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No. 2573

COMMITTEE OF MANAGING DIRECTORS
MINUTES OF THE MEETING HELD IN THE HAGUE
ON MONDAY, 8 AND TUESDAY, 9 DECEMBER 2003

Present:	P B Watts	Chairman
	J van der Veer	
	W van de Vijver (Items 6-21 inclusive only)	
	M A Brinded (Items 6-21 inclusive only)	
	J G Boynton	
	R J Routs (Items 6-21 inclusive only)	
	R M Fox	Secretary

1. MINUTES

The Minutes of CMD Meeting No. 2572 were approved, as amended.

2. ANNUAL REPORTS

Jyoti Munsiff and Michiel Brandjes entered the meeting. Adrian Loader, Mary Jo Jacobi and Yvonne van Sprang joined by videoconference.

The Annual Report covers and size were agreed. On the Remuneration Reports the Committee commented that REMCO had a large number of comments on the drafts and that more work needed to be done on these pages. The intention was that for the Royal Dutch Remuneration Report, there would be a general statement regarding remuneration but on the specific figures only Royal Dutch Directors would be referred to. The same approach would apply to the Shell Transport and Trading Remuneration Report.

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It was agreed that the Chairman of REMCO, Mr Loudon, would sign the Remuneration Report for Shell Transport and Trading and for Royal Dutch.

Turning to the governance chapters, the Committee stated that for Shell Transport and Trading, the focus of the Report should be on the UK position including the Combined Code with reference to NL and the US. The same principle should apply in respect of the Royal Dutch Report with focus on Tabaksblat with reference to the position in the other 2 countries. In both cases the piece on the US would be common. As far as possible, the detailed matters relating to the Combined Code and Tabaksblat should be moved to the back of the Report and in NL it was possible to move some items to the Shell website. The same approach would be used in the Summary Reports.

It was agreed that the Chairman would sign the covering note for Shell Transport and Trading as Chairman of Shell Transport and Trading and Chairman of the Committee of Managing Directors. For Royal Dutch, Mr van der Veer would sign the covering note as President of Royal Dutch and Vice Chairman of the Committee of Managing Directors.

Turning to the Summary Reports, the Committee stated that there should be two versions of the message from the President of Royal Dutch and the Chairman of Shell Transport and Trading.

It was confirmed that the plain English society would be reviewing the wording of the documents. Further detailed comments were made on the draft pages and it was thought that the message from the Chief Financial Officer could be deleted to avoid potential overlap.

The matter would be referred back to the full meeting of the Committee on 13 January ensuring that all of the non- financial issues were already cleared by the business CEOs prior to the Committee meeting.

Copy of Minute to: A Loader, J Munsiff, M Brandjes.

3. INVESTMENT DECISION GUIDE

Tim Morrison and Beat Hess entered the meeting.

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It was explained that the Group Capital Budget Manual needed updating and that the development of the draft Investment Decision Guide had been sponsored by the Financial Controller. The Committee raised the issue of whether, in relation to asset proposals, such as leases, there should be a maximum term of 15 years. In this context, the Committee commented that it needed to be made clear which items should be addressed in the Investment Decision Guide and which items would be dealt with in the CP Guidelines. It was agreed that this point would be taken back to the businesses for consideration. The question of the explicit support of the Director of Finance was discussed and the Committee stated how important it was for sufficient connection to be made with the Director of Finance and senior finance people in the decision making process. It was explained that the proposed change which required the input of the Finance Director concerned third party financing requirements exceeding $500 mln. In that case, the Committee stated that it was important that there was consultation in good time with the Director of Finance in the preparation of any such proposal.

Copy of Minute to: J Boynton, B Hess.

4. SARBANES-OXLEY ACT SECTION 404 COMPLIANCE

Tim Morrison explained that the Sarbanes-Oxley Act, Section 404 dealt with internal controls on financial reporting and that the Group Financial Controls Framework was to be reviewed in the light of this legislation. He added that the period for comment on the draft Regulations ended in November 2003 and Shell had made representations as had 183 other organisations. The main areas on which Shell commented were the very low materiality levels and the definition of materiality. Mr Morrison explained that the external auditors had been briefed and were aware of the work being done by Shell in this regard. He explained that it was necessary for those working on the Sarbanes-Oxley Section 404 project to have access to the business Chief Financial Officers. He added that assistance would be obtained from those in Shell Canada who were addressing this subject one year ahead. The Committee commented that it was very important that adequate commitment of resources was given to this project and Tim Morrison explained that a dedicated project manager from SEPCO had been appointed to work full- time on the Financial Controls Handbook. He added that the scope of the work was not, however, fully clear because of the likelihood of change to the draft Regulations. More clarity on

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the Regulations would be available in February 2004 and the Finance Leadership Team would then undertake a review. The matter would return to the Committee in March 2004. The Committee emphasised that it was clear that these requirements must be addressed in a timely manner.

Copy of Minute to: J Boynton.

5. IMPLEMENTATION OF INTERNATIONAL ACCOUNTING STANDARDS

Tim Morrison presented a paper on the implementation of the International Accounting Standards and said that the standards to be implemented were still being developed by the International Accounting Standards Board. The first phase of the Groups' implementation programme had been to analyse the differences between the IAS standards and the current set of Group Financial Accounting policies. This phase had now been completed based on the IAS Standards published at the end of September 2003. In the next phase the detailed impact on the businesses was to be analysed and the necessary changes to be drafted and agreed. This phase would run up to the end of March 2004 at which point the finalised IAS Standards should be available. It was essential that adequate resources were dedicated to this work and it was explained that the accounting research group had been strengthened and that the question of leadership of the project would be referred to the Committee when the matter was brought back before it in 2004.

Copy of Minute to: J Boynton.

6. FUNCTIONAL/BUSINESS PROCESS REVIEWS

Hugh Mitchell, Arjen Dorland, Guy Cowan, Mike Rose, Gustavo Guimaraes, Bruce Culpepper and John Hofmeister entered the meeting.

Hugh Mitchell introduced the Functional/Business Process Reviews item by explaining that separate papers would be presented on the Group ERP strategy, finance futures and HR futures. This would be followed by a description of integration issues and conclusions.

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Arjen Dorland presented the paper on the Group ERP strategy. He explained that there were over 220 ERP systems in the Group and the Group ERP vision was needed to help realise further standardisation in Shell's businesses, to reduce costs, to enable shared service centres, to improve management information and to rationalise the IT portfolio. Mr Dorland explained that ERP rationalisation could not be justified on IT cost reduction only. SAP enabled business benefits were the key driver and there were economic cases yet to be developed. IT investment may need to be redirected. The optimal Group ERP vision was for minimum business models and maximum commonality which would drive further consolidation. There were 10 business models and 4 service and support models in existence. The aspiration was to combine the multiple business models into 3 to 4 ERP systems namely upstream, downstream, utilities and services. There would be three separate ERPs for HR, Master Data and Group Reporting. These plans would be examined in the ITBC, the FLT and EXCOMS during 2004. The Committee agreed that simplification of the ERPs driven by the business models was the correct step and commented that flexibility of the systems was also important to cope with acquisitions and divestments. There should be maximisation of commonality and consolidation. The Committee supported the fact that there was a SAP centric approach. The existing roll-outs in CH, EP and HR would be continued and there would be common benefits tracking across the Group. So far as the common benefits tracking was concerned the Committee added that this was one element which should be addressed by Hugh Mitchell in the overall view. There would be a number of items to be considered at the end of Q1/2004 and these included the OP Streamline SAP business case, the ERP strategy for Utilities business, the ERP strategy for services and any synergies which could be found between these items. It was agreed that the positioning of Trading in the downstream and /or utilities model needed clarification and that Finance systems architecture was additional to the business ERPs. At the end of Q1/2004 the optimal approach on the Master Data would need to be reviewed. Finally it was agreed that the approach on the way forward for JVs and further convergence opportunities for CH and Trading would be reviewed later. The Committee thanked the team working on the Group ERP strategy for the clarity and professionalism of the work produced.

Guy Cowan gave a presentation on the Finance Futures Review. He explained that this was a joint FN and HR recommendation on Shared Services Centre locations. The focus had been on the cost of the locations and the processes to be transferred there. Guy Cowan explained that the transfer of suitable processes to Shared Service Centres could lead to some 2,400 full- time employees being located there. The three existing Shared Service Centres were

in Guatemala, Scotland and Malaysia and there were 700 people working there. The two new Shared Service Centres were proposed to be located in Poland and the Philippines. A total of 1,700 FTE's jobs would migrate to the Shared Services locations. A comparison between the Philippines, India and Malaysia was explained and the European location review had considered Krakow Poland, Lodz, Poland and the Czech republic.

Consideration was then given to the various processes which could migrate to the Shared Service Centres , their phasing and the number of FTEs currently employed in such processes. It was explained that the data had been gathered with regard to 7 processes in the first tranche but that data in relation to the other processes was not yet complete. The Committee queried whether in the initial phase there was a common approach across the businesses. It was important that reassurance was given that there would be a common end state. The Committee required clarity by the end of Q1/04 on which processes should be transferred to the Shared Service Centres. In terms of cost savings it was noted that a significant area was in wage arbitrage. Payback would be achieved in 2006 following payments in respect of redundancies, retention bonuses and start- up costs. The Committee queried whether the redundancy figure was included in the Plan and it was confirmed that this was the case. Risks foreseen related to communication to staff, reputation and business principles issues. So far as operational control was concerned it was very important to manage any potential control failures during the migration stages. It was vital that there was business continuity together with ownership and commitment from the businesses. The timetable for implementation was reviewed and it was explained that by the end of Q1/2004 there would be a detailed plan for the project which would include governance issues. The time for GSSE start up was planned for July 2004. The Committee commented that it was important to ensure that the Advisory Board included an individual who was not a Finance person and suggested that someone from one of the businesses would be appropriate. The Committee also suggested that the Malaysian Country Chair should be involved to ensure that learning from the existing Shared Service Centre there was captured. The Committee endorsed the recommendations on the Global Shared Service Units and supported the locations and configurations. It was explained that consultants had reviewed the possibility of obtaining labour arbitrage if there were a Shared Service Centre in North America but this was not found to be a viable option. The plan was to transfer the existing SSCs to the new organisation by 1 July 2004. A Management Team of some 10 people would be created and the governance structure would be established by the end of January 2004. The Committee supported the continued work on the Common Master Data and commented

that it was necessary to synchronize this work with Streamline. The Committee supported the continued work on the ERP Road Map and Finance systems architecture which would be brought back to it at the end of Q1/2004. The Committee complemented the team on the great progress which had been made on this very significant issue.

John Hofmeister explained that for the first time in Shell all HR data had been captured. He said that there were 120,989 staff receiving a full HR service with an additional 13,479 receiving a partial service. Benchmarking exercises suggested that Shell was well below the median particularly in Northern Europe but added that many of the Global Businesses were supported from this Region. Mr Hofmeister explained that it was necessary to establish which HR activities could be delivered through a Shared Service Centre. He explained that the OP and EP businesses would be working together during Q1/2004 to find the right formula and that this would then become the Group's standard for HR. It was proposed that there would be Shared Service Centres based in Eastern Europe and in Asia. He explained that HR costs totalling $450 million per year at the end of 2002 should reduce to less than $300 million per year by 2008. The savings would be achieved by measures including standardization, the setting up of the Shared Service Centres and the labour arbitrage associated with that. In addition he explained that the new HR operating model contained a significant element of self-service. Looking at the new HR operating model John Hofmeister commented that it had been decided that it was still necessary to retain general HR advisers within the businesses but that other HR matters would be handled at different tier levels ranging from self-service to expert centres. The Committee stated that it was important that this step was taken at the right time while recognising that Shell had an unusual population, being truly international. It should not be assumed that the end state of one HR person for one hundred individuals was correct and the Committee expressed some concern regarding the element of self-service contained in the model. It was agreed that the matter would be returned to the Committee at the end of January 2004 with a view to considering which processes would be standardised. By the end of Q1/2004 further work would be done on the whole plan including detail on the employee portal and Shell People. The matter would be brought back again to the Committee at that time. Finally, in June 2004, the whole project would return to the Committee with a complete business case. The Committee supported this process and a full time team of 8 - 10 people would be working on it.

Hugh Mitchell commented on the overall review process and said that there had been improved focus. Pending work included the Group net benefits

matrix which was still incomplete and detailed figures on the impact on people. He added that there was still a significant potential for double counting but noted that the ERP work was an enabler. The Committee requested a comparison with the other major oil companies, reviewing what had been done with regard to processes. Mr Mitchell went on to explain the priorities for pursuing added value noting the importance of the Group ERP strategy, that opportunity was found in the locations and configuration of the Shared Service Centres and that risk was identified in respect of people , reputation and the realisation of net benefits. On the people side Hugh Mitchell explained that there were a number of change management consultants being utilised and the Committee requested this particular issue be returned to it in January 2004. At that time there should be an awareness of how much change management was currently being carried out by consultants in the Group and whether there was a Group model for doing the work in house as an alternative Next steps were to report back to the Committee once OP Streamline and the ERP business cases had been developed and the Service Centres implementation phasing and timeline was established. Double counting risks would be itemised. A coordinated process would be introduced on people communication. The Committee said that it was important that there was co-ordination over all the different reviews and that an overview paper (ultimately for Conference) was the right approach. In particular the completion of the Group net benefits matrix was important together with constant review of the "rules", opportunities and risks. . In addition by the end of January 2004 it was necessary for there to be a one page draft statement for Shell staff and for the external world. The Committee expressed their thanks to the review teams and praised their alignment and co-ordination.

Copy of Minute to: H Mitchell. Extract on Group ERP to A Dorland. Extract on Finance Futures to G Cowan. Extract on HR to J Hofmeister

7. CORAL STRATEGY UPDATE

Mark Hanafin and Ann Pickard entered the meeting. They gave a presentation on Shell Trading Gas and Power in North America explaining that the business environment was challenging but opportunities were emerging. In Power it was explained that reserves margins were peaking, deregulation was slowing and spark spreads were low. For gas there was a tightening of demand with continued price volatility and LNG set to fill the gap. On the legal and

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regulatory front challenges continued but progress was being made. The core commercial strategy for STGP related to customers, opportunity, resources and execution. US $ 100 million NIAT should be generated in 2004 (excluding tolls). Looking at customers, the commercial strategy included growth in profitable customer segments across the company and the development of marketing plans for each segment. Opportunities included selectively acquiring portfolio and enhancing contracts and providing access for LNG to North American markets. In addition, production and execution of an effective lobbying plan was beginning to have an effect. In terms of resources it was important to maximise return on risk capital, to hold costs at the 2003 level and to optimise portfolio options on tolls while continuing to invest in upgrading skills. For execution, important factors were marketing and trading in GP regionally and co-ordinating by segment across North America. Important for tolling was operational excellence and portfolio options. The priority drivers were ,first, value preservation then cash generation and CE reduction. Mark Hanafin went on to explain the alignment in North America where in LNG there had been movement from unclear accountability to a single interface with SILS, transparency and tight integration and the same approach was being taken in respect of InterGen. The Committee commented that this improvement in alignment and cooperation was very important and Mark Hanafin explained that the new organisation would be in place by the middle of 2004. The organisation would comprise a new management team where the trading culture was still very strong but there was the ability to deal with the customer base required to feed trading activities. Turning to Power, the Committee asked about strategy and it was explained that the strategy for the Power business included a range of possibilities including trading blocks of power or a fixed shape of product The aim was to test providing power on a full customer requirements basis to see whether the increased sales justified the costs involved. The Committee complemented the team on the quality of the materials .

Copy of Minute to: M Brinded, M Warwick.

8. CONTRACTING AND PROCUREMENT (CP) IN SHELL

Kees Linse entered the meeting. He explained that on-line bidding had produced value since 2001 with over 4,500 bids taking place with average savings of 15%. Advantages were that on-line bidding disciplined the tender

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process, provided increased transparency as well as delivering savings. The way in which savings were measured was by comparison to the last contract entered into. The Committee queried why more on-line bidding was not carried out and Kees Linse explained that it was necessary to educate suppliers and Shell people in this process and that there was some degree of push- back in Shell. In addition there was some supply resistance if the bidding related to a special market. The focus of CP activity was on savings and value improvement leading to sustained competitive advantage ensuring full business collaboration. It was also important that there was proximity to the internal customer. Mr Linse gave an overview of the talent in CP noting that the talent pipeline needed improvement and that there were a number of individuals without headroom causing a significant block in the system. Key CP challenges related to systems, behaviours and processes and these items was being worked on and it was important to build on experience and learning from elsewhere including from acquisitions. Kees Linse explained that on the people side, over the next 3 to 4 years, it was important that the right people were recruited into the CP organisation who could be trained at the Supply Chain Academy. As for delivery, it was agreed that the matter would be returned to the Committee with a full update at the end of Q2/04 with delivery of the new processes targeted for Q3/04- 2005.

Copy of Minute to: W van de Vijver

9. GAZPROM ALLIANCE – STATUS AND WAY FORWARD

Michael O'Callaghan, Lorin Brass, Martin Bachmann entered the meeting. They gave the background and status of the Gazprom discussions and noted that current developments in Russia re-enforced the Gazprom position. Wider discussions with Gazprom had been established encompassing the possibility of European pipeline gas swaps and possible Atlantic LNG interests in particular Schtokman. There had been agreement on certain elements relating to Zapo-N/Sakhalin II but an impasse had been reached over the Gazprom aspired shareholding in Sakhalin II. The Gazprom position was that they aspired to 25% whereas Shell's aspiration was for 5-10%. It was thought that there was a perceived "window of opportunity" to reach agreement in the coming 2-3 months. The possible deals which could be done were outlined .In Atlantic LNG a deal on Shtokman would provide Gazprom with LNG expertise and in respect of North American Regas, Gazprom could achieve

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market access and Shell would gain value chain alignment. Looking at the proposed Shell position Michael O'Callaghan explained that the first step would be in approximately 2006 at the time of Zapo-N FID when there could be an acquisition of 50% of Zapo-N by Shell for up to 10% in Sakhalin II. A second step in approximately 2009-2012 could be a swap of up to 10% of Sakhalin II for equivalent value assets which could include Shtokman or additional reserves. This second step would be subject to Trains 1 and 2 start-up with project finance completion, Sakhalin II Train 2 being fully sold and FID on Train 3. Another important issue was the MiMi participation in any dilution to Gazprom which was recognised as being challenging. Consideration was given to the possible ways in which MiMi could be involved in the two steps noting that a fallback position would be that the first step was one taken by Shell alone with a commitment from MiMi to participate in the second step. MiMi had been informed that talks were taking place and this would be followed by detailed discussions if Gazprom appeared to be interested in the proposal. Tripartite discussions could be an eventual aim. The Committee queried how much confidence there was in Gazprom's ability to deliver in the upstream. Michael O'Callaghan explained that this was a difficult issue and was one of the reasons why it was necessary to have a high level meeting with Gazprom. The Committee commented that Sakhalin was less sensitive to hydrocarbon prices compared to Zapo. It was also added that timing was very important because of the fact that Zapo would be later than Sakhalin. It was important that this was addressed in the negotiations. The Committee supported the proposed way forward for a discussion with Gazprom on the Shell proposal on the 11 December followed by a top level meeting in January or February 2004 with detailed discussions with Gazprom and MiMi thereafter. The hope would be for a signature on the updated alliance agreements in Q1 or Q2 2004.

Copy of Minute to: none.

10. PROJECT ROCKFORD

Tim Morrison and Beat Hess entered the meeting. It was explained that internal fact finding work was being carried out on this issue and the internal legal review was being progressed. This involved careful consideration of all the documents paying particular attention to disclosure obligations. The Chairman stressed the importance of full disclosure and transparency of the

facts and thorough legal analysis. Urgent attention was required as time was of the essence. A programme of future meetings was agreed.

Copy of Minute to: none.

11. ENTERPRISE REVIEW

Lorin Brass and Paul Welford entered the meeting.

Key issues in the end 2003 assessment of the Enterprise acquisition included integration, synergies, production, base value, exploration and options/upsides. Using a traffic light system the only item which was not green was production with an amber light which represented the fact that production was 50 kboe/d lower than the pre-deal estimate over the Plan period but higher thereafter. Synergies were substantially in excess of the post deal commitment with a $356 mln run rate by the end of 2003 and 355 mln "cumulative" by the end of 2003. On value the pre- deal assumptions had been confirmed. The hydrocarbon resource base was very solid with a total resource estimate at 31 December 2003 of 2.2 bln boe. Production was lower in the short-term but growth was at 5% per annum. NIBIAT was in line with estimates carried out at the end of 2002 noting the extreme sensitivity to the oil price. Cumulative cash flow from operations at the end of 2003 was good and it was commented that Shell had benefited from additional cash because of the oil price. A review then took place of the options and upsides noting that they were maturing but were maintained at pre-deal levels. Particular attention was paid to the UK options and upsides which were being matured to base value, to the progress on Phase 1 of the Clair Field and the Pierce WI upside. It was explained that with regard to the maturation of options and upsides in value in Italy, the total value potential exceeded the pre-deal figure. Key external messages with regard to the Enterprise acquisition were that integration was complete and synergies were on course to deliver $375 mln by Q1/2004. Overall value delivery was ahead of pre-deal estimates and over $2.1 bln in cash from operations had been generated since the purchase. The portfolio had now been thoroughly evaluated and was a good fit but had been updated through the divestments of KMOC and North Sea assets. On the projects the Bijupira-Salema was currently producing 50 kboe/d in Brazil. The Pierce water injection projection was in execution phase for start up in late 2004 and Clair Phase 1 was on schedule. It was important to note that these good results were

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not just because of a high oil price. This acquisition provided Shell with benefit on the upside. It was confirmed that for the announcement on 5 February it would be stated that the Enterprise deal was complete and had been absorbed into Shell's normal business. It was further ahead in delivery of synergies than had previously been thought possible at the time of acquisition and even though there had been disappointment in respect of the planning permission on the Corrib Field, Shell was still was positive regarding this project.

Copy of Minute to: W van de Vijver.

12. OP ACQUISITIONS OVERVIEW

Leslie van de Walle, Lynn Elsenhans, David Pirret and Ron Blakely entered the meeting.

Leslie van de Walle gave an overview of the position with regard to the DEA acquisition. He explained that the key approval assumptions had all been exceeded with the exception of exchange rate issues. For refinery and retail margins it was estimated that there would be upsides in 2004. In terms of market share Shell now had 20% of the fourth biggest retail market in the world with BP having 22%. Volume was growing and it was anticipated that the market share would be 22% in 2005-2006 and Mr van de Walle added that V-Power was contributing considerably to this increase in volume. It was noted that this was a successful acquisition which had been seamlessly integrated into Shell. Of particular note was the cohesion and focus of the German team which was outstanding. It was anticipated that ROACE would be 22% in 2003 but somewhat less in 2004 because of a pensions issue. The VIR was currently at 0.7 although it was hoped that when the full PIR was carried out it would be found to be closer to 1.0. It was hoped that the NPV would be $1.2bln. In terms of the external message DEA was a successful acquisition for Shell with all promises exceeded. It provided a strong growth platform for Shell to be a large player in Europe's biggest market. It was confirmed that the integration of this company was fully complete

Lynn Elsenhans gave a presentation on the Texaco acquisition and explained that key actions following the acquisition of the Texaco assets had been completed. The premise for synergies was $400 mln and to date $605 mln had been delivered. Progress with rebranding Texaco sites to Shell was on track

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and the US was aligned with the global OP structure. However, there were a number of areas where progress had not been as good including refinery reliability where there had been 7.5% unplanned downtime in the year-to-date, 2003 with a plan of 4% in 2004. In addition transportation revenue and earnings growth was lower as was retail volume. There was an increase in employee costs in particular pension funding and post retirement benefits. Looking at the 2003 figure for SOPUS ROACE normalised to reference conditions, the 2003 approval figure was 12.5% but the latest estimate for 2003 was much lower taking account of the Project Mission write down of $180 mln. The figure for 2004 Plan was 10.2% ROACE. Lynn Elsenhans explained that this figure of 10.2% was challenging but hopefully still achievable. The way forward was to continue retail momentum and to accelerate refining reliability initiatives while continuing to aggressively address costs. The transportation portfolio needed to be reviewed together with the structural cost issues. A continued reduction in costs together with delivery of the divestment programme commitment was important. Finally the talent base in the organisation required refreshment. Suggested external messages were that the US continued to make progress to reach the 12% ROACE target. Aggressive actions were being pursued with additional cost reductions, work force reductions, base oil plant closures (which were now completed) and the closure of Bakersfield Refinery announced in the Q4 2003. The overall view was that Shell was confident that the US would deliver improvements. The Committee commented that it was important to make clear the contrast between the Plan and the shortfall and to list the achievements and the actions taken. It should also be stated that 2003 was the best year ever for Shell in the United States (before the Bakersfield Refinery charge). A further point of note was that the initial cash outlay for the Texaco assets would be recovered in five years. The main message was that this acquisition gave Shell a strategic position in the US market. A lot of work had been done since the acquisition and some difficult actions taken including, for example, the announcement of the closure of the Bakersfield Refinery. There were problems which had to be acknowledged but further aggressive actions were planned.

David Pirret gave an overview of the position following the acquisition of Pennzoil Quaker State. The acquisition synergies were on track with a plan for 2004 of US $187 million. Also on track were workforce reductions , earnings targets and cash flow. Areas with ongoing issues included the US Lubes business in respect of incremental earnings and ROACE. Comments made to analysts on 26 March 2002 had been that there would be earnings of $250 million for US Lubes and the plan for 2004 was now US$217 million. At the same time the statement relating to US Lubes ROACE was that it would be 9-

10% in 2004 whereas the Plan for 2004 was 7.1% (9.7% when normalised for base oil reference conditions and allocated costs/capital employed). Looking at the US Lubes 2004 NIBIAT it was explained that the March 2002 view was $262 mln with a $265 million in the Plan for 2004.

David Pirret went on to explain that it was now clear that this business could add real value to the Group outside the US and it was planned that some of the cost base could be taken out when the business became a Global one. It was acknowledged that this deal had been finalised fairly recently but that on the 5 February 2004 it would be stated that the acquisition of PQS had provided Shell with a strategic position in the US for a global lubricants organisation. There had been delivery of synergies, the integration of the work force and the Excel sale had been achieved. Also worth mentioning was the proposed Jiffy Lubes deal in China.

The Committee commented that it was important that the learning from the acquisitions described was utilised. It was vital that for future divestments there was a designated centralised group with appropriate internal and external expertise.

Copy of Minute to: R Routs.

13. MANDATE TO NEGOTIATE QATAR LNG PROJECT

Malcolm Brinded gave an update on the position on the Qatar LNG Project. The Committee commented that the proposed VIR target of 0.25 for an integrated project was relatively low but Malcolm Brinded explained that it was being proposed as acceptable because of the strategic importance of Qatar LNG and the significant upsides at higher gas and oil prices (at Henry Hub US $4/MMBtu an integrated VIR of 0.40 was achieved).

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14. HAZIRA

Malcolm Brinded reported that Shell had "shaken hands" with Total on the proposed deal which it was hoped would close by 31 December 2003.

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15. BAJA

Malcolm Brinded reported that negotiations with Sempra on the 50/50 deal had collapsed but later reopened. The outstanding issue concerned the negotiation of the Capacity Agreement which was needed by Shell for its fall back position. Efforts were continuing to try to resolve the issue. On the potential 100% deal, Malcolm Brinded reported that he was concerned that there could be other companies interested and that Shell could not afford to waste much time if it were interested in pursuing this deal.

Copy of Minute to: none.

16. BENGAL

Walter van de Vijver reported that he had spoken to Eugene Shvidler. The focus for Sibneft was currently the issue of the possible demerger from Yukos and that there would be a meeting held in this regard on 16 December. Sibneft was still content to complete the deal with Shell but it was clear that it was necessary for there to be joint announcement which was not possible at the present time.

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17. OMAN - FATALITY

Walter van de Vijver reported, with regret, the death of a third party near Marmul Airstrip on 27 November 2003. The third party vehicle was

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overtaking a second vehicle and collided with a PDO contractor truck. The third party vehicle had 6 people on board, 2 died at the scene and 4 were injured (one of whom being critical). The matter was being investigated.

Copy of Minute to: W van de Vijver.

18. NIGERIA - INCIDENT

Walter van de Vijver reported that on 26 November 2003 at the Cawthorne Channel Houseboat, a Naval Officer who was attempting to cross a pontoon slipped and fell overboard. The Naval Officer was still missing.

Copy of Minute to: W van de Vijver.

19. PAKISTAN - FATALITIES

Rob Routs reported, with regret, the death of two staff at a Shell retail dealer owned and operated site and Bahria, Pakistan. The fatalities occurred following an explosion on 3 December 2003. The incident was being investigated.

Copy of Minute to: R Routs.

20. DOW LITIGATION

Jeroen van der Veer reported that there had been an approach to settle in the Dow litigation. A legal team was working on the matter with input from the business and a review of the case should be finalised by the end of 2003.

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21. NOTES FOR INFORMATION/DISCUSSION

The following matters were before the Committee as *Notes for Information/ Discussion*:

ITEMS FOR DISCUSSION

Forthcoming Items for CMD and Conference
2003 Group and Business Appraisal
Divestment of Shell Share in Rosetta Concession (Project Macallan)
Geelong HDS Cost Overrun – Request for Additional Funds
Mandate to Negotiate: Qatar LNG Project

ITEMS FOR INFORMATION

Brunei Shell Petroleum (BSP) – 2003 License Extension
EP: Divestment of Thai Shell E&P (TSEP)
Project "Velvet"
Relationships with Fenceline Communities
Status EP-Divestments 2004

FOIA Confidential
Treatment Requested