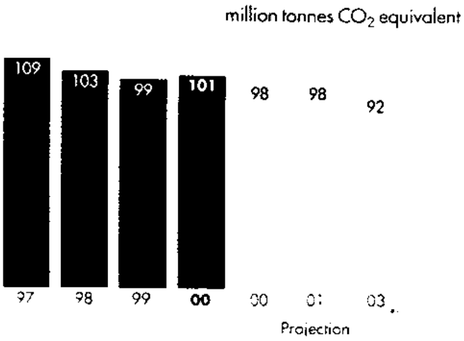
You told Shell
Shell employee

"We 're still emitting too much CO_2 into the atmosphere. Why? Because 'our priority is to get the plant running and make some money. Then we can afford disposal'. Not good enough in my opinion. What this company needs is a good Greenpeace scare and we'll find the money."

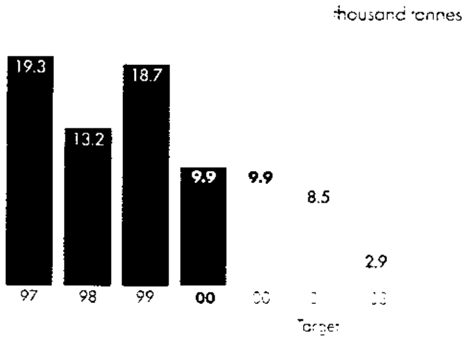
You told Shell
Zambia

"I commend you on exceeding requirements for the emissions allowed by companies. What you do will be noticed by other major corporations and they will hopefully follow suit."

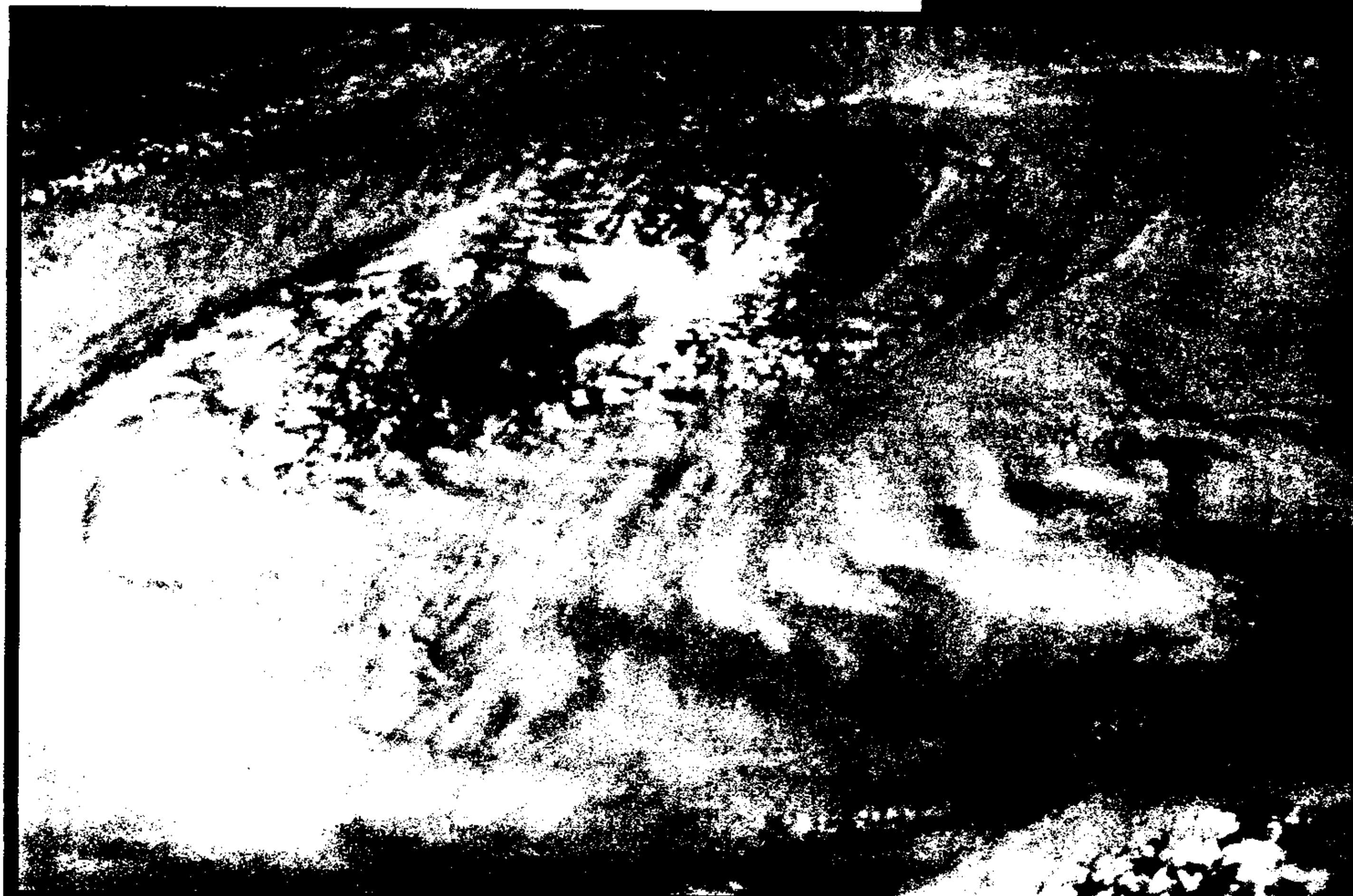
Global Warming Potential (GWP)



Total spills



- To read our HSE Policy and minimum environmental expectations visit **www.shell.com/hsepolicy**
- For our approach to climate change see **www.shell.com/climate**
- To find out more about our approach to biodiversity see **www.shell.com/biodiversity**



Climate change – one of the most important environmental issues of our time.

Case Study **Coming clean on refinery emissions**

Community trust in Shell was put to the test in 1999 at the South African Petroleum Refinery (SAPREF) in Durban – Africa's largest refinery jointly owned with BP. The refinery is in the same area as other industries emitting sulphur dioxide (SO_2) and air quality is a major concern to neighbouring communities. Emissions are regulated by government and improvements beyond permit levels are voluntary. The refineries are working with government to ensure continued environmental improvement. Non-governmental organisations (NGOs) are encouraged to participate. Since 1995, SAPREF has been reducing SO_2 emissions voluntarily, and in 1997, it made a widely reported public commitment to further reductions. In 1999, the refinery discovered calculation errors in its measurements. The reductions achieved were unchanged but emissions were substantially higher than had been thought. SAPREF kept media, government, NGOs and communities fully informed. While some environmentalists were concerned, there was broad recognition of SAPREF's honesty in disclosing errors. SAPREF is investing $40 million to almost halve SO_2 emissions by end-2002.

Social
Respect for people?

Professor Lynn Sharp Paine
Harvard Business School

“Today's leading companies are being held to a higher standard of performance all around the globe. Increasingly, they will need reports like this not only to assure the world they are living up to the new standard, but also to help their own managers do their jobs. Hats off to Shell for tackling this complex area of measurement and reporting.”

Frank J. Navran
Principal Consultant, Ethics Resource Center

“Increasingly, the organizations we work with view The Shell Report as a new standard in organizational accountability.”

Honesty, integrity and respect for people are our three core values. We want to be responsible members of society, contributing to the welfare of our staff and the communities in which we live and work.

We deeply regret that in 2000, 60 people lost their lives while working with Shell companies, mainly in road traffic accidents in developing and emerging countries. This is unacceptable. It is frustrating for us that the enormous energy invested to prevent such accidents is not showing returns. Controls and procedures are simply not enough. These serious accidents can only be eliminated when a culture of safety is embedded in the hearts and minds of all who work with us.

Work-related stress has also been identified as a serious issue. In our global staff survey we found that 59% of the 65,500 respondants said they often feel under intense pressure in their current job. This is much worse than external norms. We are identifying and seeking to reduce causes of workplace pressures, with the focus on 'hot spots' highlighted by the survey.

We believe in respecting people and ensuring equal opportunities for all. In the staff survey 73% of people said 'where I work, we are treated with respect'. This is higher than high performance benchmarks.

Protecting our people sometimes means employing security personnel. If armed security has to be used it must comply with our guidelines on the use of force, which conform to United Nations (UN) standards. The guidelines emphasise that in all situations guards must respect the human rights and dignity of all people.

The protection of human rights is explicit in our Business Principles. We make sure that human rights are considered before approving investment decisions and talk closely with human rights organisations. We incorporate learning from experience in countries such as China, Nigeria, Oman, Peru and the Philippines.

We support the Global Sullivan Principles that provide a guide to businesses of all sizes on corporate responsibility and Kofi Annan's initiative of a Global Compact between the UN and business to support the core values of the UN declarations.

In December 2000, to increase our contribution to communities, we endowed the Shell Foundation with $250 million to secure its future charitable works.

Case study **Improving desert living**

Employees of Petroleum Development Oman (PDO) often have to live in remote desert regions in harsh conditions. Providing high standard accommodation is essential. PDO ensures that high quality living quarters are provided for both employees and contractors. This is consistent with PDO's criteria on health, safety and environment and sets the standards for other operators. Four contractor accommodation centres have been completed and a fifth will be ready by March 2002. Over 4,000 people have comfortable rooms, access to cafeterias, recreational and medical facilities.

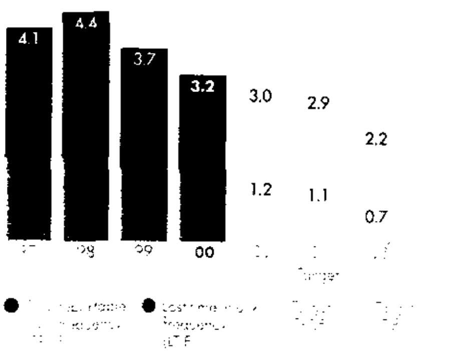
You told Shell
Unknown

“Safety seems to be one of your big stumbling blocks. Your managers seem more interested in their personal options in Shell shares than in your goal to prevent the loss of lives. The financial results have been made their number one goal.”

You told Shell
UK

“I am afraid that Shell's commitment to human rights comes too late. Blood will always, always be on your hands and no Business Principles will ever change that.”

Safety statistics
Company employees and contractors



Social investment (Shell share*) in 2000 by region

- Find out about the issue of human rights and more about our approach including the Global Compact at **www.shell.com/human**
- Visit the Shell Nigeria website at **www.shell.com/nigeria**
- More about the Shell Foundation and its programmes at **www.shellfoundation.org**

We engage to understand the needs and concerns of communities where we operate such as here in Nigeria

Case study **Update on Nigeria**

The new government continues to work to improve Nigeria's economy and deal with corruption and human rights abuses. But the expectations of the seven million people living in the oil-rich Niger Delta remain high. They understandably feel that they have yet to benefit in a significant way from the oil wealth generated from their land. Community unrest and general crime remains widespread. But in 2000 there was a 40% decrease (compared to 1999) in the volume of oil 'shut-in' due to community disruption/sabotage and also a big decrease in hostage taking incidents. The government has set up the Niger Delta Development Commission to oversee socio-economic development and government funds from oil income have begun to flow to the oil producing states. The challenge is to use the funds in a transparent and co-ordinated way. As a start, the Shell Petroleum Development Company of Nigeria (SPDC) co-hosted a donors workshop in 2000 with the United Nations Development Programme. Separately SPDC spent $55 million on its own community development programme. Through local community and NGO engagement, SPDC boosted the number of partnership programmes to 30.

Managing our business
Living our values?

We operate in more than 135 countries and employ some 90,000 people in thousands of diverse locations and communities. Our Business Principles set the same standards for all our operations everywhere.

Our nine Business Principles, which are based on our core values of honesty, integrity and respect for people, apply to all our business affairs and describe the behaviour expected of every Shell employee.

The Principles reflect our responsibilities to our stakeholders and our commitment to contribute to sustainable development. They make our commitments to human rights and the environment clear for employees and business partners. They also express our determination to abide by the highest levels of business integrity – no bribes, no political payments and fair competition.

All Shell companies and employees are expected to comply with the Principles as a matter of course. We also expect our contractors and business partners to work in ways that are compatible with our Principles. If we are unable to convince them of the importance of this, we will terminate contracts and divest from joint ventures. In 2000, 106 contracts were terminated and two joint ventures divested because they were not working in ways compatible with our Principles.

As part of our minimum environmental expectations, over 90% of our major installations have been externally certified to international environmental management standards.

We are making steady progress in embedding sustainable development into decision-making – integrating economic, environmental and social considerations and balancing short-term priorities with long-term needs. We have well established targets in the areas of finance, health, safety and the environment. We are exploring ways to define meaningful targets and measure our progress in social performance.

Reported cases of bribery

numbers of bribes and total value $

	1997	1998	1999	2000
Bribes offered and/or paid by Shell company employees directly or indirectly to 3rd parties	0	1 ($300)	1 ($300)	0
Bribes offered and/or paid by intermediaries, contractor employees directly or indirectly to 3rd parties	*	*	0**	1 ($4,562)
Bribes solicited and/or accepted by Shell company employees	23 (small)	4 ($75,000)	3 ($153,000)	4 ($89,000)
Bribes solicited and/or accepted by intermediaries, contractor employees or others	*	*	1 (unknown)	1 (zero)***

* Data not available. ** One case in which a Shell employee used an intermediary to make payments of US$300 has been included in the cases concerning company employees. *** Bribe refused and reported by Shell company employee.

- Shell's Business Principles are available in 51 languages. Read more about them at **www.shell.com/**sgbp
- More on embedding sustainable development at **www.shell.com/**sustain
- To download the full Shell Report or to see previous years' reports go to **www.shell.com/**shellreport
- For independent views and to tell us what you think visit **www.shell.com/**tellshell

You told Shell

Nigeria

"It has never been possible for any organisation to roundly satisfy all segments of society. This is ever more so for a global outfit such as yours. I still have reasons to hold the view that your Business Principles are second to none in most countries where you operate."

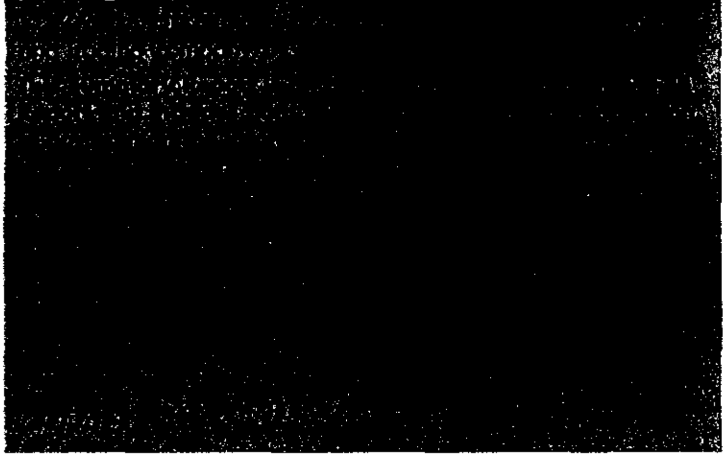
You told Shell

Germany

"Just count the postings on the forum: there are far more ones critical of Shell and the human rights aspects of their operation than in support of it. That's not what I would do if I wanted to merely improve my image."

Transparency
Transparent and credible?

Message from the verifiers



We recognise the importance of building trust and credibility with stakeholders and are learning to be more open, through more dialogue and transparent communication.

An important part of building confidence is the publication of reliable information that gives a fair picture of our performance. Without verification by respected independent organisations neither you nor we can be sure that real progress is being made in critical areas covered by this report.

Group auditors have verified some of the economic, environmental and social information in the full Shell Report in line with emerging best practices.

Proving the reliability of data is only half the story, and it will take more than this to convince sceptics of our progress. We need to provide independent views of whether our performance is good or bad and compare ourselves with others. We have asked independent experts to comment on our performance and you can see their views in the full report and on the website.

These moves reflect our broad programme of stakeholder dialogue and communications. In this way we aim to earn the trust and respect of our stakeholders.

We need your feedback – no matter how critical – to help us improve. We really do want to hear your views on Shell or The Shell Report, about the issues we covered and anything we didn't. Please tell us what you think.

You can contact us via:

- the internet at **www.shell.com/tellshell**
- email at **tell-shell@si.shell.com**
- post to 'The Profits and Principles Debate'
Shell International Ltd,
Shell Centre, London SE1 7NA,
United Kingdom.

If you want to share your views with a wider audience please tell us and we will post them on your behalf on our uncensored website forum.

You can find more information and download the full Shell Report at our website or request a paper version at the address above.

Thank you.

Jacqueline Aloisi de Larderel
Director UNEP [illegible]

"In this era of market globalization and liberalization, there is an increased demand for corporate responsibility, accountability and transparency. It is encouraging to see that companies such as Shell are responding to that demand through reporting on their sustainability performance, and engaging in a dialogue, however difficult, with all stakeholders."

You told Shell
UK

"I admire your transparency in all your dealings. I think it is a good way of rebuilding the trust of the public in your company."

You told Shell
Unknown

"This is the most obvious Greenwash I have yet to see – well done Shell, you've sunk to new levels. It appears your PR agency have successfully managed to convince you that the bulk of the population are morons."

For more on Shell
www.shell.com


Annual Report and Accounts 2000
The Annual Reports of Royal Dutch Petroleum Company and The "Shell" Transport and Trading Company, p.l.c.
Also available at **www.shell.com/annualreport**


Summary Annual Report and Accounts 2000
Abridged versions of the Annual Reports of Royal Dutch Petroleum Company and The "Shell" Transport and Trading Company, p.l.c.

The Shell Report
A review of Group companies' progress in embodying sustainable development in the way they do business and meet the economic, environmental and social expectations of stakeholders: includes the latest verified health, safety and environmental data.
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Contact any of the addresses below for copies of publications

Shell International B.V.
FSK Division, PO Box 162
2501 AN The Hague
The Netherlands
Tel: +31 (0)70 377 4540
Fax: +31 (0)70 377 3115

Shell International Limited
PXXC (Publications), Shell Centre
London SE1 7NA, UK
Tel: +44 (0)20 7934 5293
Fax: +44 (0)20 7934 5555

Shell Oil Company
630 Fifth Avenue, Suite 1970
New York, NY 10111, USA
Tel: +1 212 218 3113
Fax: +1 212 218 3114

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