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UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NEW JERSEY

In re:	**CIVIL ACTION NO. 04-374 (JWB)**
	(Consolidated Cases)
ROYAL DUTCH/SHELL TRANSPORT SECURITIES LITIGATION	**Hon. John W. Bissell**
	JURY TRIAL DEMANDED
	(Document Electronically Filed)

CONSOLIDATED AMENDED CLASS ACTION COMPLAINT

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APPENDIX

1. Lead Plaintiffs, the Pennsylvania State Employees' Retirement System and the Pennsylvania Public School Employees' Retirement System (together, "Lead Plaintiff"), bring this action on behalf of themselves and all persons who purchased the securities of N.V. Koninklijke Nederlandsche Petroleum Maatschappij (a/k/a the Royal Dutch Petroleum Company) ("Royal Dutch") and The "Shell" Transport and Trading Company, PLC ("Shell Transport" or the "Company") (together, Royal Dutch and Shell Transport are referred to as the "Companies," the "Shell Group," or the "Group"), including the ordinary shares traded on overseas markets and the New York Stock Exchange ("NYSE") and the American Depository Receipts ("ADRs") trading on the NYSE, between April 8, 1999 and March 18, 2004 (the "Class Period"), against Royal Dutch and Shell Transport, several of the Shell Group's current and former senior executives, and the Shell Group's outside auditors, PricewaterhouseCoopers LLP ("PwC UK") and KPMG Accountants N.V. ("KPMG NV"), as well as other members of the PricewaterhouseCoopers and KPMG firm families (collectively, the "Defendants"), to recover damages caused by violations of the federal securities laws by the Defendants.

2. A glossary of the defined terms and acronyms used throughout this Complaint is attached as an appendix for the Court's convenience.

NATURE OF THE ACTION

"A 20% restatement of proven reserves is a humongous error. For a company like Shell to have missed its proven reserves by that much is not an oversight. It's an intentional misapplication of the SEC's rules."

Lynn Turner, former chief accountant at the U.S. Securities and Exchange Commission, quoted in a January 12, 2004 article in the THE WALL STREET JOURNAL.

"Our story is not one anyone would be proud of, and we have no excuses."

Lord Ron Oxburgh, chairman of Shell Transport, quoted in an April 19, 2004 article in the THE NEW YORK TIMES.

3. Plaintiffs' claims arise from the dissemination by the Shell Group Defendants (as defined below) of materially false and misleading statements concerning the Shell Group's reported proved oil and natural gas reserves. During the Class Period, Royal Dutch and Shell Transport issued false public reports of their proved oil and natural gas reserves by billions of barrels of oil equivalent ("boe"), overstated their reserves replacement ratio ("RRR"), and overstated their future cash flows by over $100 billion.

4. For example, before and during the Class Period, the Shell Group Defendants repeatedly represented to the investing public that the Shell Group was successfully identifying new proved oil and gas reserves and replacing existing proved reserves depleted by production – key performance indicators in the oil and gas industry. The Shell Group Defendants made these representations in presentations to market analysts, press releases, annual reports, filings with the United States Securities and Exchange Commission (the "SEC" or the "Commission"), and other public media. For instance, each year in the Shell Group's joint Annual Report on Form 20-F that it filed with the SEC, the Shell Group Defendants represented the following:

1998
Reserves
During 1998 the Group's total proved reserves for oil (including natural gas liquids) and natural gas increased from 19.4 to 20.5 billion barrels of oil equivalent. . . . The net additions to proved reserves more than replaced the 1998 production, with replacement ratios of some 140% for oil (compared with 130% in 1997) and some 250% for gas (compared with 210% in 1997).

1999
Reserves
The overall 1999 replacement ratio of proved crude oil and natural gas reserves and oil sands stands at 101% (147% excluding 1999 divestments and acquisitions). . . . The three-year rolling average replacement ratio for total crude oil and natural gas proved reserves . . . stands at 132%, reflecting the fact that oil and gas production over 1997-99 has been more than replaced by net additions over the same period.

2000
Reserves
The proved hydrocarbon reserves replacement ratio for 2000 was 105% . . . . Therefore production during the year of 1.4 billion barrels of oil equivalent was more than replaced. . . . The three-year rolling average proved hydrocarbon reserves replacement ratio . . . stands at 117%.

2001
Reserves
The proved hydrocarbon reserves replacement ratio for 2001 is 74%. . . . [A]nd the three-year rolling average . . . now stands at 101%. Proved reserves are equivalent to more than 14 years of current production.

2002
Reserves
The proved hydrocarbon reserves replacement ratio for 2002 was 117% and the five year rolling average . . . now stands at 109%. . . . Proved reserves are equivalent to more than 13 years of current production.

5. PwC UK and KPMG NV, individually and jointly, issued materially false and misleading unqualified audit opinions that were included in the Class Period financial statements filed with the SEC by Shell Transport and Royal Dutch. In these reports, PwC UK and KPMG

NV falsely represented that each had conducted their respective audits "in accordance with U.S. generally accepted auditing standards ('GAAS')." They also falsely represented that the audited financial statements presented fairly the financial position of the Shell Group, Shell Transport, and Royal Dutch as of December 31, 1998-2002, and their results of operations and cash flows for each of those years in accordance with generally accepted accounting principles ("GAAP") in the Netherlands and the United States.

6. The truth about the Shell Group's proved reserves and its effect on the Shell Group's reported financial results began to be disclosed on January 9, 2004. That day, before the markets opened in Europe, Shell Transport shocked the investing public by announcing that, in order to comply with SEC regulations, it would be reducing previously reported proved reserves by 20%, or approximately 3.9 billion boe. The disclosure, made in a release entitled "proved reserve recategorisation," triggered a substantial decline in the trading price of the ordinary shares of both Shell Transport and Royal Dutch and the ADRs of Shell Transport (Shell Transport dropping by about 6.96% in the United States and 7.48% in London, and Royal Dutch dropping by about 7.87% in the United States and 7.65% in Amsterdam). The Companies lost $13.84 billion of market value as a result of this disclosure.

7. Investors and analysts were shocked by the Shell Group's "bombshell" revelations. According to scores of articles appearing in the news media over the next several weeks, investors were "blind-sided" by the disclosure of the reclassification, which analysts termed "staggering." The Shell Group's reputation and credibility with market analysts and institutional investors were severely damaged. For example, Morgan Stanley wrote: "The shares have come down 20% in the past six weeks and that is all to do with credibility. While investors have seen Shell as the

most conservative of companies, it turns out that it is not what we thought. The market is traumatised and shocked."

8. Since the initial announcement on January 9, the Shell Group has further reduced its estimated proved oil and natural gas reserves three additional times – on March 18, April 19, and May 24, 2004 – for a total reclassification of 4.47 billion boe, or 23%.

9. Strikingly, the Companies booked reserves as proved in some areas of the world when their partners in the same projects did not. In Australia, for example, the Companies booked approximately 557 million boe of natural gas from the Gorgon fields as proved as of December 31, 1997, more than six years ago. To date, neither of their co-venturers in the Gorgon project, ChevronTexaco and ExxonMobil, has booked even a single cubic foot of Gorgon natural gas as proved.

10. In addition to market losses, the fraud alleged herein has resulted in the impairment of the Shell Group's corporate credit ratings, the restatement of the Shell Group's reported financial results, and the firing of Defendants Sir Philip Watts ("Watts), Walter van de Vijver ("van de Vijver"), and Judith Boynton ("Boynton") from their senior executive positions within the Group. (Boynton now reportedly acts as an "advisor" to the Shell Group.)

11. The severity of the January reclassification has also caused regulatory agencies to commence investigations into the matter; four civil investigations by regulatory authorities in the United States and Europe have been commenced, as was a criminal investigation by the U.S. Department of Justice. Former SEC chief accountant Lynn Turner was quoted in a January 12, 2004 article in THE WALL STREET JOURNAL (entitled "Shell Cuts Reserve Estimate 20% as SEC Scrutinizes Oil Industry"), opining that the reclassification was not a mistake: "A 20% restatement of proven reserves is a humongous error. For a company like Shell to have missed its

proven reserves by that much is not an oversight. It's an intentional misapplication of the SEC's rules." (Emphasis added.)

12. On February 3, 2004, the Companies' Group Audit Committee (the "GAC") retained Davis Polk & Wardwell ("Davis Polk") to lead a limited internal review into the circumstances resulting in the Companies' overbooking of reserves. Even this limited review confirmed what Turner had stated: the Companies, with the knowledge of their senior-most personnel, were aggressively and prematurely booking proved reserves in violation of SEC rules.

13. On April 19, 2004, Royal Dutch and Shell Transport released the executive summary of the Report of Davis Polk to the GAC of March 31, 2004 (the "Executive Summary" or the "GAC Report"). In the Executive Summary, attached to a Form 6-K filed with the SEC on April 19, 2004, Davis Polk concluded that Shell Transport had been overbooking reserves as early as 1997, during Defendant Philip Watts' and Defendant Walter van de Vijver's respective tenures as head of the Companies' influential Exploration and Production ("EP") unit. As noted in the GAC Report, these executives "were alert to the difference between the information concerning reserves that had been transmitted to the public . . . and the information known to some members of management."

14. But, instead of publicly disclosing their knowledge of the problem, Defendants implemented a strategy of "managing" the reserve figures, much the way public companies in the 1990s manipulated earnings, to make it appear that the Companies were growing and staying competitive with their industry rivals. As explained in the GAC Report, "EP management's plan was to 'manage' the totality of the reserve position over time, in hopes that problematic reserve bookings could be rendered immaterial by project maturation, license extensions, exploration successes and/or strategic activity." However, as the GAC Report succinctly observed,

Defendants' "strategy 'to play for time' in the hope that intervening helpful developments would justify, or mitigate, the existing reserve exposures . . . failed as business conditions either deteriorated or failed to improve sufficiently to justify historic bookings."

15. The Companies have not disputed the conclusion that their top management not only knew of the overstated reserves but, also, actively "play[ed] for time" in the hope that they would not have to publicly report the truth about the Companies' proved reserves. Indeed, the GAC Report was accepted in full by the GAC on April 15, 2004, and by the members of the Supervisory Board of Royal Dutch and the non-executive Directors of Shell Transport on April 16, 2004. This acceptance was reported in the Form 6-K to which the Executive Summary of the GAC Report was attached.

16. The Shell Group's acceptance of responsibility for the conduct alleged herein was also set forth in the annual reports recently disseminated by Shell Transport and Royal Dutch. In section after section where the reclassification is discussed, the Companies refer to the overbooking as "inappropriate." For example, in the section entitled "Deficiencies relating to reserves reporting," the Companies state:

> In connection with the restatement of proved reserves volumes described elsewhere in this report, Royal Dutch and Shell Transport have determined, based largely upon the investigation and report to the GAC, that there were deficiencies and material weaknesses in the internal controls relating to proved reserves bookings and disclosure controls that allowed volumes of oil and gas to be improperly booked and maintained as proved reserves. The inappropriate booking of certain proved reserves had an effect on the Financial Statements, mainly understating depreciation, depletion and amortisation.

17. In the message to shareholders, Lord Ron Oxburgh ("Oxburgh") – who is currently chairman of Shell Transport and the "Conference," which is comprised of all the members of the Supervisory Board and the Board of Management of Royal Dutch and the Directors of Shell

Transport – "apologised unreservedly" for the Companies' "control weaknesses and . . . inappropriate departure from [its] Business Principles," and promised to rebuild Shell Transport's business and reputation based upon "the lessons . . . learned" from the reclassification debacle. Defendant Malcolm Brinded ("Brinded"), in his message to shareholders, expanded on Oxburgh's apology:

> The Group's performance in 2003 will clearly be seen in the context of the restatement of reserves (a reduction of 4.47 billion barrels or some 23% from the previously reported end-2002 figures), and the subsequent related management changes of early 2004. These events have understandably caused considerable concern to shareholders, and I know that we have much to do to restore your confidence.
>
> It is vital to ensure that these problems cannot happen again. That is why the Group Audit Committee commissioned a rigorous external review of the events and background to these issues and we are implementing its recommendations. They include ensuring strict compliance with the rules and guidance of the Securities and Exchange Commission; a range of measures to strengthen our business controls; ensuring that the Committee of Managing Directors and the Group Audit Committee take a formal role in reviewing the booking of reserves; and the systematic use of external reserves expertise to provide challenge and assurance at critical points in the reserves booking and reporting process.
>
> * * *
>
> Separately there is ongoing work to ensure that we operate in compliance with all appropriate codes of corporate governance. While the application of the Financial Reporting Council's revised Combined Code on Corporate Governance in the UK is not required for the 2003 reporting year, we have adapted our processes to ensure that they reflect the Code's provisions. Action is also being taken to ensure compliance as a non-US issuer with the Sarbanes-Oxley Act and new corporate governance requirements of the New York Stock Exchange in the USA, and work has begun in the Netherlands to amend our processes to meet the provisions of the Tabaksblat committee's code.

> Looking ahead, I am committed to ensuring that we use all the lessons of this difficult period to strengthen our business and to start rebuilding our reputation.

18. In addition to laying blame on senior executives of the Group, the GAC Report effectively includes PwC UK and KPMG NV in its net of culpability. Davis Polk concluded that the overbooking of oil and natural gas reserves over such a lengthy period of time was possible only "because of certain deficiencies in the Company's controls." Under GAAS, PwC UK and KPMG NV were required to review and understand the Shell Group's internal control structure and determine whether reliance thereon was justified, and if such controls were not reliable, to expand the nature and scope of those controls to correct them. PwC UK and KPMG NV failed to do so.

19. As set forth herein, the Shell Group, the SEC, and the Financial Services Authority ("FSA") have identified deficient controls as a factor that allowed the wrongful conduct alleged herein. Indeed, the corporate structure and governance policies of the Shell Group is (and was throughout the Class Period) fundamentally flawed. These flaws, if not corrected, will encourage a future similar fraud.

20. In short, as Oxburgh stated in an April 19, 2004 article in THE NEW YORK TIMES: "Our story is not one anyone would be proud of, and we have no excuses."

JURISDICTION AND VENUE

21. The claims asserted herein arise under and pursuant to Section 10(b), 14(a) and 20(a) of the Securities Exchange Act of 1934 ("Exchange Act"), Rule 10b-5 promulgated by the SEC under Section 10(b) of the Exchange Act (17 C.F.R. § 240.10b-5), and Rule 14a-9 promulgated by the SEC under Section 14(a) of the Exchange Act (17 C.F.R. § 240.14a-9).

22. This Court has jurisdiction over the subject matter of this action pursuant to Section 27 of the Exchange Act, 15 U.S.C. § 78aa.

23. As set forth below, this Court has subject matter jurisdiction over the claims brought on behalf of investors who purchased or acquired Royal Dutch and Shell Transport ordinary shares on foreign markets and/or who purchased Royal Dutch's ordinary shares and Shell Transport's ADRs on the NYSE.

A. Subject Matter Jurisdiction Over the Claims of Foreign Investors Who Purchased Their Securities on Foreign Exchanges

24. The claims brought on behalf of foreign investors who purchased their shares outside the United States satisfy the "conduct test" for determining subject matter jurisdiction over a securities fraud action. Under the "conduct test," this Court has subject matter jurisdiction over securities fraud claims if at least some activity designed to further a fraudulent scheme occurred within the United States. The facts alleged herein meet this standard.

1. Defendants' Acknowledgement of Obligations under U.S. Law

25. The underlying predicate for the false and misleading statements complained of herein was the deliberate failure to follow SEC rules concerning the classification of reserves as proved developed. Specifically, in Shell Transport's 2003 Annual Report, the Company admitted:

> On January 9, 2004, the Group announced the removal from proved reserves of approximately 3.9 billion barrels of oil equivalent (boe) of oil and gas that were originally reported as of December 31, 2002. As a result of further reviews conducted with the assistance of external petroleum consultants of over 90% of the Group's proved reserves volumes (the Reserves Review), the Group determined to increase the total volume of reserves to be removed from the proved category to 4.47 billion boe and to restate the unaudited oil and gas reserves disclosures contained in the supplementary information accompanying the Financial Statements (the Reserves Restatement) to give effect to the removal of these

> volumes as of the earliest date on which they did not represent "proved reserves" within the applicable rules of the SEC (which in many cases is the date on which the volumes were initially booked as proved reserves). Approximately 4.1 billion boe of the debooked volumes were previously booked as proved undeveloped reserves and 400 million boe of the debooked volumes were previously booked as proved developed reserves.

26. The actions taken to overbook the Companies' proved reserves and conceal their overbooking were known to be in violation of the federal securities laws and SEC regulations. Indeed, as alleged below, internal documents demonstrate that senior managers knew of their obligations under the SEC's rules with regard to reporting reserves as proved and their disclosure obligations to investors within and without the United States. For example, a July 22, 2003 Committee of Managing Directors Note for Information reported that "some 1040 million boe (5%) is considered to be potentially at risk." The note concluded, however, "at this stage, no action in relation to entries in the [Proved Reserves Exposure] Catalogue is recommended . . . . It should be noted that the total potential exposure listed in Appendix C is broadly offset by the potential to include gas fuel and flare volumes in external reserves disclosures." The Proved Reserves Exposure Catalogue in Appendix C quantifies "exposures" at approximately 1 billion boe and "threats" at approximately 1.6 billion boe, for a total of approximately 2.6 billion boe known to be or potentially noncompliant with Rule 4-10 of Regulation S-X, 17 C.F.R. § 210.4-10 ("Rule 4-10"). As Defendant van de Vijver had stated: "I must admit that I become sick and tired about arguing about the hard facts and also can not perform miracles given where we are today. If I was interpreting the disclosure requirements literally (Sorbanes-Oxley Act etc.) [sic] we would have a real problem."

2. SEPCo's Involvement Worldwide

27. The reserves recategorization concerns three areas: mature projects in existing areas like Nigeria and Oman; developments in frontier areas such as Gorgon in Australia, Ormen Lange in Norway, and Kashagan in Kazakhstan; and compliance with technical engineering standards known in the engineering field as "lowest known hydrocarbons." A percentage of the area involving mature reserves concerned the Gulf of Mexico. During a 4Q 2003 Reserves Presentation, the Companies admitted that they recategorized 100 million boe from proven reserves relating to the United States, Gulf of Mexico. Shell Exploration & Production Company ("SEPCo"), a subsidiary of the Royal Dutch/Shell Transport group of companies, is responsible for exploring, developing, and producing oil and natural gas in the United States. SEPCo's principal operations are located in the Gulf of Mexico, South Texas, and Wyoming. SEPCo maintains offices in Houston, Texas and New Orleans, Louisiana.

28. SEPCo's expertise in deepwater drilling is a critical component of the Shell Group's EP business in Norway. For example, in a speech given in 2000 by Tim Warren, Director of Shell Technology EP, in Norway, Warren stated the following:

> Deepwater exploration and production is a good example of what I mean. This is a huge growth area for the future. Over 30 billion barrels oil equivalent have already been found in water 500 metres or deeper. We are developing beyond 1,000 metres and exploring beyond 2,000. Going beyond 3,000 metres is a realistic technical goal.
>
> But not an easy one, by any means. We need all the deepwater expertise at our disposal, in Houston and New Orleans, here in Norway, and elsewhere, to develop deepwater technologies for application around the world.

29. Warren also spoke of key partnerships with universities, including those in the United States, as critical to the Companies' global exploration and production efforts:

> You need partners to stay ahead of the game in innovation, too. No company, even one as big as Shell, has the monopoly on good ideas. So, as well as developing commercial relationships, we partner with universities and commercial organisations on a large scale. Our Rijswijk technology centre in the Netherlands has had links with Delft University of Technology for years. We're also working with the Russian Academy of Sciences and Stanford University, where there is a huge repository of knowledge and experience.
>
> * * *
>
> In the US this year, we put in place a similar agreement with the Colorado School of Mines.

30. SEPCo also played a key role in the development and construction of the Bonga Project in Nigeria. (Nigeria accounted for 36% of the Group's total restatement of proved reserves.) In this regard, SEPCo acted as a resource and equipped the construction of the project, provided oversight of the project's costs and financial planning, and was responsible for reporting to the project's stakeholders. SEPCo was also the focal point for the Nigerian government's cost recovery audits.

31. In addition, SEPCo provided consulting, engineering, and technical services to Shell Company of Australia with regard to the Gorgon project, as well as to Shell Group companies for projects in Oman and Brunei. In Australia, SEPCo maintained an office that was partially staffed with Houston-based engineers to work on the Gorgon project.

32. The involvement of SEPCo in Nigeria and Australia is confirmed by former Shell employees. For example, confidential source 6 (Lead Plaintiff's confidential sources, designated as "CS __," are described in a separate section below) stated that Shell Deepwater Development Inc. (known within the Companies as the "Deepwater Group"), a member of SEPCo's exploration and production group, provided engineering, technical, and consulting services to Nigeria Shell Exploration and Production Company Limited ("NSEPCo"). The Deepwater Group also sent

employees to Nigeria to work on the project. According to CS 6, the Deepwater Group was involved in most of the Shell Group's deepwater projects around the world. The Deepwater Group was known for its computer and 3D seismic mapping technology, which was used in conjunction with the Companies' reserves estimations: "It was a collaborative effort. They do a lot of statistical analysis, like multi-varied analysis based on numbers, where it's not just looking at the map itself, it's dealing with probabilities." For Nigeria, the Shell Group's Bellaire Technology Center in Houston, Texas, provided all the mapping data for the Bonga field. In short, SEPCo played an integral part in the process used by executives in the Shell Group's operating units, as well as in London and The Hague, to classify reserves in a particular reservoir.

33. CS 4 confirmed that the Deepwater Group in Houston provided a substantial amount of planning and technology advice to NSEPCo for the Bonga Field Project: "In the case of Bonga, it is beyond a shadow of doubt; most of the technical work would have been executed, in terms of planning at least, outside the country, outside of Nigeria. Planning would have been in Houston and partly The Hague." As CS 4 stated, the Deepwater Group in Houston calculated reserve estimations and took those estimations into consideration when planning the technical aspects of a project, including the Bonga project.

34. In addition, Shell Global Solutions, which coordinates its activities between various networked technical centers, including a major center located in Houston, Texas, provided research and technical services to NSEPCo in connection with the Bonny Island liquefied natural gas plant located in Nigeria. For example, Nigeria LNG Ltd. recently extended its operating services contract with Shell Global Solutions to 2011, with an option for renewal to 2017. The extension covers the expansion project (LNG train 3 and associated liquefied petroleum gas facilities) and the NLNG Plus project (LNG trains 4 and 5). As discussed below, oil from the

Bonga Project will be transferred from floating onboard storage tanks to tankers and the gas to an offshore gas-gathering pipeline for eventual liquefaction at the LNG plant at Bonny Island.

3. The Companies' False and Misleading Statements in the United States

35. A significant portion of Defendants' false and misleading statements were made in the United States and are contained in the Companies' SEC filings. The Companies' press releases and SEC filings were broadly disseminated within the United States through the means and instrumentalities of interstate commerce, including, but not limited to, the United States mails, interstate telephone communications, and the facilities of the national securities exchanges.

36. Further, the Companies issued materially false and misleading statements during analyst conferences held in New York, New York and Houston, Texas during the Class Period. On April 8, 1999, April 13, 2000, and February 6-7, 2003, the Companies made presentations to analysts and investors in the United States regarding their reserves, financial condition, financial targets, and potential growth. These statements, which had the effect of manipulating the price of the Companies' securities, were disseminated to the market by analysts, such as Morgan Stanley and UBS Warburg, who attended these U.S.- based conferences.

4. The Companies' U.S. Securities

37. The ADRs of Shell Transport and the ordinary shares of Royal Dutch are listed and traded on the NYSE.

5. The Companies' Consent to Subject Matter Jurisdiction

38. The fraudulent activity at issue is the subject of investigations by the SEC, the U.S. Department of Justice, and the United States Congress. In fact, as announced on August 24, 2004, the Companies agreed to enter into a cease and desist order with the SEC (the "Cease and Desist Order"), wherein the Companies agreed to pay a fine of $120 million and to spend $5

million in development and implementation of an internal compliance program. The Companies have committed to report to the SEC within 12 months on the expenditure of the funds and the status of the compliance program. The SEC's investigation remains ongoing as to the individuals responsible for the overbooking of the proved reserves. By entering into the Cease and Desist Order, the Companies' consented to the SEC's jurisdiction over the subject matter of the Commission's proceedings. Additionally, the Companies consented to the entry of a judgment by the U.S. District Court for the Southern District of Texas, ordering the Companies to pay the civil penalty imposed by the SEC. In the consent papers filed in the District Court, both Royal Dutch and Shell Transport "admit[ted] to the jurisdiction of this Court over it and over the subject matter of this action . . . ."

B. Subject Matter Jurisdiction Over the Claims of Domestic and Foreign Investors Who Purchased Their Securities in the United States

39. The claims asserted herein also satisfy the "effects test" for determining federal subject matter jurisdiction over a securities fraud action. Under the "effects test," this Court has subject matter jurisdiction over domestic members of the Class (defined below), as well as foreign members who purchased their securities in the United States, because Defendants' fraudulent conduct had an impact upon the United States' markets and upon United States investors. The conduct described herein affected ADRs and ordinary shares registered in the United States and listed on a United States national securities exchange, as well as ordinary shares (listed on foreign exchanges) that were purchased by all investors, including those who are United States citizens or who are domiciled in the United States and those who are citizens or domiciliaries of foreign countries. The interests of all investors were affected adversely by Defendants' misconduct. Defendants' fraudulent conduct, including that which was performed in the United States, artificially inflated the price for the Companies' securities during the Class Period and affected

the integrity of the price of the ADRs and ordinary shares that traded on a United States exchange.

C. Venue

40. Venue is proper in this District pursuant to Section 27 of the Exchange Act, 15 U.S.C. § 78aa. Many of the acts and transactions constituting the violations of law alleged herein, including the offer and sale of securities and dissemination to the investing public of materially false and misleading information, occurred, in part, in this District. Hundreds, if not thousands, of purchasers of the Companies' securities reside in the State of New Jersey. Moreover, the Shell Group maintains offices and operations in the United States, including in the State of New Jersey. In New Jersey, the Group has operations that it conducts through Shell Oil's Special Warehouse/Storage Packing/Crating Service facility in Sewaren, New Jersey and Equilon Enterprises L.L.C. (in which the Shell Group maintains a 44% interest) (and does business as Shell Oil Products US) in Cranbury, New Jersey.

THE PARTIES

41. Lead Plaintiff, Pennsylvania State Employees' Retirement System ("SERS"), is a public pension fund system organized for the benefit of the current and retired public employees of the Commonwealth of Pennsylvania. SERS, which has more than 200,000 members, is located in Harrisburg, Pennsylvania, and has total assets of approximately $25 billion.

42. Lead Plaintiff, Pennsylvania Public School Employees' Retirement System ("PSERS"), is a public pension fund system organized for the benefit of the current and retired public school employees of the Commonwealth of Pennsylvania. PSERS, which has more than 450,000 members, annuitants and beneficiaries, is located in Harrisburg, Pennsylvania, and has net assets of approximately $48 billion.

43. SERS and PSERS are sister public pension funds, both created by the Commonwealth of Pennsylvania. Together, SERS and PSERS will be referred to as the "Pennsylvania Funds" or Lead Plaintiff.

44. The Pennsylvania Funds purchased Royal Dutch ordinary shares and Shell Transport ordinary shares and ADRs during the Class Period at prices that were artificially inflated by Defendants' misrepresentations and omissions and suffered damages thereby, as set forth in their certifications previously filed with the Court. The certifications previously filed with the Court by other class members in connection with the original complaints on file and/or the motion for lead plaintiff are incorporated by reference herein.

45. Defendant Royal Dutch was incorporated on June 16, 1890, under the laws of The Netherlands, and is headquartered in The Hague, The Netherlands. Its common shares are registered with the SEC pursuant to Section 12(b) of the Exchange Act and trade on the NYSE. The principal trading markets for Royal Dutch's shares are the NYSE and the Euronext Exchange in Amsterdam, The Netherlands. Royal Dutch, one of the parent companies of the Shell Group, is a holding company that, in conjunction with Shell Transport, owns, directly or indirectly, investments in the numerous companies referred to collectively as the "Group Holding Companies." Royal Dutch has no investments in associated undertakings other than in the Group Holding Companies.

46. Defendant Shell Transport was incorporated on October 18, 1897, under the laws of England, and is headquartered in London, England. Its ordinary shares, as well as shares of an aggregate nominal amount of £1.50 and evidenced by ADRs, are registered with the SEC pursuant to Section 12(b) of the Exchange Act. The primary market for Shell Transport's ordinary shares is the London Stock Exchange; the ADRs trade on the NYSE. Shell Transport,

one of the parent companies of the Shell Group, is a holding company that, in conjunction with Royal Dutch, owns, directly or indirectly, investments in the numerous companies comprising the Shell Group. Shell Transport has no investments in associated undertakings other than in companies of the Group.

47. As the parent companies, Royal Dutch and Shell Transport do not themselves directly engage in operational activities. Royal Dutch and Shell Transport each own the shares in the Group Holding Companies; neither is part of the Shell Group. They appoint Directors to the Boards of the Group Holding Companies, from which they receive income in the form of dividends. The 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.

48. Defendant Sir Philip Watts is a citizen of the United Kingdom. Watts served as a Director and as a Managing Director of Shell Transport beginning in 1997, as Shell Transport's Chairman and as Chairman of the Committee of Managing Directors ("CMD") beginning in 2001, and as a Group Managing Director beginning in 1997, until his termination on March 19, 2004. Watts joined the Shell Group as a seismologist in 1969, and held positions in Asia Pacific and Europe, leading to positions as Exploration Director Shell-U.K. from 1983 to 1985; head of various exploration and production functions in The Hague from 1985 to 1991; Chairman and Managing Director in Nigeria from 1991 to 1994; Regional Coordinator Europe from 1994 to 1995; Director Planning, Environment and External Affairs, Shell International from 1996 to 1997; and CEO of the EP unit from 1997 to 2001. Watts signed the annual reports on Form 20-F filed with the SEC for 2001-2002, and falsely certified the 2002 Form 20-F (including the financial statements and reports) of Shell Transport and the Shell Group, pursuant to the Sarbanes-Oxley Act of 2002. Watts also reviewed and authorized the filing of the 1998-2000

reports on Form 20-F and knew them to be false or recklessly disregarded their truth or falsity, and thus was an active and knowing participant in the alleged wrongdoing. Despite the Shell Group's actual poor performance, Watts' salary more than doubled between 1999 and 2002, due in large part to reserve replacement credits on his compensation scorecard. In 2003, Watts received a 55% pay raise, increasing his base salary to £1.8 million (approximately $3.2 million). Upon his termination from his positions with the Shell Group, Watts received a severance package that included three months' salary for 2003, or £450,000, instead of being forced to return any of his ill-gotten gains, improper bonuses, or other remuneration.

49. Defendant Walter van de Vijver is a citizen of The Netherlands. Van de Vijver served as a Director of Royal Dutch, the CEO of the EP unit, a Managing Director of Royal Dutch, a Group Managing Director, and a member of the CMD from 2001 until March 19, 2004, when his employment with the Group was terminated. Van de Vijver joined the Group in 1979 as a petroleum engineer – who should have been sensitive to the definition of proved reserves – and worked in exploration and production in Qatar, Oman, the United States, the United Kingdom, and The Netherlands. As demonstrated below, van de Vijver personally participated in the misconduct alleged herein, including the dissemination of materially false and misleading statements, such as the 2002 Form 20-F, which he signed. Van de Vijver also reviewed and authorized the filing of the 2001 annual report on Form 20-F, knew it to be false or recklessly disregarded its truth or falsity, and thus was an active and knowing participant in the wrongdoing. Despite the Shell Group's actual poor performance, van de Vijver's salary tripled between 2001 and 2002, due in large part to reserve replacement credits on his compensation scorecard. Upon his termination from his positions with the Group, van de Vijver was not required to return any of his incentive compensation, bonuses, or other remuneration.

50. Defendant Malcolm Brinded is a citizen of the United Kingdom. Brinded has been a Director of Royal Dutch and has served as the CEO of the Shell Group's Gas & Power unit since 2002; CEO of the EP unit since 2004; a member of the Royal Dutch Board of Management and a member of the CMD since 2002; and was promoted to Vice-Chairman of the CMD in March 2004. Brinded joined the Shell Group in 1974, and has held various positions in the Company around the world, including Brunei, The Netherlands, Oman, and the United Kingdom. Brinded reviewed and authorized the filing of the 2002 annual report on Form 20-F, knew it to be false or recklessly disregarded its truth or falsity, and thus was an active and knowing participant in the wrongdoing alleged herein.

51. Defendant Jeroen van der Veer ("van der Veer") is a citizen of The Netherlands. Van de Veer was, at all relevant times, a Director of the Royal Dutch Board of Management and has served as a Group Managing Director since 1997. Van de Veer has served as President of Royal Dutch since 2000, and was promoted to Chairman of the CMD in March 2004. Van der Veer joined the Shell Group in 1971, and held a number of senior management positions around the world. Van der Veer served as the Vice-Chairman of the CMD during 1997-2003 and, as such, personally participated in the misconduct alleged herein. Van der Veer signed the false and misleading annual reports on Form 20-F for the years 2000 through 2002, and falsely certified the 2002 Form 20-F under the Sarbanes-Oxley Act. Van der Veer also reviewed and authorized the filing of the 1998 and 1999 annual reports on Form 20-F. Van de Veer knew these reports to be materially false or recklessly disregarded their truth or falsity, and thus was an active and knowing participant in the wrongdoing.

52. Defendant Judith Boynton is a citizen of the United States of America. Boynton served as the Shell Group's Chief Financial Officer ("CFO") beginning in 2001 and as a Shell

Transport Director and a Group Managing Director beginning in 2003. Boynton served as a member of the CMD from 2003 until she was removed from that position and her other executive and directorial positions on April 19, 2004. Boynton was responsible for preparing the Shell Group's financial statements filed with the SEC and disseminated to the investing public and shareholders of the Companies. Boynton was also responsible for overseeing the Shell Group's internal disclosure and financial controls to ensure that they were adequate and complied with the federal securities laws. Boynton falsely certified the Shell Group's annual report on Form 20-F for the year 2002 pursuant to the Sarbanes-Oxley Act.

53. Defendant Paul Skinner ("Skinner") is a citizen of the United Kingdom. Skinner served as a Director and as a Managing Director of Shell Transport beginning in 2000, as chief executive officer of Shell Oil Products beginning in 1999, and as a Group Managing Director and a member of the CMD beginning on January 1, 2000, until his retirement in September 2003. Skinner reviewed and authorized the filing of the Shell Group's 2000 through 2002 annual reports on Form 20-F, knowing or recklessly disregarding that these reports were materially false and misleading.

54. Defendant Maarten van den Bergh ("van den Bergh") is a citizen of The Netherlands. Van den Bergh has served as a Director of Royal Dutch since 2000; a Managing Director of Royal Dutch from 1992 to 2000; and as President of Royal Dutch from 1998 to 2000. From 1998 through 2000, van den Bergh served as Vice Chairman of the CMD. Van den Bergh reviewed and authorized the filing of the Shell Group's annual reports on Form 20-F for the years 2000 through 2002, knowing or recklessly disregarding that these reports were materially false and misleading.

55. Defendant Mark Moody-Stuart ("Moody-Stuart") is a citizen of the United Kingdom. Moody-Stuart has served as a Director of Shell Transport and as the Chairman of Shell Transport from 1997 to 2001. From 1991 through July 2001, Moody-Stuart served as a Group Managing Director and member of the CMD. Moody-Stuart signed the false and misleading 1999 and 2000 annual reports on Form 20-F. Moody-Stuart also reviewed and authorized the filing of the Shell Group's 2000 through 2002 annual reports on Form 20-F, knowing or recklessly disregarding that these reports were materially false and misleading.

56. Defendant Aad Jacobs ("Jacobs") is a citizen of The Netherlands. Throughout the Class Period, Jacobs served as a Director of Royal Dutch, and since 2002 as Chairman of the Royal Dutch Supervisory Board and as Chairman of the GAC. Jacobs reviewed and authorized the filing of the Shell Group's 2000 through 2002 annual reports on Form 20-F, knowing or recklessly disregarding that these reports were materially false and misleading.

57. Defendant Harry Roels ("Roels") is a citizen of The Netherlands. Roels served as a Managing Director at Royal Dutch and a member of the Board of Management of the Shell Group beginning in July 1999. Roels joined the Shell Group in 1971 as a petroleum engineer, working in exploration and production in Malaysia, Brunei, the United Kingdom, Turkey, Norway, and The Netherlands. In or about June 2002, Roels relinquished his positions with the Companies. Roels reviewed and authorized the filing of the Shell Group's 1999 through 2002 annual reports on Form 20-F, knowing or recklessly disregarding that these reports were materially false and misleading.

58. Defendant Steven L. Miller ("Miller") is a citizen of the United States of America. Miller served as a Group Managing Director beginning in 1996 and as a Director of Shell Transport's Board of Directors beginning in 1998. Miller also served as the Chairman, President,

and Chief Executive Officer of Shell Oil Company. During his tenure, Miller worked with the CMD in the formation of the Shell Group's strategy and in the development and deployment of the Shell Group's senior executives. Miller left the Shell Group in 2001. Miller reviewed and authorized the filing of the Shell Group's 2001 annual report on Form 20-F, knowing or recklessly disregarding that these reports were materially false and misleading.

59. The individuals named as defendants in paragraphs 48 through 58 are referred to as the "Individual Defendants." Together, the Individual Defendants and Shell Transport and Royal Dutch shall be referred to as the "Shell Group Defendants."

60. Defendant PricewaterhouseCoopers International Limited ("PwC International"), a membership-based company organized in the United Kingdom with its U.S. headquarters in New York, New York, is a professional services organization with member firms around the world. PwC International provides industry-focused assurance, tax and advisory services for public and private clients primarily in four areas: corporate accountability; risk management; structuring and mergers and acquisitions; and performance and process improvement.

61. PwC firms come together through membership in PwC International. According to PwC International's website: "On joining the PwC global network and becoming members of PwC International, member firms have the right to use the PwC name and to gain access to common resources, methodologies, knowledge and expertise. In return, they are bound to abide by certain common policies and to maintain the standards of the global network as formulated by the CEO of PricewaterhouseCoopers International Limited and approved by its Global Board."

62. According to PwC International's Global Annual Review, the PwC International Board operates the global network of members through a global deployment program, a shared code of conduct, and knowledge management and communications technologies. As a

consequence of the foregoing, PwC International represents itself as a "truly global organisation" that "build[s] networks of highly skilled professionals around clients and provide[s] them with the benefit of PwC's collective knowledge and resources."

63. Defendant PwC UK is a limited liability partnership registered in the United Kingdom. PwC UK has over 13,000 partners and staff operating in 44 offices located throughout the United Kingdom. PwC UK is a member of the PwC global network, and audits almost one-half of the FTSE 100, the 100 largest companies in the United Kingdom. PwC UK provides industry-focused assurance, tax and advisory services for public and private clients. For companies requiring an audit for statutory or regulatory reasons connected with the filing of their annual and periodic financial information, PwC UK provides an assurance service to shareholders and management on the truth and fairness of the information, and specifically addresses any other regulatory reporting requirements, such as those under the Sarbanes-Oxley Act of 2002. PwC UK purports to have a "deep understanding of regulation and legislation" such that it can provide services aimed at resolving "complex business issues, such as Sarbanes-Oxley and International Financial Reporting Standards (IFRS)."

64. PwC International and PwC UK are collectively referred to as "PwC."

65. PwC was engaged by the Shell Group and Shell Transport to provide independent auditing and/or consulting services to the Shell Group and Shell Transport, including the preparation, examination and/or review of Shell Transport's and the Shell Group's consolidated financial statements for the years 1998 through 2002, which were disseminated to investors in the United States. PwC was engaged to and performed these services so that the Shell Group's and Shell Transport's financial statements would be presented to, reviewed, and relied upon by securities purchasers, governmental agencies, the investing public, and members of the financial

community. By virtue of its position as the purported independent accountant and auditor for the Shell Group and Shell Transport, PwC had access to the Companies' key personnel, accounting books and records, and documents concerning proved reserves, at all relevant times. As a result of the auditing and other services (including its services as a consultant), PwC personnel were frequently present at the Shell Group's respective corporate headquarters and major offices throughout the Class Period, and had continual access to the Shell Group's and Royal Dutch's confidential corporate financial and business information, including the Shell Group's and Royal Dutch's true financial condition, financial statements and reserve reporting problems, which information PwC was aware of and/or recklessly disregarded. Moreover, as a consequence of PwC's continual access to and knowledge of the Companies' and Shell Transport's operations and reserves reporting practices, PwC had the opportunity to observe and review the Company's and the Shell Group's business and reporting practices, and to test the Company's and the Shell Group's internal and publicly reported financial statements, as well as the Shell Group's and the Company's internal controls.

66. PwC was actively involved in the preparation and dissemination of the Shell Group's and Shell Transport's quarterly, as well as year-end, financial results throughout the Class Period. PwC examined and opined on the Shell Group's and Shell Transport's financial statements for the years ended 1998 through 2002. PwC falsely represented that its audits of the Shell Group's and the Company's 1998 through 2002 financial statements had been conducted in accordance with GAAS, and wrongfully issued "clean" or unqualified audit reports in which it falsely represented that those financial statements fairly presented the Shell Group's and Shell Transport's financial condition and results of operations in conformity with GAAP.

67. Defendant KPMG International is a Swiss cooperative of which all KPMG firms

are members. KPMG International, with U.S. headquarters (KPMG LLP (US)) located in New York, New York, provides assurance, tax and legal, and financial advisory services to customers worldwide. Like PwC International, KPMG International markets itself as a single global organization.

68. Defendant KPMG NV, with its head office located in Amstelveen, The Netherlands, is part of the professional services organization of KPMG International, which has member firms around the world. KPMG NV employs over 4,000 people in 23 offices in The Netherlands. KPMG NV's core activities in The Netherlands include assurance services, financial advisory services, and tax and legal services. KPMG NV's clients are large – often international – companies and medium-sized businesses, the latter category consisting mainly of companies with growth potential. On its website, KPMG NV purports to have knowledge of its client's business and organization, such that it can act "as a business partner" of that client. To that end, KPMG NV supports its clients with "multi-disciplinary teams," whose members "specialise in their business segment."

69. KPMG International and KPMG NV are collectively referred to as "KPMG."

70. KPMG was engaged by the Shell Group and Royal Dutch to provide independent auditing and/or consulting services to the Shell Group and Royal Dutch, including the preparation, examination and/or review of Royal Dutch's and the Shell Group's consolidated financial statements for the years 1998 through 2002, which financial statements were disseminated to investors in the United States. KPMG was engaged to and performed these services so that the Shell Group's and Royal Dutch's financial statements would be presented to, reviewed and relied upon by securities purchasers, governmental agencies, the investing public, and members of the financial community. As a result of the services it rendered to the Shell

Group and Royal Dutch, KPMG's representatives were frequently present at the Shell Group's and Royal Dutch's corporate headquarters and major offices between 1998 and 2002, and had continual access to the Shell Group's and Royal Dutch's confidential corporate financial and business information, including the Shell Group's and Royal Dutch's true financial condition, financial statements and reserve reporting problems which information KPMG was aware of and/or recklessly disregarded. Moreover, as a consequence of KPMG's continual access to and knowledge of the Shell Group's and Royal Dutch's operations and reporting practices, KPMG had the opportunity to observe and review the Royal Dutch's and the Shell Group's business and reserves reporting practices, and to test the Companies' and the Shell Group's internal and publicly reported financial statements, as well as the Shell Group's and the Companies' internal controls.

71. KPMG actively participated in the presentation, review and issuance of the Shell Group's and Royal Dutch's false financial statements.

72. KPMG was actively involved in the preparation and dissemination of the Shell Group's and Royal Dutch's quarterly, as well as year-end, financial results throughout the Class Period. KPMG examined and opined on the Shell Group's and Royal Dutch's financial statements for the years ended 1998 through 2002. KPMG falsely represented that its audits of the Shell Group's and Royal Dutch's 1998 through 2002 financial statements had been conducted in accordance with GAAS, and wrongfully issued "clean" or unqualified audit reports in which it falsely represented that those financial statements fairly presented the Shell Group's and Royal Dutch's financial condition and results of operations in conformity with GAAP.

73. During the Class Period, the Individual Defendants, as officers and/or directors of Royal Dutch or Shell Transport, were privy to confidential and proprietary information

concerning the Companies, their operations, reported reserves, and business prospects. By reason of their positions with the Companies, the Individual Defendants had access to internal documents, reports, and other information, including, among other things, the material, adverse, non-public, information concerning the Companies' and the Shell Group's classification of proved oil and gas reserves. As a result of the foregoing, they were responsible for the truthfulness and accuracy of the Shell Group's and the Companies' public statements described herein.

74. The Individual Defendants, as officers and/or directors of Royal Dutch and Shell Transport, are "controlling persons" of the Companies within the meaning of Section 20 of the Exchange Act. By reason of their positions with Royal Dutch and Shell Transport, they were able to and did, directly or indirectly, in whole or in material part, control the content of public statements issued by or on behalf of the Shell Group, including statements to securities analysts and financial reporters. They participated in and approved the issuance of such statements made throughout the Class Period, including the materially false and misleading statements identified herein. As such, the Individual Defendants are liable for the false statements pleaded herein, as those statements were each "group-published" information, the result of the collective action of the Individual Defendants.

75. Royal Dutch and Shell Transport, and the Individual Defendants as officers and/or directors of a publicly-held company, had a duty to promptly disseminate truthful and accurate information with respect to the Companies, their business, and reported proved reserves, to promptly correct any public statements issued by or on behalf of the Companies that had become false and misleading, and to disclose any adverse trends that would materially affect the present and future operating prospects of the Companies.

76. The statements made by Defendants outlined below were materially false and misleading when made. Defendants had no reasonable or adequate basis to justify or support the statements identified below concerning the Shell Group's proved reserves. The truth about the propriety of the Shell Group's reported proved reserves, which were known or with recklessness disregarded by Defendants, remained concealed from the investing public throughout the Class Period. Defendants, who were under a duty to disclose those facts, misrepresented or concealed them during the Class Period.

77. Each of the Defendants knew that the misleading statements and omissions complained of herein would adversely affect the integrity of the market for the Companies' securities and would cause the price of these securities to become artificially inflated. Each of the Defendants acted knowingly or with recklessness in such a manner as to constitute a fraud and deceit upon Lead Plaintiff and the other members of the class.

78. Defendants are liable as direct participants in, and co-conspirators of, the wrongs complained of herein.

CONFIDENTIAL SOURCES

79. Numerous former employees of the Companies have spoken on a confidential basis with counsel for Lead Plaintiff concerning Defendants' misconduct. Each is designated "CS __."

80. CS 1 worked for Shell International for approximately 15 years, leaving in 1995, and held numerous positions around the world, including reservoir engineering positions in Nigeria, Malaysia, and the United Kingdom. CS 1 also held management positions in Colombia and the former USSR. CS 1 has information concerning the role of the Group Reserves Auditor, as well as information concerning conduct in the United States (or conduct by actors from the

United States) that materially contributed to the misconduct alleged in this Complaint.

81. CS 2 worked for numerous companies in the Shell Group over a span of more than 25 years, until 2001, including the EP division of the Shell Petroleum Development Company of Nigeria, Ltd. ("SPDC"). CS 2 held various positions worldwide, including Senior Geophysicist, Senior Seismic Interpreter, Exploration Manager, and Geophysical Operations Manager. CS 2 has information about the way in which the Companies calculate reserves in the field, and about conduct in the United States (or conduct by actors from the United States) that materially contributed to the misconduct alleged in this Complaint.

82. CS 3 worked for various units of the Shell Group for approximately 20 years, including SPDC, leaving in the latter half of 2000. CS 3 held numerous positions over the years, including management positions in Field Engineering. CS 3 has information about the way the Companies calculate reserves in the field.

83. CS 4, a geologist, worked for Shell International EP for approximately 25 years, leaving in 2003. CS 4 had many responsibilities, including field development planning and reserves estimation. Among other duties, CS 4 trained field engineers in the methods for estimating reserves. CS 4 has information about the way the Companies calculate reserves in the field, about the Companies' operations in Nigeria and Oman, and about conduct in the United States (or conduct by actors from the United States) that materially contributed to the misconduct alleged in this Complaint.

84. CS 5 worked for the Shell Research unit of the EP unit of the Shell Group for 20 years, leaving in August 1999. CS 5 worked in various operational positions and thirteen years as a Research Geologist and Technical Advisor. CS 5 has had responsibility for calculating reserves, and has information about the way the Companies calculate reserves in the field.

85. CS 6 worked for the Shell Oil Company for approximately seven years, leaving in early 2002. CS 6 worked in the Global Brand and Marketing department, where CS 6's responsibilities included developing and implementing college and experienced hiring programs around the world, and advertising design for the Shell Group of Companies worldwide. CS 6, who regularly attended meetings with senior management, including certain Defendants, has information concerning conduct in the United States (or conduct by actors from the United States) that materially contributed to the misconduct alleged in this Complaint.

86. CS 7 worked for Shell UK for approximately four years, beginning in 1988. CS 7 worked first as a budget coordinator, and later as a business manager in the retail division of Shell UK, responsible for supervising a team of sales and promotional representatives in the United Kingdom. CS 7 participated in Shell International's "secondment" program with PwC UK, and is knowledgeable about that program.

BACKGROUND

A. The Shell Group: Its Formation and Structure

87. Shell was founded in 1833 by Marcus Samuel, who operated a small shop selling seashells that soon turned into a general import-export business. Samuel's son came across the idea of exporting oil on a visit to Baku on the Caspian Sea coast, and saw the opportunity to export kerosene for lamps and cooking to Japan. In 1892, Samuel commissioned the first special oil tanker, and delivered 4,000 metric tons of Russian kerosene to Singapore and Bangkok.

88. In 1903, Shell merged with the competing Dutch company N.V. Koninklijke Nederlandsche Maatschappij tot Explotatie van Petroleum-bronnen in Nederlandsch-Indie, forming the Asiatic Petroleum Company, which became the Shell Group four years later.

89. In the early years, the Companies benefited from the mass production of

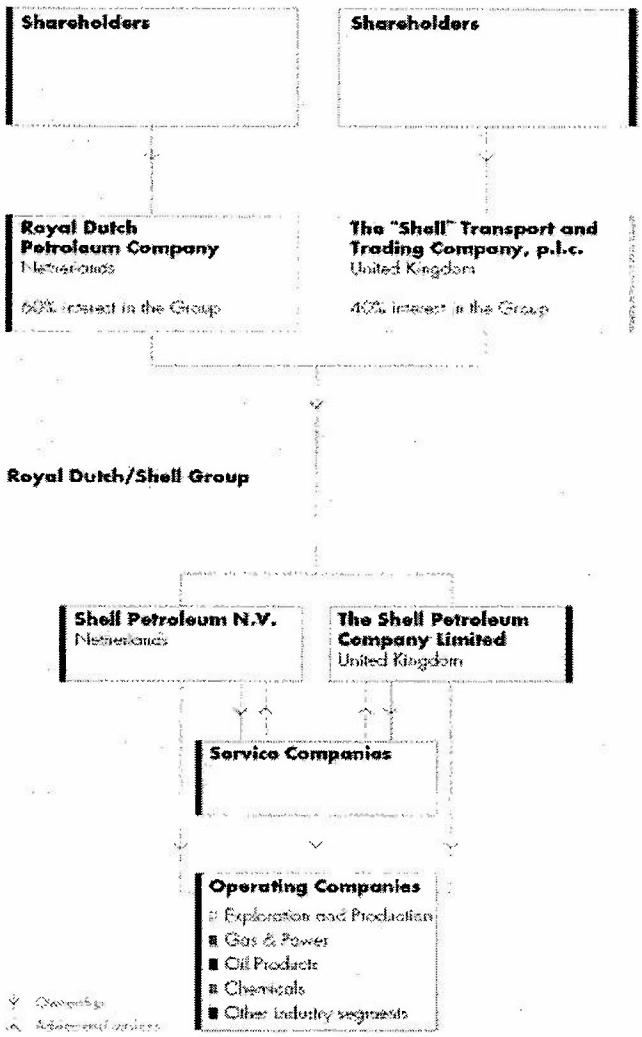
automobiles throughout the world, as well as the British Navy's need for fuel. The Companies' fortunes improved further with the establishment of Shell Aviation Services in 1919, supplying aviation fuel. In 1929, Shell entered the chemical field with the founding of N.V. Mekog in The Netherlands.

90. The exploration and development of North Sea oil was fundamental to the Companies' operations. The Shell Group discovered both the Auk and Brent fields in 1971, Cormorant and Dunlin in 1972, Tern in 1975, and Eider in 1976. The Group also discovered the world's largest natural gas field in Groningen in The Netherlands, and began commercial production of this field in 1963. This venture was so successful that by the early 1970s, Groningen was supplying half the natural gas consumed in Europe.

91. The recession of the 1970s, coupled with the oil price increase by the Organization of Petroleum Exporting Countries ("OPEC"), stimulated the Shell Group to increase production of natural gas. Shell Transport was among the pioneers of large-scale projects to liquefy and ship liquefied natural gas ("LNG") to foreign markets.

92. Royal Dutch and Shell Transport are the parent companies of over 1,700 ventures operating in over 145 countries worldwide. As noted, Royal Dutch has a 60% interest in the Shell Group, and Shell Transport has a 40% interest. Royal Dutch and Shell Transport share in the aggregate net assets and in the aggregate dividends and interest received from Group companies in the proportion of their ownership – 60:40.

93. The illustration below shows the relationship between and among the parent companies and the Shell Group of companies:



94. There are two Group Holding Companies: Shell Petroleum N.V. in The Netherlands and The Shell Petroleum Company Limited in the United Kingdom. The Group Holding Companies between them hold all the shares in the Service Companies and, directly or indirectly, all Group interests in the Operating Companies.

95. The Shell Group is organized into five main business units: SEPCo, Shell Gas & Power, Shell Oil Products, Shell Chemicals, and Shell Renewables & Other Activities.

96. SEPCo explores, develops, and produces oil and gas in the United States, with principal operations in Texas and the Gulf of Mexico.

97. Shell Gas & Power operates "downstream" to process and transport natural gas,

develop power plants, and market gas and electricity to customers around the world, including governments, industrial and commercial businesses, and residential customers. It operates closely with the EP unit, which operates "upstream" in the production of gas reserves. (The term "upstream" in the oil and gas industry refers to the exploration and production of oil and natural gas. This segment of the industry covers the extraction of oil and gas from hydrocarbon bearing reservoirs. "Downstream" operations include the refining, transportation, and marketing of petroleum products, including the delivery of these products to retail outlets.)

98. Before the reclassification, the Shell Group companies claimed to have one of the largest reserves of both liquid and natural gas of the major integrated public oil companies. They have exploration and/or production interests in every region of the world in 47 countries. Most of these operations are joint ventures, through which Shell Group companies are in partnership with a wide range of governments and both national and international oil companies. The Companies have major oil production in the United States, Nigeria, Oman, the United Kingdom, Syria, Gabon, Brunei, and Malaysia. They have major gas operations in the United States, The Netherlands, Australia, Brunei, Malaysia, and the United Kingdom. The Companies also have oil production interests in Norway, Abu Dhabi, and Denmark, and gas production interests in Denmark, Norway, and Germany.

99. Shell Oil Products makes a wide range of high quality fuels, lubricants and specialty products, which it sells through its global network of 46,000 retail outlets. It also has an interest in over 50 refineries engaged in the manufacture of a range of crude oil and petroleum products. Companies within this group include Shell Aviation, Shell LPG, Shell Lubricants, and Shell Marine Products.

1. Group Management

100. As noted, the Shell Group is made up of two public parent companies: Royal Dutch and Shell Transport. They remain separate in terms of management and location. Indeed, the parent companies have separate management and boards of directors. This management structure is duplicative, cumbersome and unresponsive to the challenges associated with operating an integrated energy company, and encouraged, permitted and failed to prevent the fraud alleged herein.

101. Shell Transport, which has repeatedly represented in its Annual Reports that it is "committed to the highest standards of integrity and transparency in its governance of the Company," has a board of directors that is comprised of non-executive directors, "at least two Managing Directors of the Company, who [are] also Group Managing Directors," and a Chairman, "who [is] also one of the Managing Directors."

102. Royal Dutch, which also has repeatedly represented in its Annual Reports that it is "committed to upholding the highest standards of integrity and transparency in [its] governance of the Company," is managed by a Supervisory Board and Board of Management. The Supervisory Board is appointed by the General Meeting of Shareholders from the persons nominated by the meeting of holders of priority shares. (Royal Dutch has 1,500 priority shares outstanding, held by members of the Supervisory Board, the members of the Board of Management, and the Royal Dutch Priority Shares Foundation. The Board of the Foundation consists of all the members of the Supervisory Board and the members of the Board of Management.)

103. The Board of Management consists of at least two Managing Directors under the supervision of the Supervisory Board. Managing Directors are appointed by Royal Dutch shareholders and by the Supervisory Board. The Managing Director appointed by the

Supervisory Board serves as President of the Board of Management.

104. The Supervisory Board is responsible for supervising the policies of the Board of Management and the general course of business of Royal Dutch and the Shell Group and further advises the Board of Management.

105. The boards of the parent companies delegate management of the Shell Group to the CMD, which is a committee comprised of senior executives from each of the two public companies. Members of the CMD are known as Group Managing Directors. The CMD considers and develops the Shell Group's business plans and objectives. The CMD is an informal body, with no formal executive authority; the position of chairman is, therefore, also informal.

106. At the beginning of 2002, the members of the CMD were: (1) Watts – Chairman of the CMD from 2001 to 2004, and a Shell Group Managing Director from 1997; (2) van der Veer – now Chief Executive of Shell, was then Vice-Chairman of the CMD; (3) Skinner – who resigned from Shell in September 2003; (4) van de Vijver – responsible for exploration and production, contracting and procurement; (5) Harry Roels – who resigned in June 2002; and (6) Brinded – who succeeded to the CMD following Roels' resignation in July 2002. Boynton joined the CMD in 2003.

107. The CMD reports to a group called the "Conference." The Conference is comprised of all the members of the Supervisory Board and the Board of Management of Royal Dutch and the Directors of Shell Transport. The Conference acts without shareholder accountability.

108. The Conference holds meetings regularly during the year. The purpose of the Conference is to receive information from Group Managing Directors about major developments within the Shell Group and to review and discuss the business and plans of the Shell Group. As

explained in the Shell Group's Annual Reports filed with the SEC on Form 20-F:

> The Conference reviews and discusses: the strategic direction of the businesses and of the Royal Dutch/Shell Group of Companies; the business plans of both the individual businesses and, of the Royal Dutch/Shell Group of Companies as a whole; major or strategic projects and significant capital items; the quarterly and annual financial results of the Royal Dutch/Shell Group of Companies; reports of the Group Audit Committee; appraisals both of the individual businesses and of the Royal Dutch/Shell Group of Companies as a whole; annual or periodic reviews of Group companies' activities within significant countries or regions; governance, business risks and internal control of the Royal Dutch/Shell Group of Companies; a regular programme of insights and briefings on specific aspects of the Royal Dutch/Shell Group of Companies; and any other significant or unusual items on which the Group Managing Directors wish to seek advice.

109. Senior executives of the Shell Group companies also attend meetings of the Conference. Any decision made by the Conference is not legally binding on either Royal Dutch or Shell Transport. The officers of each company must hold separate meetings during which they can make binding, for each parent company, the decisions at which they arrived jointly in the Conference.

110. Royal Dutch and Shell have established three joint committees to assist with the Shell Group's governance responsibilities. All three committees are composed of six members, three of whom are appointed by the Supervisory Board of Royal Dutch from among its members, and three by the Board of Shell Transport from among its members. One of the committees relevant to this action is the GAC.

111. As explained in the Shell Group's Forms 20-F, the GAC "regularly considers the effectiveness of risk management processes and internal controls 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." As described below, the GAC knowingly or recklessly failed to play a meaningful role in setting priorities or in following up on reserves reporting problems identified by senior executives. The GAC's conduct, or lack thereof, was a direct and material factor in the alleged fraud and its concealment.

B. The Importance of Oil and Gas Reserves

112. In the early days of the oil industry, properties were classified by production rates, in which the practice of oil companies was to produce as much oil as possible, as quickly as possible. The growth of integrated oil companies, with their need to plan sources of supply for refining operations, resulted in the need to measure the ability of a property to produce over a long period of time. This led to the development of methods to quantify original oil-in-place, producible volumes, future productions rates, and other matters that fall under the purview of petroleum engineering. As consideration of economic conditions were added into the analysis (such as discounted cash flow evaluation methods) there existed a need to establish a uniform method of defining "reserves."

113. The term "reserves" generally describes the total volume of future oil production that can be expected to be commercially recovered from a reservoir, assuming that certain physical and economic conditions exist and continue to prevail for however long is required to obtain the production.

114. Reserves can be sub-divided into categories such as proved and unproved; unproved may be further divided into probable and possible. These categories are based on the relative risk of recovery of the reserves in each category. The risk is not, however, in the reserves, but in the likelihood that the expectations for future production and economic conditions

will be met. The risk is accounted for by assigning the anticipated future volume of oil production to a certain category of reserve based upon that risk. The term "reasonable certainty," used by the SEC in Rule 4-10 (see discussion, infra), is intended to express a high degree of confidence that the estimated quantities will be recovered.

115. All integrated oil and gas companies, including foreign companies, trading on U.S. exchanges are subject to oil and gas reporting standards established by the SEC and the Financial Accounting Standards Board ("FASB").

116. Financial Accounting Standard ("FAS") 69 provides the reporting and accounting rules and reporting formats for: (a) proved oil and gas reserve quantities; (b) capitalized costs relating to oil and gas producing activities; (c) costs incurred for property acquisition, exploration, and development activities; (d) results of operations for oil and gas producing activities; and (e) a standardized measure of discounted future net cash flows relating to proved oil and gas reserve quantities (it requires future production revenues to be calculated by applying year-end oil and gas prices to year-end reserves, and bases future costs on year-end costs and the assumed continuation of existing economic conditions).

117. Rule 4-10(a) provides the definition of proved reserves for reporting purposes:

> (2) **Proved oil and gas reserves.** Proved oil and gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.
>
> * * *
>
> (3) **Proved developed oil and gas reserves.** Proved

developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery should be included as "proved developed reserves" only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.

(4) **Proved undeveloped reserves.** Proved undeveloped oil and gas reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage shall be limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Under no circumstances should estimates for proved undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir.

118. The Shell Group's publicly stated definition of "proved reserves" and "developed proved reserves" – as stated in the Shell Group's Annual Reports filed with the SEC on Form 20-F – is, in all material respects, identical to the SEC's definitions:

Critical Accounting Policies

* * *

Estimation of oil and gas reserves

Oil and gas reserves have been estimated in accordance with industry standards and SEC regulations. Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids that

> 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.

119. Analysts and investors recognize the importance of reserve reporting in the evaluation of oil and gas companies. As recognized by THE WALL STREET JOURNAL in an article published on January 12, 2004, "reserve growth is a crucial indicator of how well a company is" performing. Reserve reporting is considered "a lifeblood measure of [an oil and gas company's] future prospects." Indeed, as THE WALL STREET JOURNAL recognized two months later, on March 12, 2004, "[r]eserves are a key measure of an oil company's recent performance and longer-term value for investors." If the total volume of the proved reserve declines, the company will be less valuable to investors, which in turn will result in a falling stock price.

120. Although reserve reporting is a crucial metric for investors in evaluating the quality and success of an oil and gas company, it is not the only metric used by analysts and investors to assess the strength – and future prospects – of an energy company. Other important metrics include: (a) Reserve Life, which compares barrels of proved reserves to annual actual production to answer, in terms of years, how long a company's proved reserves will last given the current production level; (b) Reserve Replacement Ratio, which compares additions to proved reserves to production (it puts side-by-side oil newly-claimed to be in the ground to oil taken out of the ground, usually on an annual basis) (a reserve replacement ratio of 100% indicates that a company's proved reserves are being replenished at exactly the rate that the company is extracting/producing oil; a ratio of more than 100% indicates that a company, despite its annual

extraction of oil and gas, is finding more hydrocarbons than it produces, and thus adding to its asset base; and a ratio of less than 100% indicates that a company is depleting its proved reserves); (c) Finding and Development Costs/Barrel, which are the costs of the process that results in the booking of proved reserves and then the extraction and sale of oil or natural gas.

THE GENESIS OF THE FRAUD

A. Economic and Regulatory Conditions Leading Up To The Shell Group's Decision To Overbook Proved Reserves

1. Competitive Pressures and Lack of Organic Growth Create the Need to Overbook Proved Reserves

121. For much of the early 1990s, the Shell Group reigned as the world's largest integrated energy group. By the end of the first half of the 1990s, the Companies came under significant competitive pressure from its key rivals, BPAmoco and ExxonMobil, both of which were building their reserves with discoveries, mergers, and strategic investments.

122. Unlike their competitors, the Companies over-relied on their traditional prowess for finding oil as the engine for growth. As THE WALL STREET JOURNAL observed in an article published on March 12, 2004, new discoveries were becoming harder to find, "as Middle Eastern countries expelled foreign oil companies and fields in the West matured." BPAmoco and ExxonMobil responded by buying up their rivals and selling off poor-performing fields. The Shell Group, however, primarily relied on organic growth through searching for big discoveries, and relied on drilling exploration wells in too many countries and in places where the size of any oil find would not be large enough to make a material difference. Operationally, as reported by LONDON TIMES on March 28, 2004, the Shell Group was "lagging behind competitors in key performance measures instead of just keeping up." Between 1996 and 2000, the Shell Group spent $6 billion per year on finding new reserves. Analysts opined that the figure should have

been higher, closer to $9 billion. As a consequence, the Companies were replacing reserves at a much lower rate than originally represented, and its costs were significantly higher.

123. The Shell Group justified its inaction by arguing that cross-border mergers were messy and often destroyed shareholder value. Instead of creating value through mergers and acquisitions (although the Shell Group did acquire Enterprise in April 2000 for $5.3 billion in equity and $2 billion in debt), Shell sought to create value through cost-cutting, a strategy first implemented in 1998 by Defendant Moody-Stuart. Analysts complained that focusing on cost-cutting diverted the Shell Group's commitment to fund exploration and production when the price of oil began to recover. This strategy cost the Shell Group the opportunity to find millions of barrels of hydrocarbon discoveries, such as the oil fields in the deep waters off Angola, where all of the Shell Group's main competitors have significant investments.

124. The difficulty in finding new reserves translated into higher costs, another key measure for investors. Between 1997 and 2002, Wood Mackenzie, an energy consultancy, estimates that the Shell Group's cost of finding and developing oil was $4.27 a barrel, higher than ExxonMobil's $3.93 and BPAmoco's $3.73.

125. The Shell Group's failure to invest enough in finding new reserves and inability to sustain targeted cost-cutting left managers scurrying for ways to show growth. One internal memorandum noted: "Our reserves replacement performance over the past few years clearly illustrates the emerging problems with our resource base and is becoming a source of competitive disadvantage."

126. In response, according to internal corporate documents and interviews with oil executives and industry analysts identified by the news media, senior management, including the Individual Defendants, embarked on a course of conduct that was designed to manage the Shell

Group's reserve figures much the way non-energy companies manage their earnings – to satisfy investors. This course of conduct was directly contrary to the corporate transparency publicly advocated by Defendant Watts, one of the masterminds of the fraud alleged herein: "It is not surprising trust in business has declined in the wake of a rash of corporate scandals. . . . I think there is every justification for people to question a business climate that allowed those things to happen. . . . We need to be transparent." (From a speech entitled "A Business Approach to Earning Trust in Society," at the KPMG Global Energy Conference, May 2003, quoted in SMARTMONEY June 1, 2004.)

2. The Shell Group Loosens its Reserves Reporting Guidelines

127. Consequently, in 1997, as reported in THE NEW YORK TIMES on March 12, 2004, senior executives instructed the leadership and performance group, known within the Group as "LEAP," to "create value through entrepreneurial management of hydrocarbon resource volumes." The Group created LEAP in the mid-1990s to improve business practices, reduce expenses, and increase income by studying particular issues and consulting experts inside and outside the Group.

128. Pursuant to management's instructions, LEAP sought ways to change the Companies' guidelines with respect to classifying reserves. According to THE NEW YORK TIMES, although other companies implemented similar management programs, industry executives interviewed said that they were unaware of any instances of such a program being used to overhaul a company's accounting guidelines.

129. As the FSA found in its Final Notice to the Companies, dated August 24, 2004 (the "Notice to Take Action"), in September 1997 LEAP issued, and the Companies approved, revised Petroleum Resource Guidance (Volume 1 Resource Classification and Reporting Requirements)

to be used as the basis of reporting proved reserves under SEC rules. In effect, as reported by the LONDON TIMES on March 28, 2004, LEAP proposed that the Shell Group relax the accounting guidelines it used to book reserves.

130. The Group implemented the revised guidelines in four countries for the year ended December 31, 1997. As a consequence, the Group added 145.5 million boe in proved reserves for that year.

131. In 1998, the Group created five Value Creation Teams ("VCTs") to improve EP's profitability. According to the FSA, one VCT was tasked with "creating the maximum value from Shell's hydrocarbon reserves." In a paper dated May 1998 entitled "Creating value through Entrepreneurial Management of Hydrocarbon Resource Values," Group managers recommended, among other things, that the Companies loosen their reserves guidelines. On September 16, 1998, the Companies revised their reserves guidelines, and issued the revised guidance to their operating units.

132. A former Group executive interviewed by THE WALL STREET JOURNAL, as reported in an article published on March 18, 2004, confirmed the foregoing, explaining that the Group loosened the rules to allow gas reserve bookings with only a "reasonable expectation" of an available market.

133. In the Cease and Desist Order, the SEC also confirmed the change in the Companies' guidelines:

> Shell instead revised its guidelines in 1998 to adopt a system under which it maintained its existing probabilistic methods for estimating proved reserves in "immature" fields, but applied more deterministic methods in "mature" fields, directing OUs to increase proved reserves in such fields to equal "expectation" volumes.

134. As the SEC explained, "[a]n oil and gas reserves estimation methodology is

considered 'probabilistic' when the known geological, engineering and economic data are used to generate a range of estimates and their associated probabilities." "An oil and gas reserves estimation methodology is considered 'deterministic' if a single best estimate of reserves is made based on known geological, engineering and economic data."

135. The Companies used the term "expectation reserves" to mean "the most likely estimate of hydrocarbon volumes remaining to be recovered from a project that is technically and commercially mature, or from a producing asset." As noted by the SEC, "[i]f probabilistic techniques are used in reserve estimation, the expectation reserves are the probability weighted average of all possible outcomes (common referred to as the 'P50' outcome). If deterministic techniques are used, expectation reserves correspond to most likely estimate of future recovery." As a general matter, the Shell Group classified a field as "mature" under the revised guidelines if total production was greater than 30% of expectation reserves.

136. This practice deviated from the Shell Group's early 1990s practice, as set forth in the Companies' reserve-booking guidelines (a two-volume document updated each year), that permitted executives to book proved reserves only if the Shell Group had signed a sales contract for the oil or gas.

137. As revealed in the news media, the GAC Report, the Notice to Take Action, and the Cease and Desist Order, the new guidelines significantly inflated the Shell Group's reserves by enabling executives to book proved reserves well before making significant investments to get the oil and gas out of the ground. For example, as noted by the SEC, "nearly 40% of the total proved reserves Shell added in 1998 resulted from this guideline revision." For the two years ended December 31, 1999, the Shell Group's revised guidelines resulted in an overstatement of the Group's proved reserves of 940 million boe. For the period 1998 through 2001, the SEC

found that the change in guidelines caused the Shell Group to add more than 1.2 billion boe to reported proved reserves. These new guidelines were contrary to the SEC definition of proved reserves, which, as alleged herein, requires, among other things, data indicating there is a "reasonable certainty" that oil or natural gas can be recovered through existing wells and equipment, and/or a plan of development has been approved.

138. Numerous former employees who had first-hand knowledge of these issues while employed by the Companies have emphasized that the Companies made no effort to apprise employees in the field of the SEC's requirements for classifying reserves as proved. CS 2 stated that the Companies had internal rule books dictating how reserves were to be reported, but that those books contained no mention of SEC guidelines. CS 3, who provided reserves data to The Hague for various fields in Nigeria, stated that CS 3 never saw any material that described SEC guidelines for reporting proved reserves. CS 4, whose responsibilities included not only estimating reserves, but also training engineers about how to estimate reserves, stated that CS 4 had never seen the SEC guidelines until he/she read about them in newspaper accounts earlier this year. Similarly, CS 5 stated that he/she never used SEC guidelines in calculating reserves, and that few technical people at the Companies would have been aware of those guidelines.

139. The former Shell executive interviewed by THE WALL STREET JOURNAL (as reported in the article of March 18, 2004) also said that the Companies amended their guidelines again at the end of 2001 to warn that gas from "major" projects should not be booked as reserves until agreements had been signed concerning the Shell Group's commitment to invest money in the project. However, even this amendment did not go far enough to comply with SEC and accounting rules. This was confirmed by the SEC in the complaint it filed in connection with the Cease and Desist Order: "Before September 2003, with respect to frontier developments [, such

as Gorgon,] Shell's guidelines required neither a currently existing market for a field's hydrocarbons nor a commitment by Shell to develop the field or the infrastructure necessary to bring the hydrocarbons to market." Only with the 2003 guideline revisions did the Companies require, for the first time, certainty of an existing market and a "Final Investment Decision" on significant projects before reserves associated with the project could be classified as proved.

140. According to an internal report dated December 8, 2003 (a 42-page report to senior Group executives describing significant overstatement of the Companies' proved oil and gas reserves by 2.1 billion to 3.6 billion boe) (the "December 8th Report"), the original amendments "corrected the group's under-reporting of mature reserve fields relative to competitors, [b]ut with the benefit of hindsight it left the group vulnerable to net over-reporting of immature field reserves, brought about, for example, by registering reserves well in advance of the commitment to develop and including reserves outside the proven area as it would be defined by the S.E.C."

141. Taking advantage of the changes, the Group Defendants were able to reverse the trend of declining reserves – and more important, they were able to report that the Shell Group was replacing reserves far faster than it was producing them. According to a confidential internal review code-named Project Rockford (which led to the December 8th Report), the changes LEAP recommended allowed the Group to increase its oil and gas reserves not by discovering major new sources, but by changing its accounting to add reserves it was uncertain could ever be produced.

142. Thus, as reported in THE LONDON TIMES on March 22, 2004, Watts, then the senior executive in charge of the EP unit, was able to tell 600 Group executives at a conference in the Dutch city of Maastricht in June 1998 of the success of a special management program that had recently addressed a fundamental problem at the Companies – that the Companies were

producing oil and gas faster than they were finding new reserves. At that time, Watts did not disclose that the problem of declining reserves was resolved by relaxing the Companies' reserves reporting guidelines in violation of SEC Rule 4-10.

3. The SEC Increases Its Scrutiny of the Industry's Reserves Reporting

143. By 1999, concerns were rising over a push by U.S. oil companies into overseas projects and a boom in joint ventures, trends that made it more difficult to get a clear picture of reserves. Consequently, the SEC began to intensify its scrutiny of oil company reserves, in particular with respect to the manner in which oil companies calculated reserves in deepwater fields, such as in the Gulf of Mexico. According to the Shell Group, less than 10% of the reclassified reserves are related to the SEC's Gulf of Mexico review.

144. According to a March 12, 2004 article published in THE WALL STREET JOURNAL, the SEC hired two engineers dedicated to reviewing reserve estimates for oil and gas companies, Jim Murphy and Ron Winfrey. Murphy and Winfrey soon put the industry under greater scrutiny. In 2000 and 2001, the SEC issued guidelines requiring companies to have investment commitments and other supporting evidence to show why they believed their oil and gas fields would be developed under prevailing financial, political, and technical factors. For example, on March 31, 2001, the SEC issued the guidance on the application of Rule 4-10. Specifically, the SEC:

- emphasized the conservatism underlying the definition of proved reserves;

- observed that "economic uncertainty such as the lack of a market (e.g. stranded hydrocarbons) . . . can also prevent reserves from being classified as proved";

- specifically advised that, in "developing frontier areas . . . issuers must demonstrate that there reasonable certainty that a market exists for the hydrocarbons and that an economic method of extracting, treating and transporting them to market exists or is feasible and is likely to exist in

the near future . . . significant lack of progress on the development of such reserves may be evidence of a lack of commitment. Affirmation of this commitment may take the form of signed sales contracts for the products"; and

- with respect to hydrocarbon volumes whose production depends on the extension of government permits or licenses, indicated that automatic renewal of such permits or licenses "cannot be expected . . . unless there is a long and clear track record which supports the conclusion that such approval and renewals are a matter of course."

145. The GAC Report notes that, as a general matter, "[b]eginning in 2001, recognition of the strictures of SEC rules, in place since 1978, increased within the Company, in part due to the publication on the SEC website of SEC guidance regarding the importance of investment commitments and other indicia of 'reasonable certainty,' with a growing recognition that the Company's reserve numbers were not in full compliance with these rules."

146. In letters to oil companies in 2002, the SEC chastised companies for not obeying reserves rules, demanding explanations of how calculations were made. In industry forums, SEC engineers cited as "red flags" reserve calculations in countries where the government had not approved the project.

147. In 2002, as SEC officials were beginning to offer tougher interpretations of the accounting rules for reserves, executives at the Shell Group developed a Potential Reserves Exposure Catalogue, which listed the major concerns of the current inventory. Modest reductions in the volume of booked reserves were made, but most booked reserves were retained. According to the December 8th Report, "The view was taken that the exposures should indeed be highlighted and addressed as a matter of priority, but that no corrective action was warranted in the meantime in relation to external disclosures." This course of action did not comport with SEC rules. Under Rule 4-10, when previously reported proved reserves no longer satisfy the requirements of the

rule, they can no longer be included in proved reserves disclosures. The Companies' guidelines did not require the Group to de-book the reserves that no longer qualified as proved under the SEC rules. Instead, as noted in the SEC complaint, "the guidelines urged Shell personnel to 'exert caution' in de-booking reserves to 'minimize fluctuations [in proved reserves] over time.'"

148. The December 8th Report also indicated that there were financial incentives for executives to overstate reserves: "Through the linkage of proven reserves additions to business and individual score cards, it is possible that situations occurred in which staff involved with reserves estimation were subjected to pressure to propose proved reserves changes that might not have been fully compliant." As reported in THE WALL STREET JOURNAL EUROPE on July 15, 2004, the Companies' Group Reserves Auditor ("GRA"), Anton Barendregt ("Barendregt") – the lone, part-time, former Shell employee who was responsible for auditing the Group's proved reserves worldwide – "prominently flagged" in two reports written in January 2002 and 2003 (both of which were sent to senior managers and the accounting defendants) that the Companies' "scorecard" bonus system encouraged the inflation of reserves bookings. In the January 2003 warning, Barendregt devoted a lengthy section to the scorecard bonus system. In that memorandum, Barendregt wrote that senior managers in the EP division rejected doing away with reserves-related bonuses. That decision did not sit well with Barendregt, who wrote, "it is the auditor's firmly held belief that the reserves-addition targets in these score cards present a potential threat to the integrity of the Group's reserves estimates." As Colin Allcard, a former senior manager in Shell Transport's Ethiopian oil products division, was quoted as saying in a March 12, 2004 article in THE NEW YORK TIMES, "They set clearly defined targets, and created motivational schemes. Your performance was measured and rewarded."

B. Defendants' Knowledge of the Group's Overbookings

149. On January 31, 2000, Group managers made a presentation that showed an RRR of 37% for the year ended December 31, 1999. As noted by the FSA, "This RRR figure was robustly rejected and on 11 April 2000 Shell announced an RRR for 1999 of 56%." According to the FSA, the presentation also highlighted concerns in Nigeria that a substantial portion of the SPDC's reported proved reserves (in excess of 600 million boe) were vulnerable as non-compliant with SEC rules – these reserves were "constrained by license expiry and depended on unrealistic production forecasts that appeared to have been 'reverse engineered' solely to support the reserve figures." (Emphasis added.) The presentation also cautioned that proved reserves could not be booked in Gorgon because of "limited market availability and already large uncommitted proved gas reserves." Significantly, the presentation noted that reported proved reserves in Gorgon had been a point of contention for the previous two years with external auditors.

150. In June 2000, Shell Group planners made an internal presentation to senior managers (believed to be the "executive committee" of the EP unit, as reported by THE WALL STREET JOURNAL on April 1, 2004), warning that the Companies risked disappointing financial markets with overly optimistic assumptions about exploration and production projects around the world.

151. In the introductory pages of the presentation – under the heading "The Bad News" – the planners warned that senior executives "run the risk of initiating an over-promise, under-delivery cycle." At the time, Shell Transport was publicly portraying the upstream business as poised for continued growth. In a December 2000 slideshow for investors presented by Watts, the Companies said their upstream business was "delivering on promises," including a commitment

to boost annual oil and natural gas output by 5% between 2000 to 2005. But internally, as set forth in the June 2000 presentation, Group planners had already warned senior managers about significant reserve calculation problems. In one page of the June 2000 document – titled "Exploration: Overstated Delivery?" – Group analysts wrote that internal estimates for initial oil production at a number of projects are "very optimistic and unrelated to historical performances." The presentation went on to cite a number of new projects with "possibly overstated value promises."

152. The Group planners questioned whether the Companies could deliver on their production-growth targets as output from existing fields was decreasing by 10% each year. According to the June 2000 presentation, that decline came at the same time that planners raised questions about how funds were being allocated between exploration and production projects. The June 2000 presentation concluded, "Growth in production is a major challenge."

153. As the Shell Group continued to report inflated proved reserves, senior Shell Group executives, including Watts and van de Vijver, argued over how to manage reserves to conceal the evidence that the Shell Group had been overstating its reported oil and natural gas proved reserves for years. The GAC Report notes that some of the communications between Watts and van de Vijver were conducted through private e-mails and meetings, as well as CMD meetings. Consequently, "other executives and employees had, over time, varying degrees of exposure to the debate [between Van de Vijver and Watts] and, in various strata of management at Shell's Central Offices and in the field, involvement in the operations that were the subject of the bookings."

154. According to the GAC Report, Watts and van de Vijver spoke, often heatedly, as early as 2001 about the EP unit's ability to meet internal targets and/or public promises to

investors, shareholders, and market analysts, particularly those relating to reserves. Van de Vijver described this dialogue in a March 22, 2004 letter:

> Soon after coming to office as head of EP in June 2001, I observed that the health of the EP business was not as robust as the Company-determined performance targets set under the former EP CEO. In fact, EP was in a far worse state in mid 2001 than was ever portrayed by my predecessor to senior management or the Conference.

154a. Indeed, CW 6 stated that, even before van de Vijver became the CEO of EP in 2001, CW 6 attended high level meetings with senior officers and directors of SEPCo and the Companies, including defendants van de Vijver and Miller, in Houston. CW 6 stated that, at meetings in 2000 and 2001, van de Vijver discussed many of the problems that should have precluded the Companies from booking proved reserves in Nigeria. See ¶¶ 206-46, infra.

155. According to the GAC Report, van de Vijver "consistently pressed the position that reserves booked during Sir Philip's term were aggressive or premature, non-compliant with Shell Guidelines for booking and, implicitly, SEC rules." The improper booking of the reserves had reinforced a false perception in the market, but was viewed "primarily as a serious and immediate business question but not, equally, as a regulatory and disclosure failing."

156. In October 2001, the January 17, 2000 presentation was again called to the attention of Shell Group managers. As noted by the FSA, the Companies did not take any action to address the issues raised by the presentation.

157. Van de Vijver was not the only person within the Shell Group to warn of overstated reserves. As reported in The WALL STREET JOURNAL EUROPE on July 15, 2004, Barendregt, warned in a January 2002 memorandum, marked "confidential," that a portion of 2001 mature reserves (approximately 1,250 million boe) was at risk of being overstated. He also raised questions about the integrity of Shell's overall reserves-reporting system. Barendregt further

warned that the Shell Group's guidelines for booking reserves were not in compliance with SEC guidelines in all cases. Barendregt circulated this memorandum to senior Shell Group executives (in the EP unit) and to KPMG and PwC. As noted in the article, "three people familiar with the situation" confirmed that KPMG and PwC received the memorandum.

158. The GAC Report reveals that senior executives repeatedly generated and circulated reports among other senior Shell Group executives warning that the Companies' internal guidelines for booking reserves were inconsistent with current SEC guidelines. In a Note for Information summarizing the Shell Group's reserves position at December 31, 2001, which van de Vijver forwarded to the CMD on February 11, 2002, van de Vijver warned that proved reserve exposures were as high as 2.3 billion boe because of non-compliance with SEC guidelines:

> **Exposures**
>
> **Securities and Exchange Commission (SEC) Alignment**
> Recently the SEC issued clarifications that make it apparent that the Group guidelines for booking Proved Reserves are no longer fully aligned with the SEC rules. This may expose some 1,000 mln boe of legacy reserves bookings (*e.g.* Gorgon, Ormen Lange, Angola and Waddenzee) where potential environmental, political or commercial showstoppers exist.
>
> **End of License**
> In Oman PDO, Abu Dhabi and Nigeria SPDC (18% of EP's current production) no further proved reserves can be booked since it is no longer reasonably certain that the proved reserves will be produced within license. The overall exposure should the OU business plans not transpire is 1,300 mln boe. Work has begun to address this important issue.

159. According to the GAC Report, "[t]he Note raised issues of sufficient concern to [Watts] that he required . . . a further presentation be made to [the] CMD."

160. On February 20, 2002, EP managers circulated the EP Business Appraisal for 2001, which was presented at a meeting held on February 25 and 26, 2002. According to the

FSA, "[b]oth the 'Main Issues' section and the main body of the Appraisal stated that the SEC's guidance made it clear that the approach advocated by Shell guidelines was, in many cases, too aggressive and would be likely to affect future bookings in new fields such as Nigeria and possibly existing bookings representing some 1,000 million boe." The FSA also noted that the "Appraisal also referred to reserves which could no longer be booked because of license expiry issues and production limitations amounting to an additional 1,000 million boe."

161. Notwithstanding the foregoing, on May 28, 2002, in an e-mail to van de Vijver, Watts directed van de Vijver to leave "no stone unturned" to achieve a 100% RRR for 2002, a result inconsistent with significant debooking:

> You will be bringing the issue to CMD shortly. I do hope that this review will include consideration of all ways and means of achieving more than 100% in 2002 – to mix metaphors . . . considering the whole spectrum of possibilities and leaving no stone unturned.

162. CS 5 stated that Watts put extremely high demands on the EP engineers to find more reserves. "It was sent down the line as a directive." According to CS 5, the targets Watts set were not technically realistic, but were financially attractive.

163. Shortly thereafter, on July 22, 2002, a second presentation was made to the CMD in a Note for Discussion submitted by van de Vijver. The Note identified oil and gas reserves that were "aggressive[ly]" booked, notably Gorgon and Nigeria. The Note also observed that without the Gorgon and Nigeria bookings, "total proved RRR over the past 10 years would be reduced from 102% to 88%."

164. As the GAC Report concluded, this presentation was part of a plan to conceal the truth by "managing" the inflated reserve problem in hopes that external events would, over time, remedy the problem:

> it is an example of a series of documents which suggest that EP management's plan was to 'manage' the totality of the reserve position over time, in hopes that problematic reserve bookings could be rendered immaterial by project maturation, license extensions, exploration successes and/or strategic activity. Simply put, it is illustrative of a strategy 'to play for time' in the hope that intervening helpful developments would justify, or mitigate, the existing reserve exposures.

165. Internal documents reveal that it was understood that the Companies did not have the luxury of time to manage reserves. For example, the minutes of the July 2002 CMD meeting establish that it was recognized that delay in debooking could not be continued indefinitely:

> It is considered unlikely that potential over-bookings would need to be de-booked in the short-term, but reserves that are exposed to project risk or licence expiry cannot remain on the books indefinitely if little progress is made to convert them to production in a timely manner.

166. On September 2, 2002, van de Vijver submitted a further note to the CMD (with a copy to Defendant Boynton) describing the "dilemmas" faced by the EP unit in "playing for time"/"managing reserves":

> Given the external visibility of our issues (lean organic development portfolio funnel, RRR low, F&D unit costs rising), the market can only be 'fooled' if 1) credibility of the company is high, 2) medium and long-term portfolio refreshment is real and/or 3) positive trends can be shown on key indicators.
>
> Unfortunately . . .:
>
> - We are struggling on all key criteria ("caught in the box").
> . . .
>
> The immediate risk that we are facing is on the "negative spiral" of our boxed situation:
> . . .
> - RRR remains below 100% mainly due to aggressive booking in 1997-2000.

167. In a confidential personal Note to File that he wrote in September, 2002, van de Vijver acknowledged that he and other members of the EP unit knew that the Shell Group's public representations concerning reserves were inaccurate:

> During the last 1.5 years the technical competence and overall integrity of the EP business within Shell has been questioned both internally and externally, most prominently through lowering of the production growth target in August/September 2001 and due to a deteriorating proved reserves replacement ratio. Providing credible explanations for these issues proved near impossible given the disconnects between external promises/expectations and the reality of the state of the business.
>
> . . .
>
> Bottomline was that both reserves replacement and production growth were inflated:
>
> - Aggressive/premature reserves bookings provided impression of higher growth rate than realistically possible.
>
> . . .
>
> The concerns around the "caught in the box" dilemma and stretch in the EP business plan have been flagged at the highest level in the company, but obviously "transmitted" in a careful fashion as not to compromise/undermine the previous leadership. The severity and magnitude of the EP legacy issues may therefore not have been fully appreciated.

168. Also in September 2002, according to the FSA, the Shell Group created and implemented a reserves exposure catalogue "to ensure a system of awareness and control of the proved reserves inventory." The catalogue detailed seven potential exposures, totaling 905 million boe, of which Gorgon was the largest, with 506 million boe. The notes to the catalogue indicate that the reserves in some operating units would be at risk if production rate increases did not materialize. The notes further stated that certain bookings were threatened by clarifications to the SEC's rules by the Commission, requiring conservatism in the classification of proved reserves.

169. Consistent with the foregoing, on October 22, 2002, van de Vijver wrote to Watts that the Shell Group had been in violation of the U.S. securities laws:

> I must admit that I become sick and tired about arguing about the hard facts and also cannot perform miracles given where we are today. [Emphasis added.]
>
> If I was interpreting the disclosure requirements literally (Sorbanes [sic]-Oxley Act etc) we would have a real problem.

170. On November 15, 2002, van de Vijver circulated a brief outline of business plan issues to members of his EP staff. In the document, van de Vijver concedes that the plan as submitted reflected the concealment of the truth about the Shell Group's reserves:

> We finalized our plan submission and could easily leave the impression that everything is fine.
>
> . . .
>
> The reality is however that we would not have submitted this plan if we
>
> 1) were not trying to protect the Group reputation externally (promises made) and
>
> 2) could have been honest about past failures (business focus w.r.t. aspired portfolio, disconnects with reality, poor performance management, reserves manipulation).

171. On January 31, 2003, Barendregt wrote another "confidential" memorandum that he circulated to senior Shell Group executives (in the EP unit), as well as to KPMG and PwC. As with his January 2002 memorandum, KPMG and PwC received the memorandum. The January 2003 memorandum reviewed the prior year's reserves estimates. Like the January 2002 memorandum, Barendregt's January 2003 memorandum warned that the Shell Group's guidelines for booking reserves did not comport with SEC guidelines in all instances and raised questions about the integrity of the Companies' overall reserves-reporting system. Moreover, according to the FSA, Barendregt "considered areas where there was an issue with product license

constraints." In Nigeria, for example, Barendregt concluded that the Group had overstated proved reserves by approximately 20%, or 600 million boe. In Oman, Barendregt concluded that Petroleum Development Oman ("PDO") had overstated proved reserves by approximately 65 million boe. According to FSA, "this overstatement was in addition to the potential exposure shown in the exposure catalogue of 905 million boe."

172. As noted above, Barendregt also dedicated a significant portion of the 2003 warning to the Shell Group's scorecard bonus system and the threat of that system "to the integrity of the Group's reserves estimates."

173. The GAC Report, the Cease and Desist Order, and the Notice to Take Action provide additional instances in which Defendants were informed of the overbooking of proved reserves and in which Watts and van de Vijver specifically acknowledge their knowledge of the reserves problem and Defendants' false public statements with respect thereto. On February 28, 2003, van de Vijver sent Watts a copy of a February 23, 2003 e-mail in which van de Vijver stated to his EP staff:

> We know we have been walking a fine line recently on external Messages. . . . Promising that future reserves additions are expected in 2003 . . . whilst we know that there is some real uncertainty around this. . . . [W]e know our ongoing exposures on Oman/Nigeria reserves and on early bookings, notably Gorgon and Ormen Lange.

174. On July 17, 2003, managers circulated a memorandum that was discussed on July 22, 2003. According to the FSA, the memorandum included "an updated exposure catalogue and stated that of Shell's 19,350 million boe proved reserves '*some 1040 million boe (5%) is considered to be potentially at risk.*'" (Orig'l emphasis.) The note concluded that, "at this stage, no action in relation to entries in the [Proved Reserves Exposure] Catalogue is recommended . . . . It should be noted that the total potential exposure listed in Appendix C is broadly offset by the

potential to include gas fuel and flare volumes in external reserves disclosures." The Proved Reserves Exposure Catalogue in Appendix C to the Note quantifies exposures at approximately 1,000 million boe and "threats" at approximately 1,600 million boe, for a total of approximately 2,600 million boe potentially at risk of non-compliance with Rule 4-10.

175. On August 25, 2003, van de Vijver directed a draft of his Mid-year 2003 Review Summary to Watts, complaining that: "The single largest issue facing EP is the shrinking opportunity portfolio exacerbated by too aggressive reserves bookings in the past . . . ."

176. The following day, the GAC received a memorandum that addressed possible areas of non-compliance with Rule 4-10. According to the FSA, "[t]he GAC was advised that "'*much, if not all, of the potential exposure arising from interpretation of the factors . . . is offset by Shell's practice of not disclosing reserves in relation to gas production that is consumed on site as fuel or (incidental) flaring and venting.*'" (Orig'l emphasis.) The memorandum included as attachments the proved reserves exposure catalogue, which identified "potential exposures" totaling 1,000 million boe and "threats" of 1,600 million boe.

177. Before the circulation of this memorandum, the potential for booking reserves including fuel and flare was discussed among EP's technical staff. In a note dated July 9, 2003, technicians stated that changing the Companies' policy to include 1,000 million boe should not be considered lightly and that, were the Companies to do so, a detailed explanation would have to be provided as there was a risk that

> the gain would be seen purely as a paper exercise: many analysts have concluded that reserves replacement is the key challenge facing Shell over the next few years and they might react negatively to this one-off adjustment to the figures. Moreover, this difference in reporting practice . . . provides an offset to other elements of existing proved reserves inventory that could be viewed as being potentially at risk . . . . [T]he potential exposure that they represent is also of the order of 1,000 million boe.

178. On November 9, 2003, after receiving what he considered an unfairly critical performance review from Watts, van de Vijver e-mailed Watts, complaining that he was "becoming sick and tired about lying about the extent of our reserves issues and the downward revisions that need to be done because of far too aggressive/optimistic bookings."

179. On November 8, 2003, the day before van de Vijver sent his e-mail to Watts complaining that he was tired of lying about proved reserves, van de Vijver wrote an e-mail to a colleague about the Group's aggressive reserves bookings and the impact on the RRR and the price of the Companies' stock:

> As you know 2003 RRR is the most important share price influencer also as expectations are high and they do not know that we are still paying for aggressive reserves bookings [including thos[e] that have not reached FID yet!!] in the past!

180. Van de Vijver, who was aware RRR was a key performance indicator, had participated in stock analysts' presentations in which the issue of proved reserves and RRR were a focus.

181. At the end of November 2003, a presentation was prepared for a meeting of the Conference, which was scheduled for December 3, 2003. According to the FSA, a draft of the presentation was distributed to some members of the Shell Group's senior staff. Regarding Oman and Nigeria, the draft presentation stated: "the total volume not in compliance with SEC guidelines in the proved reserves filing in the 20-F as per 31/12/02 has become significant (2.1 bln boe or 11% of the Group's total proved reserves)."

182. According to the GAC Report, in December 2002 and November 2003, van de Vijver considered the idea of a comprehensive debooking of all known exposed reserves. In December 2002, van de Vijver asked the Group Reserves Coordinator ("GRC") for an analysis of the effect of a debooking of all questionable reserves. In late November 2003, van de Vijver

stated in a message to the GRC, "I would prefer to re-state our 1/1/03 reserves and de-book all remaining legacies to allow for a clean start." At about the same time, however, van de Vijver delivered an encouraging message on planning goals to all senior EP executives in which he warned: "One final word on 2003. It would be an enormous blow to the Group's credibility with the Market if we do not deliver on RRR this year."

183. In a December 2, 2003 memorandum prepared by the EP staff, entitled "Script for Walter [van de Vijver] on the proved reserves position," the assumption was made that approximately 2.3 billion boe of proved reserves were non-compliant (approximately the same amount identified as exposed on February 11, 2002), and that this was material to the market. Given these facts, the script called for immediate disclosure of the truth:

> If and from the time onwards that it is accepted or acknowledged by the management of the issuers (Royal Dutch and STT), that, when applying the SEC rules, the 2002 proved reserves as reported in the Form 20-F are materially wrong, the issuers are under a legal obligation to disclose that information to all investors at the same time and without delay. Not to disclose it would constitute a violation of US securities law and the multiple listing requirements. It would also increase any potential exposure to liability within and outside the US. Note that the reserves information also appears in the non 20-F Annual Reports.
>
> Disclosure cannot await the next Form 20-F appearing in April, 2004.

184. On the same day that the "Script" was provided to van de Vijver, he immediately e-mailed one of its authors, the EP unit's head of finance, Frank Coopman, demanding that the e-mail be destroyed: "This is absolute dynamite, not at all what I expected and needs to be destroyed."

C. The Geographic Areas in which Reserves Were Reclassified

185. Of the total proved reserves restated, 89% (3,992 million boe) was attributable to Group companies, and the remainder was attributable to associated companies. Twelve percent of the total had been in the proved developed reserves category, and 88% had been categorized as proved undeveloped reserves. Various properties in Nigeria accounted for 36% of the restated volume, the Gorgon field and other properties in Australia accounted for 17%, and the effect of applying year-end pricing accounted for 7% of the total. Additional adjustments include properties in Kazakhstan (8%), the rest of the Middle East (9%), the rest of Asia Pacific (10%), and Europe (9%). After giving effect to the reserves restatement, the proportion of total proved reserves that was accounted for as proved developed reserves at that date increased from 46%, as originally stated, to 56%.

186. For purposes of this Complaint, Lead Plaintiff will address four of the more significant geographic areas in which reserves needed to be reclassified: Australia, Nigeria, Oman, and Norway.

1. Australia (Gorgon)

187. As of December 31, 1997, when Watts was head of EP, the Companies booked as proved approximately 557 million boe of natural gas relating to a single source: the Gorgon fields, which are undeveloped frontier gas fields located 70 miles off the northwestern coast of Western Australia. This amount represents more than 12% of the Companies' total overbooked reserves.

188. To disguise the improper booking, the Companies recorded the reserves not as "new discoveries," which garner more attention from auditors and investors and could have been challenged more easily internally, but instead as "revisions." The "revisions" category, however,

is intended for subsequent adjustments to previously reported reserves, due either to a better understanding of the field or to new technology. It is not intended for reserves that have never before been recorded as proved. According to an analyst with Lehman Brothers, listing Gorgon as a revision "is why it is not really visible to outsiders." Publicly, van de Vijver later portrayed the misclassification as a mistake and an "embarrassment," claiming it was the result of a miscommunication with Shell Australia.

189. Although the Companies now acknowledge that these reserves should not have been recorded as proved at all, whether as revisions or new discoveries, they have also contended that the booking was based upon letters of intent for gas sales and internal-development timetables that ultimately failed. This point was confirmed by the SEC in the Cease and Desist Order: "At that time, Shell did not have a contract to sell Gorgon gas, had no firm development plan and had not made a Final Investment Decision." According to the GAC, the Companies' guidelines at the time allowed proved reserves based on an "expectation of availability of markets," and, for a brief period, commercial expectations for Gorgon arguably met this loose requirement. Analysts, however, have rejected this explanation. Said one analyst quoted in the LONDON TIMES on January 10, 2004, "[e]veryone has letters of intent; it just means they are willing to discuss terms."

190. Moreover, as the GAC Report concedes, "From its inception, the Gorgon 'proved' reserves did not meet the overriding SEC standard of 'reasonable certainty.'" As described below, the history of the Gorgon fields bears this out: the Gorgon reserves unambiguously failed to meet the SEC's "reasonable certainty" standard for proved reserves when they were booked (despite the purported existence of letters of intent). Indeed, they fail to meet that standard even today, more than six years later. To date, neither of the Companies' joint venturers in developing

the Gorgon fields, ChevronTexaco and ExxonMobil, has booked a single cubic foot of Gorgon natural gas as proved – even though ChevronTexaco has already lined up certain customers. Reportedly, ChevronTexaco executives are angry with the Companies for declaring Gorgon gas "commercial" ahead of its partners.

191. According to the website of the Gorgon Venture (defined below) (http://www.gorgon.com.au), the Gorgon area contains certified gas reserves of 12.9 trillion cubic feet, and includes five separate fields: West Tryal Rocks, discovered in 1973; Spar, discovered in 1976; Gorgon, discovered in 1980; Chrysaor, discovered in 1994; and Dionysus, discovered in 1996. Gorgon is the largest, with 12 trillion cubic feet of gas. A broader area, known as the Greater Gorgon reserves, currently represents over 40 trillion cubic feet of gas.

192. Of the three companies participating in the unincorporated joint venture to develop the Gorgon fields (the "Gorgon Venture" or the "Venture"), ChevronTexaco has the largest stake, at 57.1%, and is the operator of the Gorgon fields. The Companies have the next largest interest, at 28.6%, and ExxonMobil has a 14.3% interest.

193. Over a twenty-year period beginning in the early 1980s, the three participants in the Venture spent more than $800 million on exploration, development, and marketing to prepare the Gorgon area for eventual development. In the late 1990s, they determined that the gas processing facility needed for the success of the Venture could not economically and competitively be placed on the Australian mainland, but would have to be built on Barrow Island, a Class A Nature Reserve located some 40 miles east of the Gorgon fields. Thus began a development project that is currently projected to be phased-in over three to fifteen years. As described below, no gas is expected to be recovered and processed before late 2008 – if then – almost eleven years after the Companies booked over 557 million boe of proved gas.

194. In early 2002, the state of Western Australia concluded that a strategic level evaluation of the proposed Gorgon Venture was required for it to make an informed decision about whether to provide in-principle approval for the restricted use of Barrow Island for a gas processing facility. This review was to determine whether the proposed development could generate economic and social benefits, provide net conservation benefits, and mitigate potential on-site impacts. The evaluation consisted of an Environmental, Social and Economic ("ESE") Review that was submitted for state government consideration in February 2003.

195. On September 8, 2003, Western Australia granted in-principle approval for the restricted use of Barrow Island, taking into account the ESE Review, public comment, and the formal advice of the state Environmental Protection Authority, the state Department of Industry and Resources, and the state Conservation Commission. Because this was merely a strategic review, however, in-principle approval did not constitute or imply environmental acceptance of the proposal. Hence, formal environmental assessment under relevant state (of Western Australia) and Commonwealth (of Australia) environmental legislation is still required. That process is ongoing, and environmentalists have vowed to fight approval of the project. According to Chris Tallentire, director of the Western Australia Conservation Council: "Conservationists across Australia are going to be doing all we can to make sure that the proposal doesn't go ahead. It would be quite wrong for any company to say that the gas reserves in the Gorgon field are bookable or in the pocket."

196. Numerous documents on the Gorgon Venture website underscore the multiple contingencies to be resolved and tasks to be accomplished before natural gas can be collected from the Gorgon fields and processed on Barrow Island. As Paul Oen, the team leader of the Gorgon Venture (and a ChevronTexaco employee), stated in a presentation on November 21,

2003: "I . . . need to stress today that while much has been achieved, there is still a lot of hard work and effort required to make this development happen." Oen emphasized the technical obstacles presented by the Venture, resulting from the fact that the gas is "remote," "in deep water," "high in carbon dioxide," and "low in liquids." Oen also emphasized that the Venture had to progress along three tracks simultaneously: "Marketing – which involves signing up customers to underpin the project; Engineering – to firm up the cost and design of the project; and Approvals – to obtain government and investor approvals for the project." Oen underscored that these three tracks would take time: "We're targeting a market window of 2008 to 2010 . . . to launch the Gorgon project. And we're aiming to have the project ready to produce as early as possible within that window."

197. Each of these tracks is enormously complex. The environmental impact assessment currently being undertaken, for example, is far more burdensome than the ESE Review already completed. It differs in the level of detail required, the scope of field investigations and modeling required, and the need for a comprehensive management framework. The assessment will include consideration of environmental, social, and economic factors, and will consider the level of risk posed to the community and the environment, and provide evidence of whether the risk can be managed to an acceptably low level.

198. The assessment will require the participants in the venture to undertake numerous studies, including: (a) a literature review of past studies; (b) field surveys and sampling to describe various aspects of the terrestrial and marine biophysical environments, and to assess the potential impact of the development on key environmental factors; (c) an assessment of potential impacts associated with dredging, and dumping of dredge material; (d) modeling studies to predict the behavior and potential impacts of emissions and spills; (e) the collection of baseline

data for the ongoing monitoring of environmental parameters; and (f) a description of socio-economic environment, and assessment of the potential benefits and impacts.

199. The process will culminate in separate decisions by the Commonwealth Minister for the Environment and Heritage and the Western Australian Minister for Environment, both of whom must determine whether the development can proceed, and, if so, under what conditions.

200. In addition to environmental approvals, the joint venturers must secure pipeline and gas plant approvals under various state and Commonwealth statutes, including the Explosives and Dangerous Goods Act of 1961 (state), the Petroleum Act of 1967 (state), the Petroleum Pipelines Act of 1969 (state), the Petroleum (Submerged Lands) Act of 1967 (Commonwealth), the Petroleum (Submerged Lands) Act of 1982 (state), and the Petroleum (Submerged Lands) (Management of Environment) Regulations of 1999 (Commonwealth).

201. Assuming the Venture secures the various necessary approvals, the technical aspects of the project are daunting and will require years of work. Specifically, according to the Guidelines for an Environmental Impact Statement and Environmental Scoping Document for an Environmental Review and Management Programme for the Proposed Gorgon Development, dated April 8, 2004, the proposed development comprises a number of distinct components:

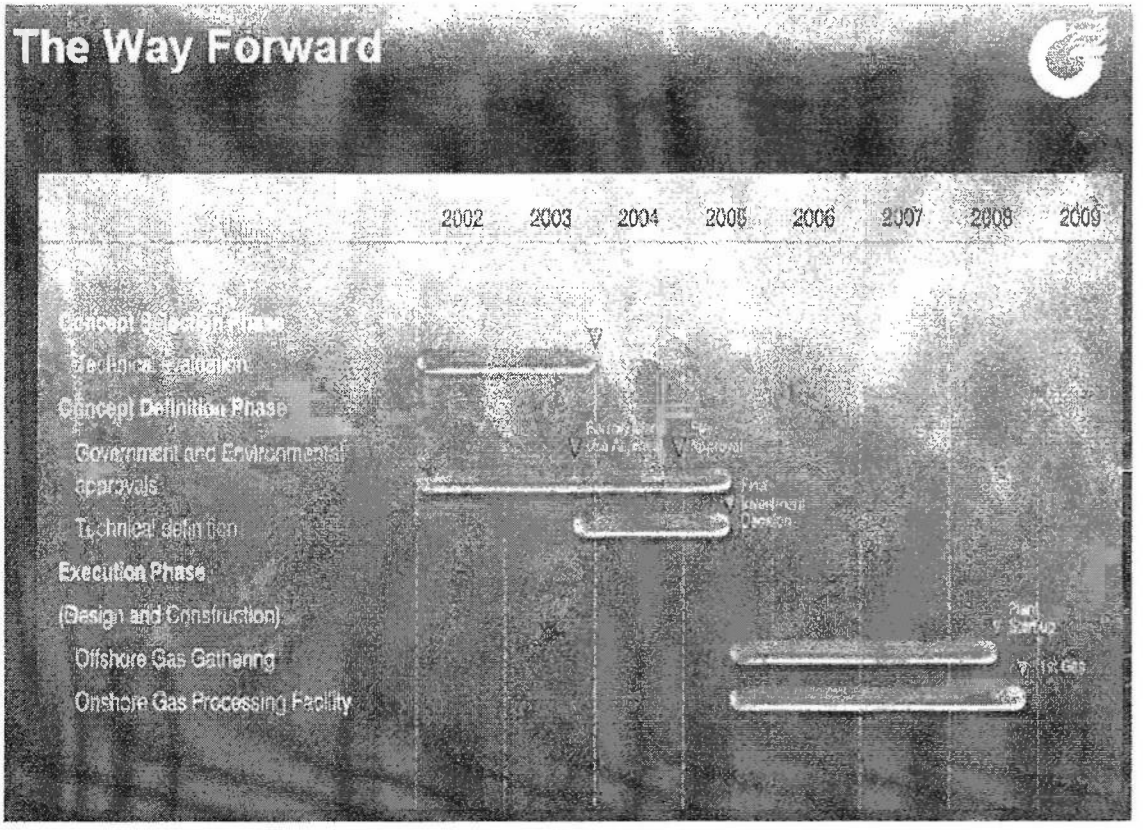
- A subsea gathering system – at water depths on the order of 200 meters;
- Offshore infrastructure – for the production and transport of gas from the Gorgon area gas fields to Barrow Island, forty miles away;
- Onshore pipelines;
- A gas processing facility – LNG processing plant and associated infrastructure on Barrow Island;
- A port facility – materials offloading facility and LNG loadout facilities on the east coast of Barrow Island;

- CO_2 pipeline and sequestration system – for transport and re-injection of CO_2 – on Barrow Island;

- Domestic gas infrastructure – a proposed domestic gas plant and pipeline from Barrow Island to the mainland; and

- Ancillary infrastructure – including telecommunications facilities and mainland support facilities.

202. All of these activities, including the necessary marketing, are projected to take years. A Gorgon Venture chart, from a presentation called "The Gorgon Gas Development, A Case Study in Sustainability Assessment," given at the Australian Petroleum Production and Exploration Association Ltd. Fiscal Conference on August 29, 2003, portrays the timeline graphically and dramatically:



203. Under these circumstances, the booking of approximately 557 million boe of proved gas reserves relating to the Gorgon fields, as of December 31, 1997, was improper and in violation of Rule 4-10, as Defendants were well aware (according to both the SEC, the FSA, and the GAC Report).

204. Indeed, the Companies revisited the questionable status of the Gorgon booking at several points, beginning in 1999. The GAC Report cites, for example, the January 17, 2000 decision – reviewed in a presentation to the EP Executive Committee attended by Watts – to "freeze" the booking, despite a 20% increase in technical reserves, as an initial instance where the Group reviewed the booking of reserves at Gorgon. As noted by the FSA, the January 17, 2000 presentation explained that a freeze in booking was appropriate because of "'the limited market availability and already large uncommitted proved gas reserves.'" It further warned that "proved gas volumes in Australia have been a point of challenge by the external auditors . . . for the last two years and incremental booking at present would be hard to support." (Emphasis added.) In October 2000, the GRA affirmed this "freeze" status, against a local technical opinion in favor of de-booking. In 2002, the GRC concluded that the Companies should maintain Gorgon as proved reserves unless it was "absolutely clear that development will not proceed in a reasonable time frame." While de-booking continued to be debated, no action was taken until January, 2004. Indeed, between 1999 and January 9, 2004, according to the SEC, the Group "reevaluated whether to maintain Gorgon's 'proved' status." Significantly, as noted by the SEC, "[d]uring this time, Shell learned that none of its partners in Gorgon had booked proved reserves in the field."

205. By no later than 2002, as the SEC found, "Shell's EP personnel recognized that Gorgon was a 'dodgy' booking whose status as proved reserves was not supportable even under Shell's lenient 2002 internal reserves guidelines." Consequently, the Companies attempted to

manage the Gorgon reserves as a means of de-booking the reserves as proved: "In March 2000, Shell's Australian affiliate was instructed by regional Shell management to review options for gradually de-booking Gorgon proved reserves, such as by offsetting Gorgon de-bookings against then-anticipated new proved reserves bookings in Shell's Sunrise natural gas field in the Timor Sea." But, as set forth in the GAC Report: "In the words of the current Group Reserves Coordinator [John Pay], Gorgon had long 'stuck out like a sore thumb', but, at over 500 million boe, de-booking of the reserve was 'too big to swallow.'" To date, as noted in the SEC Complaint, "[n]o gas from Gorgon has ever been sold or firmly contracted for [sale], and Shell has yet to make a final investment decision to develop Gorgon's hydrocarbons."

2. Nigeria

206. Nigeria is rich in hydrocarbons. As noted by the SEC, "Nigeria represents one of Shell's largest worldwide concentration of reserves and production."

207. The development of the petroleum industry, which began in the late 1950s in the Niger Delta, gained momentum in the late 1960s and 1970s, radically transforming Nigeria from an agriculturally based economy to a major oil exporter. In 1971, Nigeria joined OPEC, and the State-owned Nigerian National Oil Corporation ("NNOC") was established. In 1977, the NNOC became the Nigerian National Petroleum Corporation ("NNPC"), the giant corporation that dominates all sectors of the oil industry, both upstream and downstream.

208. Since the late 1970s, the oil and gas industry has been the backbone of the Nigerian economy, accounting for over 90% of total foreign exchange earnings. Nigeria is the world's thirteenth largest producer of crude oil and natural gas liquids and the largest producer and exporter in Africa. In 2001, for example, crude oil production averaged 2.22 million barrels per day. At January 2002, the country's proved reserves were estimated at 24 billion barrels of oil

and condensates and gas reserves of 3,610 billion cubic meters, which is approximately 30% of African oil and gas reserves. These reserves are mainly from onshore fields on both dry land and swampy areas of the Niger Delta.

209. During the 1990s, the Nigerian deep and ultra-deepwater areas became the focus of major exploration by foreign oil companies with encouraging success. The first such success came in 1993 with the discovery of the Bonga oil and gas field.

210. The Bonga field is the first deepwater project for the SPDC and for Nigeria as a country. SPDC operates the field on behalf of the NNPC under a production-sharing contract, in partnership with Esso (ExxonMobil) (20%), Nigeria Agip (12.5%), and Elf Petroleum Nigeria Limited (12.5%). Defendant Watts announced the discovery of the Bonga field in 1999, when he served as head of EP.

211. The Bonga field lies 120 kilometers south-west of the Niger Delta, in water more than 1,000 meters deep. After acquiring, processing, and interpreting 3D seismic data in 1993/1994, the first Bonga discovery well was drilled between September 1995 and January 1996.

212. In May 2001, the SPDC drilled an exploration well on Bonga South-West ("Bonga SW") located approximately 10 kilometers south-west of the Bonga Field. Bonga SW was drilled in a water depth of 1,245 meters. The well reached its final depth of 4,160 meters and was subsequently logged and suspended.

213. The SPDC used a deep-sea floating production, storage, and off-loading vessel (the "Bonga FPSO") to extract, refine, and produce the oil and gas in the Bonga field. The Bonga FPSO is capable of producing 225,000 barrels of oil per day, exporting 150 million standard cubic feet of gas per day, and storing up to two million barrels of oil. Oil production will be transferred

from the onboard storage tanks to tankers and the gas to an offshore gas-gathering pipeline for eventual liquefaction at the Nigeria Liquefied Natural Gas plant at Bonny Island.

214. The Bonny Island facility was completed in September 1999. The Nigeria Liquefied Natural Gas Corporation, which is comprised of the NNPC (49%), the Companies (25.6%), TotalFinaElf (15%), and Agip (10.4%), operates the Bonny Island facility. Natural gas from dedicated fields initially supplied the facility with gas for conversion into LNG. However, since 1999, the facility has also converted associated natural gas to LNG.

215. The Bonga field is the largest oil field in Nigeria with an estimated output of more than 225,000 barrels of crude oil per day. The Bonga project was originally set to come on stream in 2003. The Bonga field is estimated to contain 600 million boe. Analysts expected that Nigeria would deliver 33% of the Shell Group's production increases through 2007.

216. Although the Bonga project was set to come on stream in 2003, extraction and production of the field was beset with problems (e.g., issues with the construction of the Bonga FPSO (such as leaks in the hull) and its installation in Nigeria (the Bonga FSPO left Newcastle, England on October 19, 2003, for Nigeria (with no propulsion system of its own, the vessel had to be towed)), infrastructure issues, compliance with government mandates, lack of adequate government funding, and ethnic unrest) that made proved reserves classification improper and in violation of SEC guidelines. As shown in the Cease and Desist Order, the Notice to Take Action, the GAC Report, and the news media, Defendants knew of these problems, and knew that the booking of reserves was unreasonable and improper.

217. By 1999, the SPDC had booked proved reserves based upon the Shell Group's 1998 revised guidelines and forecasts that, as the SEC noted, "gave the appearance that the proved portion of the reserves could be produced within the remaining license period." Their

forecasts were predicated on myriad assumptions, rather than existing conditions as required by SEC rules, concerning Nigeria's economic stability and increased production quotas from the Nigerian government and OPEC. As the SEC found, however, "none of these assumptions was reasonable, particularly in light of the fact that SPDC's operations performed well below the projected levels throughout the period."

218. EP management was advised in the January 17, 2000 presentation that a substantial part of SPDC's reported proved reserves (in excess of 600 million boe) was constrained by license expiration and depended on unrealistic production forecasts that appeared to have been "reverse engineered" solely to support the reserve figures. The presentation also concluded that the Group's 1999 RRR was 37%. According to the SEC and FSA, however, "EP management forcefully rejected this conclusion and instead caused Shell to report a 56% RRR for that year."

219. The GAC Report also spoke of the January 17, 2000 presentation. According to the GAC Report, no later than early 2000, EP management was aware that a substantial amount of proved reserves booked by SPDC "could not be produced as originally projected or within its current license periods." Incredibly, management decided, "[r]ather than de-book reserves, an effort was undertaken to manage the problem through a moratorium on new oil and gas additions, in the hope that SPDC's production levels would increase dramatically to support its reported reserves."

220. The following month, the GRA submitted his report on the Group's 1999 proved reserves, wherein he repeated the foregoing concerns, noting that SPDC faced license expiration problems and could support its proved reserves figures only through "significant aspirational upturns in future offtake levels in order to justify their proved reserves levels." The SEC found

that the GRA "repeated these concerns, without EP taking any steps to de-book non-compliant reserves. . . ."

221. By early 2002, according to the SEC, "other Shell reserves personnel, including the Group Reserves Coordinator, had raised concerns within EP that SPDC's reported proved reserves could not be produced within existing license constraints."

222. Thereafter, according to the SEC, "EP management continued to review the technical and commercial maturity of SPDC's reserves. After completing the initial phase of its work in September 2003, the EP review team concluded that there was an approximately 750 million boe 'gap' between the reported proved reserves and those supported by projects in the business plans." Also in September 2003, the GRA reported the results of his just-completed audit of SPDC's proved reserves, concluding that "there can be no doubt that the portfolio of proved oil reserves per [January 1, 2003] has been overstated due to insufficient maturity in the underlying future projects." As noted by the SEC, the GRA indicated that "the 'precise' amount of de-booking required was dependent on additional reviews already underway by EP."

223. By November 2003, the EP review team completed the second phase of its work. As noted by the SEC, "[i]t confirmed the earlier findings of a 750 million boe 'gap' and added another 800 million boe of proved reserves that were not sufficiently mature under Shell guidelines."

224. Management also decided that it would conceal the reserves problem from the investing public. As noted in the news media, the December 8th Report recommended that "any debooking of proved reserves" in Nigeria should "not be identified publicly with Nigeria," but classified under a wider geographic area. Accordingly, in February 2004, the Shell Group reported reserve information about Nigeria in the context of its African operations, which it said

accounted for 1.5 billion barrels of the revision. The Shell Group has operations in several African countries, including Libya and Egypt, but, as reported in THE NEW YORK TIMES on March 19, 2004, Nigeria is the only country listed in a "potential reserves exposure catalog" that was distributed to senior executives late last year.

a. Poor Infrastructure Slowed Recovery

225. Oil fields require a large infrastructure to produce, process, and transport the hydrocarbons to market. As the Shell Group brought new oil wells on line, each required capital expenditures and commitments to infrastructure to process and transport the oil and liquid natural gas. As alleged above, by no later than 2000, EP management knew that the SPDC had been encountering infrastructure and transportation problems that made the booking of proved reserves improper.

226. Beginning in 1997, the Nigerian government mandated that natural gas flaring end by 2008 and that these resources be captured. Flaring is a means of disposing of waste hydrocarbon gases by burning them. With an elevated flare, the combustion is carried out through the top of a pipe or stack where the burner and igniter are located. Flaring adversely affects the environment by, among other things, releasing sulphur oxides into the atmosphere, when the gas contains sulphur.

227. The Companies stated that they were committed to meeting the 2008 target to cease flaring and planned to recapture the gas for sale. The Shell Group's website stated that "this opportunity [to gather gas] is going well." The Companies stated that they planned to integrate oil and gas production, that they had three production processing trains fully operational, and that they were building additional trains to meet the deadline.

228. The end of flaring required new investments in infrastructure of older oil production facilities to meet Nigeria's mandate. However, according to THE NEW YORK TIMES on March 19, 2004, many oil field projects did not include plans to gather natural gas, and oil production would have to be stopped unless the Companies found a way to use the gas. Van de Vijver conceded as much in a February 5, 2004 conference with market analysts: "it is clear that the growth production onshore in Nigeria is less than what we and what the government had hoped five/ten years ago, and it's all linked with the complexity of putting the integrated oil and gas development together, building the gas infrastructure and not only to collect and compress the gas, but also to transport it over the vast onshore delta and also ultimately bringing to Nigeria and the LNG."

229. The GAC Report observed that in Nigeria, there was "a significant decrease in the reserve 'offset' supposedly available due to 'fuel and flare.'"

b. Lack of Governmental Financing Slowed Recovery

230. A major problem facing Nigeria's upstream oil sector has been insufficient government funding of its joint venture commitments. As reported in THE NEW YORK TIMES on March 19, 2004, in November 2003, the International Energy Agency (the "IEA") found that joint ventures – like Shell Transport's in Nigeria, where it is in partnership with the government – "suffered from underinvestment, because of a lack of state funding." Under the joint venture arrangements, the Nigerian government and its partners contribute to these projects according to their equity holding. According to the IEA and to local news media reports, government budget and other developments had shifted more of the financial burden of developing oilfields to foreign investors.

231. The 2002 SPDC Annual Report is illustrative of the funding problems that faced the SPDC. The report stated that "2002 was a challenging year. The Federal Government allocated a budget of $3.2 billion to the oil industry to fund the Nigeria National Petroleum Company's (NNPC's) interest in joint ventures. This was lower than the 2001 budget and well below the level requested by the industry."

232. The report also stated that "[t]he budget constraint led to a major reduction in investments to increase oil production capacity, improve infrastructure and increase reserves. Also, we experienced serious difficulty in paying our contractors and suppliers, and we incurred delays in settling outstanding invoices to third parties." Nevertheless, the SPDC booked a portion of the reserves as proved.

c. Political Unrest and Delay Slowed Recovery

233. In addition to financial issues, political and ethnic strife in the Niger Delta region, including violence, kidnapping, sabotage, and the seizure of oil facilities, contributed to the Companies' inability to manage reserves. As reported in the December 8th Report, "Community disturbances and political instability" were also to blame. Much of Nigeria's oil reserves are located in the delta region in the south, where unrest forced the Companies to reduce production.

234. In early March 2003, for example, the Shell Group removed its non-essential staff and later shut down its operations in the Niger Delta region, evacuating all personnel, on March 19, 2003. The Companies closed their flow stations, which had a combined capacity of 126,000 bbl/d. The Group later evacuated four oil facilities – oil pipeline pumping stations at Ogbotobo, Opukushi, Tumo, and Benisede – on March 24, 2003, raising the number of closed Group facilities to 14. These actions shut-in 320,000 bbl/d, or nearly one-third of the Shell Group's Nigerian output.

d. The Need To Protect OPEC Interests

235. Internal documents show that the Shell Group concluded that more than 1.5 billion barrels, or 60% of its Nigerian reserves, did not meet SEC standards for proved reserves. The scale of the revision is important because Nigeria is seeking to increase its production quota within OPEC. As CS 4 has explained, the size of proved reserves is a basic consideration when OPEC sets quotas for its members. At stake for Nigeria are billions of dollars in revenue annually.

236. According to the December 8th Report, identifying the extent of the Shell Group's lowered reserves in Nigeria could affect Nigeria's "quota discussions" with OPEC. Nigeria had been seeking a quota increase as part of a plan to double its daily production in the next several years.

237. As reported by the news media, the reserves reclassification also relates to OPEC restraints. THE TIMES [LONDON] reported on January 10, 2004, that the Shell Group was unable to comply with Nigeria's OPEC quota. Consequently, the "[C]ompany should not have booked reserves of oil that Nigeria was unable to export."

238. Shell Group executives were acutely aware of the potentially explosive political effect of their cutting their estimates of Nigerian reserves. In the December 8th Report, which was prepared for senior executives, such as van de Vijver, the authors recommended that the revised Nigerian reserves remain "confidential in view of host country sensitivities."

239. Internal documents show that in April 2001, the Group submitted papers to Nigerian authorities, forecasting production increases of as much as 70% by 2003. Another set of documents prepared between 2001 and 2003 showed increases in reserves booked with the government based largely on data reviews, rather than new wells. (See FINANCIAL TIMES, April 15,

2004.) Data reviews, however, do not generally suffice to satisfy the SEC's requirements for classifying a reserve as proved.

240. According to Jonathan Bearman, managing director of Clearwater, a consulting firm that does business intelligence work in Nigeria, "Concerns had been growing among Nigerian oil officials for some time. There were quite big claims made about total reserves and Shell accounted for a large part of that."

241. Bearman also said that concerns were raised in mid-2003 after the Nigerian government's annual independent audit of its partnerships with the Shell Group and other oil producers. Issues raised included the Group's aggressive production growth estimates and the number of reserves the Companies were booking with the government, going back as far as five years.

242. At the end of 2002, the Shell Group recorded 2.524 billion barrels of proved reserves in Nigeria, but as the December 8th Report found, only 990 million barrels "fully complie[d]" with SEC guidelines. Internal documents show that senior managers were told in December 2002 that 720 million barrels in Nigeria were "noncompliant" with guidelines established by the SEC, and that a further 814 million barrels were "potentially noncompliant."

e. Nigeria's Reserve Addition Bonus

243. The December 8th Report stated that the publication of too much information concerning the lack of reserves could jeopardize the Companies' negotiations with Nigeria over $385 million in bonus payments.

244. From 1991 to 1999, Nigeria offered the Companies and other foreign oil companies an incentive to increase reserves, called a Reserves Addition Bonus ("RAB"). As noted by THE LONDON TIMES on March 21, 2004, "The Nigerian government offered oil companies

tax breaks from 1991 to 1999 for oil-reserve additions – or any oil reserves added over and above what they expected to find."

245. According to the December 8th Report, the Group claimed that it was owed $385 million under the bonus program, but had only sought 30% to 50% of the claim.

246. According to the December 8th Report, van de Vijver said that while in principle a debooking of S.E.C. proved reserves should not impact on RAB, a debooking would "likely . . . undermine the current resolution process, or would jeopardize relations if a settlement were agreed just ahead of a de-booking," adding that this would put $115 million to $170 million "at risk."

3. Oman

247. Oman is atypical of Persian Gulf oil producers. Its oil fields are generally smaller, more widely scattered, less productive, and more costly per barrel than those of other Persian Gulf countries.

248. The Shell Group has been involved in developing Oman's natural resources since oil was first discovered in Oman in the 1930s. The Group owns 34% of PDO, Oman's dominant oil and gas exploration company. The other partners in PDO are the Omani government (60%), Total (4%), and Partex (2%). PDO accounts for 90% of the sultanate's oil production and virtually all of its natural gas production.

249. According to PDO, the bulk of Oman's oil reserves are located in the country's northern and central regions. Oman's largest oil reservoir is a mature field called Yibal.

250. Oil production in Oman has declined since 1997. In 2003, PDO estimated that Oman had less than 20 years left as a major oil-exporting nation. Estimates also suggest that Oman has approximately 40 billion barrels of oil that have not been recovered. Accordingly,

finding ways to increase recoverability is a top priority. For Oman to produce additional oil out of its mature fields, PDO employs a variety of enhanced oil recovery ("EOR") techniques, such as horizontal drilling.

a. Horizontal Drilling Did Not More Efficiently Recover Reserves

251. In the last 10 years, horizontal drilling has become one of the most important innovations in the oil production business and is widely used around the world. The Group claims that, properly managed, horizontal drilling can extract a higher percentage of oil from certain fields, and recover oil more efficiently than traditional vertical drilling.

252. Horizontal drilling creates lateral wells that contact more reservoir volume than a traditional single vertical well. In Oman, both oil and water were produced from the wells, and the oil is separated from the mixture in surface facilities.

253. The December 8th Report found that using horizontal wells did not increase the amount of oil that will ultimately be recovered from the reservoir. In Oman, horizontal drilling resulted in large amounts of water being produced with the oil, in contrast to the original expectation that less water would be produced with the oil. This result demonstrated that although horizontal drilling may work in some places, it may not always be the answer to declining production rates in some of the mature fields of the Middle East.

254. An example of the failure of horizontal drilling is demonstrated by the Yibal field. The declines in the Yibal field were detailed by PDO officials in two papers published in 2003 by the Society of Petroleum Engineers (SPE 84939 and SPE 81489). The papers stated that about 90% of the liquid coming out of the Yibal field was water and only 10% was oil. The high volume of water, one paper said, comes in part from the water that the Companies injected into the reservoir as part of their overall pressure maintenance recovery scheme employed at Yibal.

This high volume of water being produced adds considerably to the costs and delay of extracting the oil.

255. The two engineering papers also show that production in Yibal had fallen at an annual rate of about 12% for six years – more than twice the normal rate of 5% in the region. Additionally, the papers agree that production peaked in 1997 and declined more than 50% by 2000.

256. As reported in THE NEW YORK TIMES on April 8, 2004, internal Group documents confirm that production at the Yibal field began to decline rapidly after 1997. Yet, Watts, in his remarks on May 29, 2000, continued to talk positively about the effect of horizontal drilling and other technologies at Yibal, saying it was "still the country's most important producer three decades after coming on-stream."

257. Since 2000, PDO missed production and reserve targets for three consecutive years. In PDO's 2000 Annual Report to Sultan Qaboos bin Said, Sultan of Oman, PDO reported that it had planned "to increase the production of black oil by 18,000 barrels per day (b/d) in 2000, to a record level of 850,000 b/d. This ambitious growth target proved to be too challenging. The black-oil production during 2000 averaged 840,000 b/d, that is, 8,000 b/d higher than the 1999 production level but 10,000 b/d below the target."

258. PDO's 2001 Annual Report to Sultan Qaboos bin Said, Sultan of Oman ("PDO 2001 Report") stated that: "We missed our oil production target by 2% in 2001. This shortfall may appear small in percentage terms, but it is important for the Sultanate, which still relies to a large extent on PDO's oil production. We realised in 2001 that our reservoirs are becoming mature and that the emphasis of the Company has to move away from drilling wells to more active reservoir management and ultimately to enhanced oil recovery (EOR) techniques."

259. The PDO 2001 Report also stated that, "[i]n 2001 a total of 151 million barrels of black oil were added to the Company's reserves, falling well below the target of 410 million barrels." Because PDO produced a total of 303 million barrels of oil over the year, black-oil reserves declined by 152 million barrels, representing a drop of 3%. At the end of 2001, black-oil reserves stood at 4.862 billion barrels.

260. Shortfalls in production and reserves were also seen in 2002. PDO's 2002 Annual Report to Sultan Qaboos bin Said, Sultan of Oman, stated that PDO missed oil production targets by 44,000 barrels of oil per day and was short of oil reserve additions. After three years of missing production and reserve targets, PDO reduced its 2003 production target and its reserve addition target from old oil fields.

b. Shell Management Increased Oman's Reported Reserves

261. By the end of 2000, despite the production decline in Oman, the Group and PDO determined to increase PDO's proved reserves estimates. Based on the 1998 revisions to the Shell Group's guidelines, the Companies revised PDO's proved reserves upward "by assuming that, for fields of certain maturity, both proved developed and proved undeveloped reserves would be increased to equal the expectation developed and undeveloped volumes." The increase added 251 million boe to the Shell Group's reported proved reserves at December 31, 2000. Internal Group documents show that the figure for proved oil reserves in Oman was improperly increased in 2000, resulting in a 40% overstatement.

262. In mid-2001, PDO began to experience a steep decline in production. Within a few months, the situation had grown sufficiently worse, causing PDO to withdraw its long-term business plan for 2002. As noted by the SEC in the Cease and Desist Order, "[t]he production decline also prompted the Omani government to question the volume of expectation reserves

PDO was carrying, as a result of which Shell agreed to a $30 million 'down payment' to the Omani government on what was expected to be an eventual refund of expectation reserve booking fees it previously had received." By the end of 2001, as production continued to decline, PDO operated without a reliable or realistic long-term business plan on which to base its proved reserves reporting. According to the SEC, "[w]ith Shell's encouragement, PDO instead adopted an 'aspirational' production forecast to support its reported proved reserves figures."

263. As explained in the Cease and Desist Order, during 2002, the Companies were advised that PDO's proved reserves figures "depended upon sustaining current production rates, without any declines, throughout the remaining lifetime of the production license, which was to expire in 2012." As noted by the SEC, "[i]n view of the production declines already being experienced, this was not realistic. Shell nevertheless continued to report its share of PDO's reserves as proved at year-end 2002."

264. These events were confirmed in the GAC Report. According to the GAC Report, the reserve overstatement stemmed from insufficient technical work that was done to support the increase in reserves. When serious production declines were suffered thereafter, these increased reserves were maintained based upon aspirational production targets. The GAC concluded in its report that various members of EP management, including Defendant van de Vijver, were aware of the matter when the production problems increased, and the Companies agreed to make the $30 million down payment (in the form of a deduction against its 2001 net reward) in partial payment for an inchoate debooking of expected reserves.

265. The Shell Group's interest in increasing shareholder value in the short-term played a part in the overvaluation of the reserves: because its license in Oman expires in 2012, it emphasized producing more oil sooner. Indeed, the December 8th Report stated that "the extreme

focus on short-term development opportunities ('keep the rigs busy to keep the oil rate up') to the detriment of defining long-term projects" also drained Oman's reserve pool.

266. In the December 8th Report, the Shell Group recommended that the lowered amount of Oman's proven reserves be kept confidential because of the nexus between reserves and bonus compensation. As reported by THE NEW YORK TIMES on April 8, 2004, "according to the report, [proven reserve figures] involve[ ] negotiations over bonuses that the company can win for increasing reserves. The basis for the bonus is a less rigorous standard – called expectation reserves – than the proven-reserves yardstick that the Company is required by the SEC to list in periodic filings." The December 8th Report said that "the expectation reserves may be overstated."

267. The December 8th Report also said, "With hindsight, it might have been more appropriate to correct the expectation estimate down rather than the proved estimate upwards." The report said that it was understood at the time when the reserve estimate was increased that a more detailed assessment would follow. But it was not until 2003, four years after the previous audit, that the Shell Group did an audit of proved reserves of its operations in Oman. As a result, "[p]roved total reserves are currently overstated by some 40 percent."

268. As alleged herein, the Shell Group reclassified 2.3 billion boe due to "project maturity in existing producing areas," such as Nigeria and Oman. In Oman, 393 million boe of proved reserves associated with PDO had to be de-booked as noncompliant with SEC rules. The SEC found that "[o]f this amount, 144 million boe were non-compliant because they were 'associated with projects . . . not sufficiently mature to qualify as proved undeveloped reserves.' The remaining 249 million boe were non-compliant because they were not supported by any identified projects."

4. Norway (Ormen Lange)

269. The Ormen Lange field, named after a large Viking ship celebrated in Norse sagas, is located in the Norwegian Sea, approximately 140km west of Kristiansund, Norway. The field is the second-largest gas discovery on the Norwegian continental shelf. The discovery well was drilled in 1997. The field contains estimated resources of 315 billion cubic meters ("m^3") of natural gas. The main gas reserves lie in a reservoir in the Egga interval.

270. Licenses for the development and production of the field are held by the following project partners:

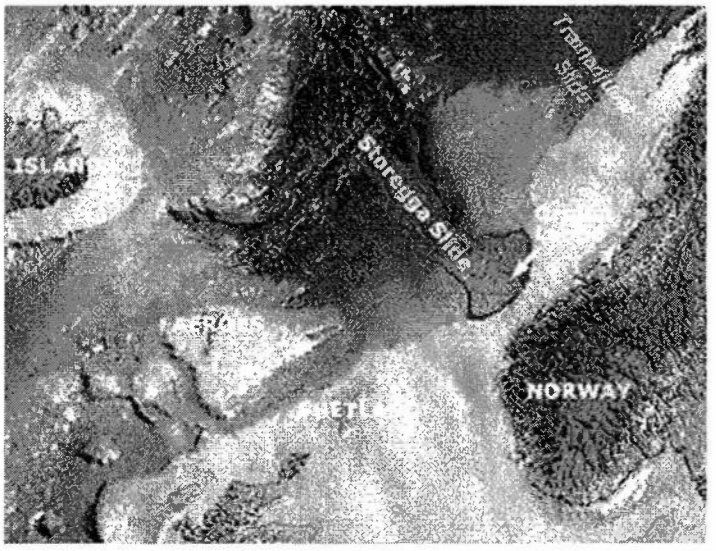
- Norske Shell ("Shell Norway"): 16% (production operator)
- Norske Hydro Produksjon ("Norske Hydro"): 14.78% (drilling operator)
- Statoil: 8.87%
- State's Direct Financial Interest (SDFI): 45%
- BPAmoco Norge ("BP"): 9.44%
- Esso Norge ("ExxonMobil"): 5.91%

271. Norske Hydro and Shell Norway share operator responsibilities for the field. Norske Hydro is responsible for the development phase of the project, while Shell Norway is responsible for developing the transport of the gas and all the commercial relationships, and for operating the field during its producing life.

272. Planning and development of the Ormen Lange field has been described as one of the most challenging assignments that a group of oil companies has ever undertaken, not just in Norway but worldwide. Indeed, since 1997, the project partners have encountered technical challenges involving harsh deep-water conditions, harsh weather conditions, freezing water temperatures, and an uneven seabed.

273. The Ormen Lange field lies in water depths of 800-1200 meters, close to the steep back wall left by the Storegga submarine slide, which occurred 7,000-8,000 years ago. The Storegga slide was triggered by a major earthquake and weak sedimentary layers.

274. The Storegga slide created a 10-20 meter high tidal wave that reached the Norwegian and British Isles coasts. The mass slid about 800 kilometers into the deep sea, and its back edge is around 300 kilometers long. As shown in the picture that follows, the Ormen Lange field is in the middle of the depression left behind by the Storegga slide and is close to the steep slide edge, which rises 200-300 meters up towards the continental shelf. The gas in the field cannot be reached by wells that might possibly be drilled from outside the slide area.



275. According to Norske Hydro, "The Storegga slide seabed is undulating, with local elevation[ ] [variations] of up to approximately 50 m to 60 m (164 ft to 197 ft) above [the average] seabed level." Further complicating development and production is the variable seabed soil, which varies between hard and soft.

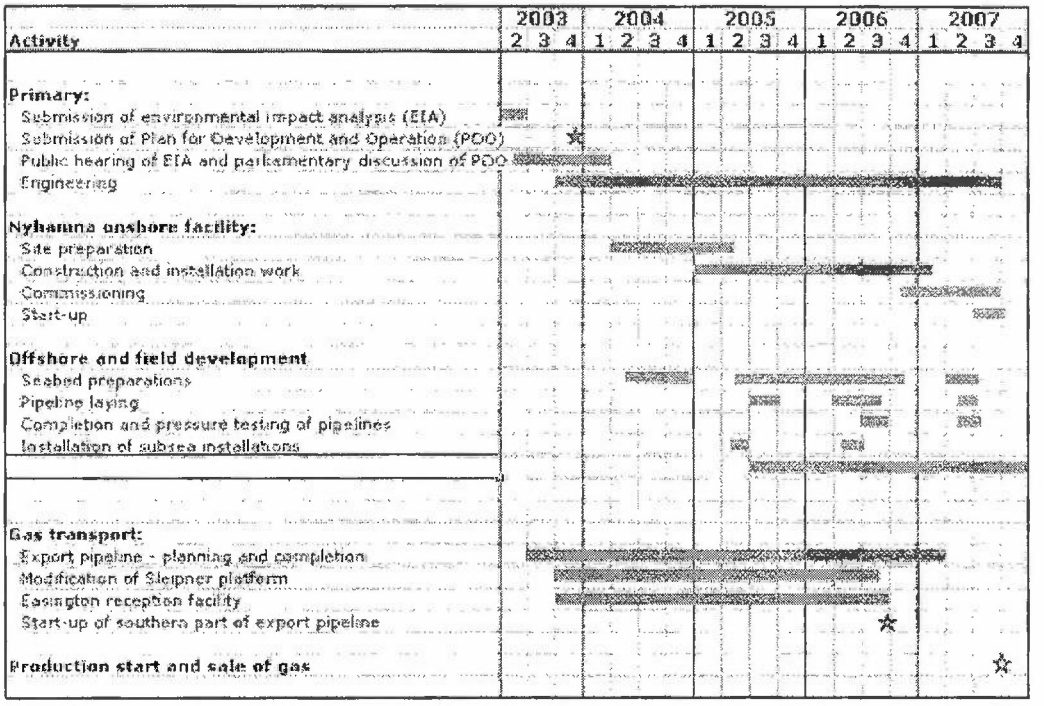
276. Any new subsea export pipeline from the field location has to traverse this complex sea bottom topography and then rise up the seabed escarpment to a higher plateau – a

height of at least 1,640 ft (500 m). Effectively, this means building a pipeline up a subsea cliff face.

277. The planning and design of a reliable and safe pipeline route has required a significant feat of engineering. According to Norske Hydro, it was not until "early 2002" that the project partners were able to identify "a pipeline route out of the slide area and up the escarpment."

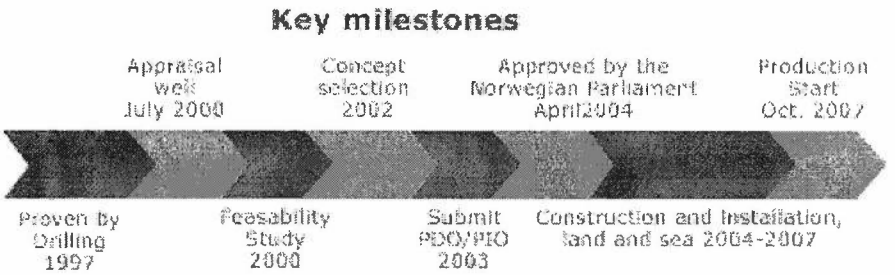
278. According to the news media, the project partners were very concerned that the pipeline construction activities might trigger another major slide event. Consequently, they conducted a $100 million study to establish its safety. This study began in early 2000, and was completed in mid-2003, when it found the project safe to proceed.

279. In June 2001, the project partners decided to modify the timeframe for developing the field. According to Bengt Lie Hansen, Norske Hydro's head of the mid-Norway sector of Exploration and Development, "Studies and tests show there's a need to use more time mapping and doing essential preliminary work to determine the best concept and to optimize well placement. The area's complex sea topography and extreme subsea conditions . . . prolonged the process of gathering and evaluating data associated with the pipeline route." Even as late as 2003, the project's partners were still struggling to determine whether European markets could absorb the supply of natural gas from the field. Consequently, the project partners extended the schedule for delivery of the plan for development and operation ("P.D.O.") to the Norwegian authorities until the fall 2003. The slide below (taken from the Ormen Lange website) illustrates the project's new time table:



280. The P.D.O. for the Ormen Lange gas field was submitted to the Ministry of Petroleum and Energy on December 4, 2003, together with the Plan for Installation and Operation for the new subsea gas export pipeline, named Langeled, to the United Kingdom. The Norwegian government did not approve the submissions until April 2, 2004. As shown in the above timetable, production start-up is now projected to commence in the fall of 2007.

281. Unlike its project partners, the Companies began booking reserves from the Ormen Lange field years before the Shell Group and its partners could work out the difficult technical and marketing hurdles on the project. Indeed, in 1999, just two years after the field was discovered, the Companies started booking gas reserves even before an appraisal well was drilled or a feasibility study conducted, let alone the safety study discussed above:



282. According to Thor Tangen, senior vice president with Norske Hydro and the project's director until January 2004, when the Shell Group booked the Ormen Lange reserves in 1999, the project partners had drilled just two exploration wells and done some preliminary feasibility studies. The Shell Group relied on three dimensional ("3D") seismic data to book reserves before additional delineation wells were drilled, which is not sufficient to satisfy SEC guidelines. As reported in the May 20, 2004 edition of ACCOUNTANCY, "Shell flow-tested two wells then used 3D seismic technology to say it had proved reserves between the two, rather than drill an additional well that could quite easily have cost $20 [million]."

283. Of the Ormen Lange partners, only the Shell Group booked reserves as proved. Norske Hydro, Statoil ASA, BP, and ExxonMobil all held off booking reserves from Ormen Lange until December 2003/early 2004. The Shell Group's proved reserves booking from Ormen Lange eventually grew to approximately 109 million boe.

D. Internal Control Deficiencies

284. The Shell Group maintains a system of internal controls for which management in the Group is responsible for implementing, operating, and monitoring. According to the Shell Group's Form 20-F's, the Conference regularly reviews the overall effectiveness of the Shell Group's system of internal control and performs a full annual review of the system's effectiveness.

285. At the Group level and within each business, risk profiles that highlight the perceived impact and likelihood of significant risks are reviewed each quarter by the CMD and by the Conference. Each risk profile is supported by a summary of key controls and monitoring mechanisms.

286. The Shell Group has represented that it enforces its system of internal controls through a number of general and specific risk management processes and policies. As set forth in the Form 20-F's, "the Group's primary control mechanisms are self-appraisal processes in combination with strict accountability for results. These mechanisms are underpinned by controls including Group policies, standards and guidance material that relate to particular types of risk, structured investment decision processes, timely and effective reporting systems and performance appraisal." Further:

> An explicit risk and internal control policy was approved by the Boards of the Group Holding Companies in December 1999. This policy 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 this policy and with published advice on best practice, existing processes are being strengthened and formalized to bring into greater focus the identification, evaluation and reporting of risk as an integral part of the system of internal control. As part of their existing planning processes, businesses will now consolidate and report risk profiles, critical risk response summaries and descriptions of how risk and control management effectiveness will be monitored. In addition to existing ad hoc reporting mechanisms, the Committee of Managing Directors will receive regular updates on this information during quarterly business performance reviews, and will also consider the risks associated with objectives and long-term plans. The results of this work will be presented to Conference (meetings between the members of the Supervisory Board and the Board of Management of Royal Dutch and the Directors of Shell Transport) on a quarterly basis.

1999 Form 20-F.

287. Additionally, the Shell Group relies on both internal and external audit functions to ensure the effectiveness of its control systems.

288. The false and misleading booking of "proved reserves" was possible because of material internal control deficiencies in the Shell Group's internal financial and accounting controls, which Defendant van de Vijver recognized violated the disclosure requirements of the U.S. securities laws. As noted in the GAC Report: "The booking of aggressive reserves and their continued place on Shell's books were only possible because of certain deficiencies in the Company's controls." The GAC Report cites, as an example, the understaffing of the internal reserves audit function: "This function was performed by a single, part-time, former Shell employee; his cycle of field audits was once every four years; he was provided with virtually no instruction concerning regulatory requirements, or the role of an independent auditor and no internal legal liaison." According to CS 1, the GRA was "normally a sinecure for a former senior reservoir engineer, [who] had neither the time nor the resources to challenge operating company submissions. Audits were carried out but their principal purpose was to ensure that all documentation was in order rather than estimates, uncertainties, etc. being correct."

289. The GAC Report found that "[w]hile the GRA made 13 occasional attempts to bring proved reserves into compliance with both SEC rules and Shell Guidelines, he had neither the power nor facilities to insure such compliance." In fact, the GAC Report notes that the GRA "acquiesced in or attempted to assist Shell in 'managing,' rather than debooking, its nonqualifying reserves." Examples cited are the moratoria in Australia and Nigeria and the GRA's advice not to de-book the 40% non-compliant Oman reserves.

290. The deficiencies in the GRA's auditing function were so severe that, as the SEC found, between 1999 and September 2003, the GRA never issued an unsatisfactory report

concerning the Shell Group's compliance with its reserve reporting guidelines. This result is not surprising given the lack of independence of the GRA. As the SEC found in the Cease and Desist Order: "Moreover, he reported to EP management, meaning he was answerable to the same people he audited."

291. The GRA's lack of independence permitted the Shell Group's classification of reserves associated with a project to remain as proved, and, as the SEC found, "facilitated the booking of questionable reserves . . . and contributed to Shell's maintenance of increasingly questionable bookings (such as Gorgon and certain legacy bookings in Brunei) well after they should have been de-booked."

292. The GAC Report also observed that the Companies' guidelines "blurred the distinction between reserves reporting for internal decision-making and the requirements for regulatory reporting of proved reserves; were slow to incorporate SEC staff interpretations and, while reflecting an increased awareness of SEC rules, occasionally adopted an expedient of partial compliance; did not encourage OUs to review existing bookings for continued compliance and did not adequately address the need for debooking; and, were not clearly and succinctly written or organized to offer useful guidance to reservoir engineers in the OUs." As discussed herein, the findings of the SEC and the FSA are in accord.

293. Regarding the compliance role of the finance function, the GAC Report found that that function was not effective with respect to the subject bookings.

294. Boynton attended CMD meetings beginning in 2001 and became a member of CMD in 2003. Her responsibilities were different than other members of CMD; she had direct responsibility to ensure that the Companies' financial disclosures to the market and to regulators were correct. Boynton took virtually no action, before the initiation of the investigation that led

to the January 9th disclosure, to inquire independently into the underlying facts relating to the improper reserves bookings. Rather, Boynton relied upon the checks and balances of the Companies' representation and assurance process and the work of its independent external auditors to ensure compliance. As the memoranda prepared by Barendregt (the GRA) reveals, that process did not function properly.

E. Regulatory Actions

295. As alleged herein, various regulatory bodies have been investigating the events surrounding the reserves reclassification.

296. On August 24, 2004, the SEC issued its Cease and Desist Order, in which it concluded as follows:

a. The Companies violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder. The Companies knowingly or recklessly reported proved reserves that were non-compliant with Rule 4-10, and failed (i) to ensure that the Companies' internal proved reserves estimation and reporting guidelines complied with Rule 4-10, and (ii) to take timely and appropriate action to ensure that their reported proved reserves were not overstated in their filings with the SEC and other public statements.

b. The Companies violated Section 13(a) of the Exchange Act and Rules 13a-1 and 12b-20 thereunder. The Companies' failures to ensure that they estimated and reported proved reserves accurately in compliance with Rule 4-10 caused them to file annual reports on Form 20-F for the years 1997 through 2002 that were materially inaccurate, in that they overstated the Companies' reported proved reserves and accompanying supplemental information, including the standardized measure of future cash flows.

c. The Companies violated Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act. The Companies failed to create and maintain accurate estimates of their proved reserves in compliance with Rule 4-10, and failed to ensure that they implemented and maintained adequate controls with respect to their reserves processes, sufficient to provide assurance that the reserves were estimated and reported accurately in accordance with Rule 4-10.

297. The Cease and Desist Order also states that the Companies have undertaken to spend $5 million in the development and implementation of a comprehensive internal compliance program.

298. In a separate civil action filed simultaneously with the proceeding that was the subject of the Cease and Desist Order, Royal Dutch and Shell Transport consented to the entry of a judgment by the U.S. District Court for the Southern District of Texas, Houston Division, pursuant to Section 21(d) of the Exchange Act, ordering Royal Dutch and Shell Transport, together, to pay $1 disgorgement and a $120 million civil penalty. *SEC v. Royal Dutch Petroleum Co. and The "Shell" Transport and Trading Company, p.l.c.*, No. H-04-3359 (S.D. Tex. Aug. 24, 2004).

299. Also on August 24, 2004, the FSA issued its Final Notice to Shell Transport and Royal Dutch to Take Action, in which the FSA imposed a penalty of £17 million for "market abuse" and breaches of the FSA's Listing Rules. The FSA stated that it considered the Companies' misconduct to have been "particularly serious," requiring a "substantial financial penalty," because:

- Shell announced false or misleading proved reserves and reserves replacement ratios to the market throughout the period 1998 to 2003 inclusive;

- The false or misleading reserves information was not corrected until a series of announcements between 9 January and 24 May 2004 in

which Shell announced the recategorisation of 4,470 million barrels of oil equivalent, being approximately 25% of Shell's proved reserves;

- Shell's false or misleading announcements of proved reserves were made despite indications and warnings from 2000 to 2003 that its proved reserves as announced to the market were false or misleading;

- Shell failed to put in place or maintain adequate systems or controls over its reserves estimation and reporting processes; and

- Following the first announcement of its recategorisation of proved reserves on 9 January 2004, STT's share price fell from 401p to 371p (7.5%) reducing STT's market capitalization on that day by approximately £2.9 billion. On 9 January 2004 trading in the shares of STT accounted for more than 10% of the total volume of shares traded on the FTSE 100, of which STT was the seventh largest constituent by market capitalization.

FALSE AND MISLEADING STATEMENTS AND OMISSIONS

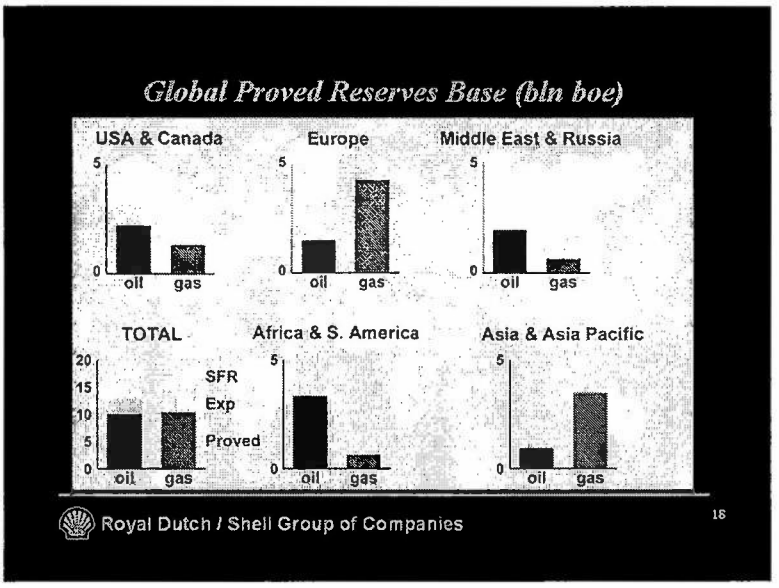
Statements Made in Second-Quarter 1999

300. On April 8, 1999, the Companies issued a press release entitled "Royal Dutch Petroleum Company and the 'Shell' Transport and Trading Company, p.l.c." According to the press release, the Exploration and Production Executive Committee, led by Watts, planned to present and discuss EP's plans and strategies before an audience of fund managers and analysts later that day in New York. The same presentation was to be given the next day in Rijswijk, in The Netherlands. The press release stated that the following points would be presented:

> ***Growth will build on the Group's extensive global resource base. The Group's proved reserves base increased by 1 billion barrels of oil equivalent from 19.4 end 1997 to 20.4 billion barrels of oil equivalent end 1998. The proved oil reserves at the end of 1998 were 10.0 billion barrels for oil and 10.4 billion barrels of oil equivalent for gas. The total resource base, including expectation reserves and scope for recovery, amounts to some 40 billion barrels of oil equivalent.*** [Emphasis added.]

301. As represented in the press release, both Watts and van de Vijver participated in a conference with fund managers and analysts in New York that same day. During the

presentation, Watts and van de Vijver discussed, among other things, the Companies' reserves and reserve replacement ratio. In the presentation materials posted on the Companies' web site, entitled "Improving Performance and Maximizing Value in Uncertain Times," the Companies' total proved reserve replacement ratio was represented to be 182%, and their proved reserves were represented as follows:



302. As Defendants knew or were reckless in not knowing, the statements in the previous two paragraphs – concerning the Companies' proved reserves and proved reserve replacement ratios – were materially false and misleading when made because Defendants failed to comply with SEC guidelines when booking proved reserves. See ¶¶ 6, 11-12, 127-42, 147, 149-84, 296, 489-91. As a result: as of December 31, 1997, the Companies inappropriately booked as proved approximately 557 million boe of natural gas relating to the Gorgon fields (see ¶¶ 187-205); beginning in the 1990s, and in particular the late 1990s, the Companies inappropriately booked volumes of proved oil in Nigeria characterized as "very large" by the GAC Report – perhaps as many as 1.5 billion barrels (see ¶¶ 206-46); according to the December

8th Report, the Companies' total proved reserves for Oman were overstated by "some 40 percent" (see ¶¶ 247-68); and the Companies overbooked proved reserves at Ormen Lange by more than 100 million boe (see ¶¶ 269-83). Over the course of the Class Period, Defendants overbooked proved reserves by 4.47 billion boe worldwide.

303. On April 23, 1999, the Companies filed with the SEC their Annual Report on Form 20-F for the year ended December 31, 1998 (the "1998 20-F"), signed by Defendant Maarten van den Bergh for Royal Dutch, and by Defendant Mark Moody-Stuart for Shell Transport. Under the headings "Description of Activities/Exploration and Production," the 1998 20-F gives the following summary information for proved developed and undeveloped reserves (at year end) for 1996, 1997, and 1998:

PROVED DEVELOPED AND UNDEVELOPED RESERVES (at year end)			
			Million barrels
	1998	1997	1996
Crude oil and natural gas liquids			
Group companies	8,779	8,354	9,049
Group share of associated companies	1,252	1,327	386
	10,031	9,681	9,435
			billion standard cubic feet
Natural gas			
Group companies	54,333	49,765	47,477
Group share of associated companies	6,129	6,366	5,550
	60,462	56,131	53,027

304. Under the heading "Exploration and Production," the 1998 20-F gives the following information concerning increases in total proved oil and gas reserves between 1997 and 1998:

> Reserves
>
> During 1998 the Group's total proved reserves for oil (including

> natural gas liquids) and natural gas increased from 19.4 to 20.5 billion barrels of oil equivalent. . . . The net additions to proved reserves more than replaced the 1998 production, with replacement ratios of some 140% for oil (compared with 130% in 1997) and some 250% for gas (compared with 210% in 1997). The additions to oil reserves arose mainly from revisions in existing fields in Nigeria, the UK and Oman, which were partially offset by reductions in Venezuela and the USA and by the disposition of Colombian interests. The additions to proved gas reserves result from increases and revisions in existing fields and from the acquisition of additional interests in gas fields in Malaysia, the Philippines, Bangladesh, Pakistan and Argentina.

305. In a section entitled "Supplementary Information – Oil and Gas," the 1998 20-F provides the following additional information about the Companies' reserves:

> 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.*** [Emphasis added.]

306. As Defendants knew or were reckless in not knowing, the statements in the previous three paragraphs – concerning the figures set forth for proved developed and undeveloped reserves (at year end), the figures for additions to proved oil and gas reserves and for replacement ratios, and the explanations for the increases, and the exclusion from reported reserves of volumes attributable to discoveries "which are not at present considered proved" – were materially false and misleading when made for the reasons given in ¶ 302, and the paragraphs cited therein.

307. Certain of the Companies' financial metrics are directly tied to their reported proved hydrocarbon reserves. Thus, when Defendants made the foregoing materially false and

misleading statements concerning those reserves (and related metrics, such as reserve replacement ratios), they also, as a consequence, made false and misleading financial statements. In the 1998 20-F, Defendants reported year-end cash flow provided by operating activities of $14.729 billion, which was overstated in an amount that cannot be determined from publicly available documents. Exploration costs were reported to be $1.603 billion, which were understated in an amount that cannot be determined from publicly available documents. Defendants reported net income for 1999 to be $350 million, which was overstated in an amount that cannot be determined from publicly available documents. (In their Annual Report on Form 20-F/A for the year ended December 31, 2002, Defendants admit that the Companies' "pre 2000" net income was overstated by $70 million (ignoring adjustments unrelated to reserves). Defendants do not allocate the $70 million overstatement in net income to specific years.)

308. Under the heading "Other Matters," the 1998 20-F also provides the following information, inter alia, concerning the Companies' internal controls:

> Internal controls
>
> The Royal Dutch/Shell Group of Companies has a number of control instruments that are considered to provide a reasonable balance between a comprehensive internal control structure and the need for a strong entrepreneurial decentralized culture. The primary control mechanisms are self-appraisal processes in combination with strict accountability for results. These mechanisms are underpinned by a number of checks and balances including mandatory policies, procedures (within the framework of the Royal Dutch/Shell Group of Companies' *Statement of General Business Principles*), and appraisals and reviews.

309. As Defendants knew or were reckless in not knowing, the statements in the previous paragraph concerning the existence of effective "control mechanisms" and "checks and balances" were materially false and misleading when made because Defendants failed to comply with SEC guidelines for the reporting of proved reserves (see ¶¶ 6, 11-12, 127-42, 147, 149-84,

296, 489-91); engaged in the "management" of proved reserves and the concealment thereof (see ¶¶ 14, 164-65); utilized only a single Group Reserves Auditor worldwide, who worked part-time, lacked the authority to require operating unit compliance, and reported to the very people he audited (see ¶¶ 148, 288-91); relaxed the Companies' accounting guidelines to enhance their bookings of proved reserves (see ¶¶ 127-42); and disregarded evidence of the improper classification of proved reserves (see ¶¶ 149-84). See generally ¶¶ 284-94.

310. The 1998 20-F attaches KPMG's "Report of Independent Accountants" for Royal Dutch relating to specified financial statements. The KPMG Report, which is dated March 11, 1999, states in relevant part:

> We have audited the Financial Statements of Royal Dutch Petroleum Company for the years 1998, 1997 and 1996 appearing on pages R-2 to R-6. The preparation of these Financial Statements is the responsibility of the Board of Management. Our responsibility is to express an opinion on the Financial Statements based on our audits.
>
> ***We conducted our audits in accordance with generally accepted auditing standards in the United States of America***. 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 the Board of Management in the preparation of the 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 Royal Dutch Petroleum Company at December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998*** in accordance with the accounting policies described on page R-3. [Emphasis added.]

311. Similarly, the 1998 20-F attaches PwC's "Report of Independent Accountants" for Shell Transport relating to specified financial statements. The PwC Report, which is dated March 11, 1999, states in relevant part:

> We have audited the Financial Statements of The "Shell" Transport and Trading Company, Public Limited Company for the years 1998 and 1997 appearing on pages S-3 to S-8. The preparation of the Financial Statements is the responsibility of the Company's Directors. Our responsibility is to express an opinion on those Financial Statements based on our audits.
>
> ***We conducted our audits in accordance with generally accepted auditing standards in the United States***. 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 the Company's Directors in the preparation of the 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 "Shell" Transport and Trading Company, Public Limited Company at December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 1998***, in conformity with the accounting principles described in Note 1 on page S-5. [Emphasis added.]

312. The 1998 20-F also attaches KPMG and PwC's "Report of Independent Accountants" for Royal Dutch and Shell Transport relating to specified financial statements. This Report, which is also dated March 11, 1999, states in relevant part:

> We have audited the Financial Statements appearing on pages G-2 to G-30 of the Royal/Dutch [sic] Shell Group of Companies for the years 1998, 1997 and 1996. 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 in the United States***. 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 the 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, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998***, in accordance with generally accepted accounting principles in the Netherlands and the United States. [Emphasis added.]

313. As KPMG and PwC knew or were reckless in not knowing, the statements in the previous three paragraphs – that KPMG conducted its audits of Royal Dutch in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of operations, and cash flow of Royal Dutch for the stated time periods in all material respects; that PwC conducted its audits of Shell Transport in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of operations, and cash flow of Shell Transport for the stated time periods in all material respects; and that KPMG and PwC conducted their audits of the Companies in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of operations, and cash flow of the Companies for the stated time periods in all material respects – were materially false and misleading when made for the following reasons: KPMG and PwC violated GAAS in conducting their audits (see ¶¶ 5, 18, 66, 72, 522-25), failed to properly evaluate the Companies' internal controls (see ¶¶ 65, 70, 517-18), failed to recognize and act upon red flags concerning improperly

booked proved reserves (see ¶¶ 148, 518, 526-28), failed to consider whether the Companies supplemental information, concerning oil and gas reserves and forecasted future cash flow based on those reserves, was in conformance with prescribed guidelines (see ¶¶ 519-21); failed to recognize and address the impact of the Companies' improperly booked proved reserves on the Companies' financial results (see ¶¶ 522-25), and suffered from disabling conflicts of interest (see ¶¶ 529-32).

314. According to a July 22, 1999 article in AFX NEWS, Royal Dutch and Shell Transport were named as "top picks" by an analyst at JP Morgan, based upon materially false and misleading information provided by Defendants. The article quoted the analyst as saying:

> "In the long term RD/Shell should have a faster underlying growth rate than its peers ***due to its superior oil and gas reserves*** and its emerging market exposure in the downstream." [Emphasis added.]

315. On September 24, 1999, in an article in AFX NEWS entitled "Royal Dutch Petroleum target price 64 eur – Lehman," Royal Dutch shares were reiterated "outperform" by analysts at Lehman Brothers, based upon materially false and misleading information provided by Defendants.

Statements Made in Fourth-Quarter 1999

316. On December 3, 1999, the Companies filed with the SEC their amended Annual Report on Form 20-F/A for the year ended December 31, 1998 (the "1998 20-F/A"). The 1998 20-F/A contains precisely the same statements quoted above in paragraphs 303 through 312 from the 1998 20-F (with differences only in internal page references), and those statements were materially false and misleading when made for precisely the same reasons given in those paragraphs. In addition, the 1998 20-F/A states as follows:

> Net additions to proved reserves in 1997 were equivalent to 129% of the year's production of crude oil and natural gas liquids and

> 210% of the year's natural gas production. Additions to oil reserves were achieved through new projects in Nigeria (offshore) and Russia (Sakhalin), [sic] oil reserves also increased in the UK, Canada, Oman and Nigeria (onshore) as a result of new fields and improved field recoveries. The marked increase in gas reserves is largely the result of new fields in Australia, the Malampaya project in the Philippines and other new upstream gas ventures as well as new fields and improved recovery in the Netherlands and Canada.

317. As Defendants knew or were reckless in not knowing, the figures set forth in the previous paragraph for additions to proved oil and gas reserves, and the explanations for those increases, were materially false and misleading when made for the reasons given in ¶ 302 and the paragraphs cited therein.

318. On December 16, 1999, AFX NEWS published an article entitled "Royal Dutch Petroleum higher as JP Morgan sets 72 eur fair." According to the article, JP Morgan raised its year 2000 earnings estimate for the Companies from 2.75 eur a share from 2.78, based on the Companies' upgraded outlook of $3.2 billion in cost savings by 2001 (as expressed in the Companies' analyst presentation on December 15, 1999).

Statements Made in First-Quarter 2000

319. According to a February 8, 2000 article in AFX NEWS, Morgan Stanley Dean Witter raised Royal Dutch shares to "outperform" from "neutral," with a price target of 60 eur a share.

320. According to a February 11, 2000 article in AFX NEWS, JP Morgan analysts raised their 2000 and 2001 earnings per share estimates for the Companies based on their higher than expected earnings.

321. On or about February 16, 2000, Royal Dutch filed a Form 6-K with the SEC, signed by Defendant van der Veer (the "Feb. 16, 2000 6-K"). The Feb. 16, 2000 6-K reported that "The hydrocarbon reserve replacement ratio for 1999 was 101%."

322. As Defendants knew or were reckless in not knowing, the reserve replacement ratio set forth in the previous paragraph was materially false and misleading when made for the reasons given in ¶ 302 and the paragraphs cited therein.

323. Certain of the Companies' financial metrics are directly tied to their reported proved hydrocarbon reserves. Thus, when Defendants made the foregoing materially false and misleading statements concerning those reserves (and related metrics, such as reserve replacement ratios), they also, as a consequence, made false and misleading financial statements. In the Feb. 16, 2000 6-K, Defendants reported year-end cash flow provided by operating activities of $11.059 billion, which was overstated in an amount that cannot be determined from publicly available documents. Exploration costs were reported to be $1.086 billion, which was understated by an amount that cannot be determined from publicly available documents. Defendants reported net income for 1999 to be $8.584 billion, which was overstated in an amount that cannot be determined from publicly available documents. (In their Annual Report on Form 20-F/A for the year ended December 31, 2002, Defendants admit that the Companies' "pre 2000" net income was overstated by $70 million (ignoring adjustments unrelated to reserves). Defendants do not allocate the $70 million overstatement in net income to specific years.)

324. On or about March 17, 2000, Shell Transport filed a Form 6-K with the SEC (the "Mar. 17, 2000 6-K"). The Mar. 17, 2000 6-K set forth the same information described above in connection with the Feb. 16, 2000 6-K, and was materially false and misleading when made for the same reasons.

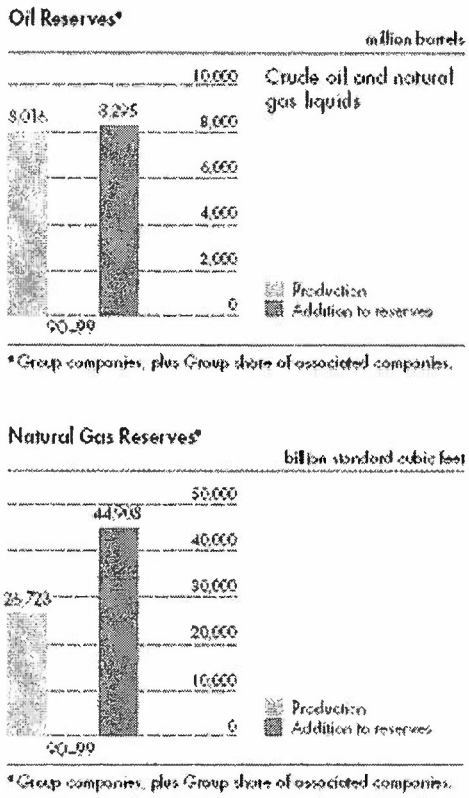
325. In or about March 2000, Royal Dutch issued its "Annual Report 1999" (the "1999 RD Annual Report"), and Shell Transport issued its "Annual Report 1999" (the "1999 ST Annual Report" and, together with the 1999 RD Annual Report, the "1999 Annual Reports"). Defendant

van den Bergh signed the 1999 RD Annual Report on March 8, 2000, and Defendant Moody-Stuart signed the 1999 ST Annual Report on March 9, 1999.

326. The 1999 Annual Reports set forth numerous materially false or misleading statements concerning proved hydrocarbon reserves. For example, the 1999 Annual Reports give the following information concerning Group replacement ratios of crude oil and natural gas for both 1999 and the three-year period from 1997 through 1999:

> Reserves
>
> The overall 1999 replacement ratio of proved crude oil and natural gas reserves and oil sands stands at 101% (147% excluding 1999 divestments and acquisitions). Additions through revisions and discoveries, together with the new Canadian oil-sands project (which is disclosed separately from crude oil and natural gas proved reserves), are offset by reductions due to production and portfolio activities. The replacement ratio of the overall 1999 crude oil and natural gas proved reserves (including natural gas liquids, but excluding oil sands) is 102% before and 56% after divestments and acquisitions.
>
> The three-year rolling average replacement ratio for total crude oil and natural gas proved reserves (including portfolio activities) stands at 132%, reflecting the fact that oil and gas production over 1997-99 has been more than replaced by net additions over the same period.

327. The 1999 Annual Reports graphically depict the Companies' oil and natural gas reserve information as follows:



328. In a section entitled "Supplementary information – oil and gas," the 1999 Annual Reports provide the following additional information about the Companies' reserves:

> 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.*** [Emphasis added.]

329. As Defendants knew or were reckless in not knowing, the statements in the previous three paragraphs – concerning replacement ratios, the explanations for those ratios, the graphical depiction of oil and gas reserves, and the exclusion from reported reserves of volumes

attributable to discoveries "which are not at present considered proved" – were materially false and misleading when made for the reasons given in ¶ 302 and the paragraphs cited therein.

330. Certain of the Companies' financial metrics are directly tied to their reported proved hydrocarbon reserves. Thus, when Defendants made the foregoing materially false and misleading statements concerning those reserves (and related metrics, such as reserve replacement ratios), they also, as a consequence, made false and misleading financial statements. In the 1999 Annual Reports, Defendants reported year-end cash flow provided by operating activities of $11.059 billion, which was overstated in an amount that cannot be determined from publicly available documents. Exploration costs were reported to be $1.086 billion, which was understated in an amount that cannot be determined from publicly available documents. Defendants reported net income for 1999 to be $8.584 billion, which was overstated in an amount that cannot be determined from publicly available documents. (In their Annual Report on Form 20-F/A for the year ended December 31, 2002, Defendants admit that the Companies' "pre 2000" net income was overstated by $70 million (ignoring adjustments unrelated to reserves). Defendants do not allocate the $70 million overstatement in net income to specific years.)

331. Under the heading, "Corporate Governance," the 1999 RD Annual Report states that "The Supervisory Board and Board of Management of Royal Dutch Petroleum Company (Royal Dutch) remain committed to upholding the highest standards of integrity and transparency in their governance of the Company." Similarly, the 1999 ST Annual Report emphasizes Shell Transport's purported "commitment to the highest standards of integrity and transparency in its governance of the Company."

332. Under the heading "Other matters," the 1999 Annual Reports provide the following information, inter alia, concerning the Companies' internal controls:

Risk management and internal control

An explicit risk and internal control policy was approved by the Boards of the Group Holding Companies in December 1999. This policy 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 this policy and with published advice on best practice, existing processes are being strengthened and formalized to bring into greater focus the identification, evaluation and reporting of risk as an integral part of the system of internal control. As part of their existing planning processes, businesses will now consolidate and report risk profiles, critical risk response summaries and descriptions of how risk and control management effectiveness will be monitored. In addition to existing ad hoc reporting mechanisms, ***the Committee of Managing Directors will receive regular updates on this information during quarterly business performance reviews, and will also consider the risks associated with objectives and long-term plans. The results of this work will be presented to Conference (meetings between the members of the Supervisory Board and the Board of Management of Royal Dutch and the Directors of Shell Transport) on a quarterly basis.***

* * *

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 a number of elements including mandatory policies and defined procedures, guidelines and standards which relate to particular types of risk, assignment of responsibilities and authorities, structured decision processes, performance reviews and transparent reporting systems. [Emphasis added.]

333. In addition, the 1999 ST Annual Report states the following concerning Shell Transport's internal financial controls:

The Directors are responsible for, and have reviewed the effectiveness of, Shell Transport's system of internal financial control, ***which is established to provide reasonable assurance of the safeguarding of its assets, the maintenance of proper accounting records and the reliability of financial information.*** [Emphasis added.]

334. As Defendants knew or were reckless in not knowing, the statements in the previous three paragraphs – concerning the Companies' commitment to upholding the highest standards of integrity and transparency, the existence of strengthened and effective internal controls, and the effectiveness of Shell Transport's system of internal financial control – were materially false and misleading when made for the reasons given in ¶ 309 and the paragraphs cited therein.

335. The 1999 RD Annual Report attaches KPMG's "Report of the Auditors" concerning Royal Dutch's annual accounts for 1999. The KPMG Report, which is dated March 8, 2000, states:

> We have audited the Annual Accounts for the year 1999 of Royal Dutch Petroleum Company. These Accounts are the responsibility of the Company's management. Our responsibility is to express an opinion on these Accounts based on our audit.
>
> We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual accounts. ***We believe that our audit provides a reasonable basis for our opinion.***
>
> ***In our opinion, these Accounts – of which the Financial Statements of the Royal Dutch/Shell Group of Companies and the Notes thereto on pages 33 to 53 form part – give a true and fair view of the financial position of the Company at December 31, 1999, and of the results and the cash flows for the year then ended*** in accordance with accounting principles generally accepted in the Netherlands and comply with the legal requirements in the Netherlands regarding annual accounts. [Emphasis added.]

336. Similarly, the 1999 ST Annual Report attaches PwC's "Report of the Auditors" concerning Shell Transport's financial statements for 1999. The PwC Report, which is dated

March 9, 2000, states, inter alia: "In our opinion, the Financial Statements give a true and fair view of the state of the Company's affairs at December 31, 1999 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985."

337. The 1999 Annual Reports also attach KPMG and PwC's "Report of the Auditors" for Royal Dutch and Shell Transport relating to specified financial statements. This Report, which is dated March 8, 2000, states in relevant part:

> We have audited the Financial Statements appearing on pages 33 to 53 of the Royal Dutch/Shell Group of Companies for the years 1999, 1998 and 1997. 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, 1999 and 1998 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999*** in accordance with generally accepted accounting principles in the Netherlands and the United States. [Emphasis added.]

338. As KPMG and PwC knew or were reckless in not knowing, the statements in the previous three paragraphs – that the financial statements in question give a true and fair view of the financial position, results, and cash flow of Royal Dutch for the stated time period, that the financial statements in question give a true and fair view of the state of Shell Transport's affairs

for the stated time period, that KPMG and PwC conducted their audits of the Companies in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of operations, and cash flow of the Companies for the stated time periods in all material respects – were materially false and misleading when made for the reasons given in ¶ 313 and the paragraphs cited therein.

Statements Made in Second-Quarter 2000

339. On April 11, 2000, the Companies filed with the SEC their Annual Report on Form 20-F for the year ended December 31, 1999 (the "1999 20-F"), signed by Defendant Maarten van den Bergh for Royal Dutch, and by Defendant Mark Moody-Stuart for Shell Transport. Under the headings "Description of Activities/Exploration and Production," the 1999 20-F gives the following summary information for proved developed and undeveloped reserves (at year end) for 1997, 1998, and 1999:

PROVED DEVELOPED AND UNDEVELOPED RESERVES (at year end)			
			million barrels
	1999	1998	1997
Crude oil and natural gas liquids			
Group companies	8,509	8,779	8,354
Group share of associated companies	1,266	1,252	1,327
	9,775	10,031	9,681
			Billion standard cubic feet
Natural gas			
Group companies	52,847	54,333	49,765
Group share of associated companies	5,694	6,129	6,366
	58,541	60,462	56,131

340. Under the heading "Exploration and Production," the 1999 20-F gives the following information concerning replacement ratios of crude oil and natural gas for both 1999 and the three-year period from 1997 through 1999:

> Reserves
>
> The overall 1999 replacement ratio of proved crude oil and natural gas reserves and oil sands stands at 101% (147% excluding 1999 divestments and acquisitions). Additions through revisions and discoveries, together with the new Canadian oil-sands project (which is disclosed separately from crude oil and natural gas proved reserves), are offset by reductions due to production and portfolio activities. The replacement ratio of the overall 1999 crude oil and natural gas proved reserves (including natural gas liquids, but excluding oil sands) is 102% before and 56% after divestments and acquisitions.
>
> The three-year rolling average replacement ratio for total crude oil and natural gas proved reserves (including portfolio activities) stands at 132%, reflecting the fact that oil and gas production over 1997-99 has been more than replaced by net additions over the same period.

In this same section, the 1999 20-F repeats verbatim the materially false and misleading language from the 1998 20-F and 1998 20-F/A concerning replacement ratios quoted in paragraph 304, above.

341. In a section entitled "Supplementary Information – Oil and Gas," the 1999 20-F provides the following additional information about the Companies' reserves:

> 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.*** [Emphasis added.]

342. As Defendants knew or were reckless in not knowing, the statements in the previous three paragraphs – concerning the figures for proved developed and undeveloped reserves (at year end), replacement ratios and the explanations for those ratios, and the exclusion from reported reserves of volumes attributable to discoveries "which are not at present considered proved" – were materially false and misleading when made for the reasons given in ¶ 302 and the paragraphs cited therein.

343. Certain of the Companies' financial metrics are directly tied to their reported proved hydrocarbon reserves. Thus, when Defendants made the foregoing materially false and misleading statements concerning those reserves (and related metrics, such as reserve replacement ratios), they also, as a consequence, made false and misleading financial statements. In the 1999 20-F, Defendants reported year-end cash flow provided by operating activities of $11.059 billion, which was overstated in an amount that cannot be determined from publicly available documents. Exploration costs were reported to be $1.086 billion, which was understated in an amount that cannot be determined from publicly available documents. Defendants reported net income for 1999 to be $8.584 billion, which was overstated in an amount that cannot be determined from publicly available documents. (In their Annual Report on Form 20-F/A for the year ended December 31, 2002, Defendants admit that the Companies' "pre 2000" net income was overstated by $70 million (ignoring adjustments unrelated to reserves). Defendants do not allocate the $70 million overstatement in net income to specific years.)

344. Under the heading "Other Matters," the 1999 20-F also provides the following information, inter alia, concerning the Companies' internal controls:

> Risk management and internal control

> An explicit risk and internal control policy was approved by the Boards of the Group Holding Companies in December 1999. This policy 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 this policy and with published advice on best practice, existing processes are being strengthened and formalized to bring into greater focus the identification, evaluation and reporting of risk as an integral part of the system of internal control***. As part of their existing planning processes, businesses will now consolidate and report risk profiles, critical risk response summaries and descriptions of how risk and control management effectiveness will be monitored. In addition to existing ad hoc reporting mechanisms, ***the Committee of Managing Directors will receive regular updates on this information during quarterly business performance reviews, and will also consider the risks associated with objectives and long-term plans. The results of this work will be presented to Conference (meetings between the members of the Supervisory Board and the Board of Management of Royal Dutch and the Directors of Shell Transport) on a quarterly basis***.
>
> * * *
>
> 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 a number of elements including mandatory policies and defined procedures, guidelines and standards which relate to particular types of risk, assignment of responsibilities and authorities, structured decision processes, performance reviews and transparent reporting systems. [Emphasis added.]

345. As Defendants knew or were reckless in not knowing, the statements in the previous paragraph concerning the existence of strengthened and effective internal controls were materially false and misleading when made for the reasons given in ¶ 309 and the paragraphs cited therein.

346. The 1999 20-F attaches KPMG's "Report of Independent Accountants" for Royal Dutch relating to specified financial statements. The KPMG Report, which is dated March 8, 2000, states in relevant part:

> We have audited the Financial Statements of Royal Dutch Petroleum Company for the years 1999, 1998 and 1997 appearing on pages R-2 to R-5. The preparation of these Financial Statements is the responsibility of the Board of Management. Our responsibility is to express an opinion on the Financial Statements based on our audits.
>
> ***We conducted our audits in accordance with auditing standards generally accepted in the United States***. Those standards require that we plan and perform the audits 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 the Board of Management in the preparation of the 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 Royal Dutch Petroleum Company at December 31, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999*** in accordance with the accounting policies described on page R-3. [Emphasis added.]

347. Similarly, the 1999 20-F attaches PwC's "Report of Independent Accountants" for Shell Transport relating to specified financial statements. The PwC Report, which is dated March 9, 2000, states in relevant part:

> We have audited the Financial Statements of The "Shell" Transport and Trading Company, Public Limited Company for the years 1999, 1998 and 1997 appearing on pages S-2 to S-8. The preparation of the Financial Statements is the responsibility of the Company's Directors. Our responsibility is to express an opinion on those Financial Statements based on our audits.

> ***We conducted our audits in accordance with auditing standards generally accepted in the United States.*** 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 the Company's Directors in the preparation of the 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 "Shell" Transport and Trading Company, Public Limited Company at December 31, 1999 and 1998, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 1999*** in conformity with the accounting principles described in Note 1 on page S-5. [Emphasis added.]

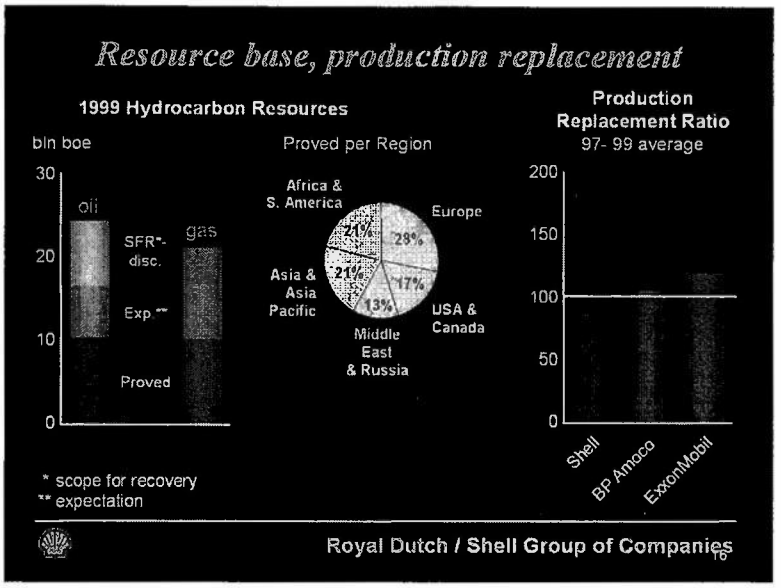
348. The 1999 20-F also attaches KPMG and PwC's "Report of Independent Accountants" for Royal Dutch and Shell Transport relating to specified financial statements. This Report, which is dated March 8, 2000, states in relevant part:

> We have audited the Financial Statements appearing on pages G-2 to G-30 of the Royal Dutch/Shell Group of Companies for the years 1999, 1998 and 1997. 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 auditing standards generally accepted in the United States***. 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 the 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, 1999 and 1998 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999*** in accordance with generally accepted accounting principles in the Netherlands and the United States. [Emphasis added.]

349. As KPMG and PwC knew or were reckless in not knowing, the statements in the previous three paragraphs – that KPMG conducted its audits of Royal Dutch in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of operations, and cash flow of Royal Dutch for the stated time periods in all material respects; that PwC conducted its audits of Shell Transport in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of operations, and cash flow of Shell Transport for the stated time periods in all material respects; and that KPMG and PwC conducted their audits of the Companies in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of operations, and cash flow of the Companies for the stated time periods in all material respects – were materially false and misleading when made for the reasons given in ¶ 313 and the paragraphs cited therein.

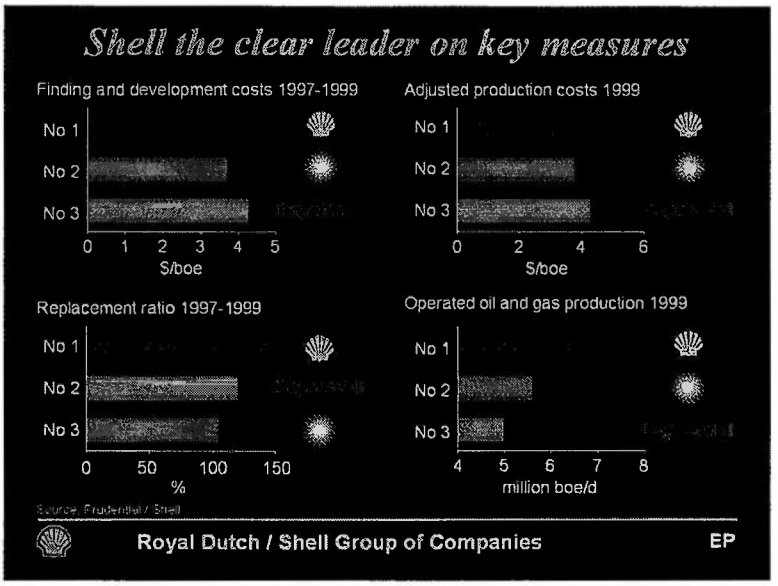
350. On April 12, 2000, several of the Companies' top executives, including Watts, participated in a presentation to analysts entitled "Improving Performance and Maximising Value in Uncertain Times." In the presentation, which was repeated in Houston the next day, the Companies touted their production replacement ratio, claiming it averaged 150% between 1997 and 1999, and they depicted it as far exceeding its competitors, as follows:



351. As Defendants knew or were reckless in not knowing, the information set forth in the previous paragraph, concerning production replacement ratios, was materially false and misleading when made for the reasons given in ¶ 302 and the paragraphs cited therein.

Statements Made in Fourth-Quarter 2000

352. On December 18, 2000, many of the Companies' top executives, including Defendants Moody-Stuart, Watts, and Skinner, made a presentation to investors and the financial community. During the presentation, the Companies represented themselves to be "the key [industry] leader on key measures," including hydrocarbon replacement ratios:



353. As Defendants knew or were reckless in not knowing, the information set forth in the previous paragraph, concerning production replacement ratios, was materially false and misleading when made for the reasons given in ¶ 302 and the paragraphs cited therein.

Statements Made in First-Quarter 2001

354. On or about February 21, 2001, Royal Dutch filed a Form 6-K with the SEC (the "Feb. 21, 2001 6-K"). The Feb. 21, 2001 6-K reported that "The proved hydrocarbon reserves replacement ratio for 2000 was 105%, before the effects of acquisitions and divestments. Including the effects of these activities, the replacement ratio was 69%."

355. The statement in the previous paragraph, concerning proved hydrocarbon reserves replacement ratios, was materially false and misleading when made for the reasons given in ¶ 302 and the paragraphs cited therein.

356. Certain of the Companies' financial metrics are directly tied to their reported proved hydrocarbon reserves. Thus, when Defendants made the foregoing materially false and

misleading statements concerning reserve replacement ratios, they also, as a consequence, made false and misleading financial statements. In the Feb. 21, 2001 6-K , Defendants reported that Depreciation, Depletion and Amortisation for 2000 was $7.885 billion, an understatement of approximately $132 million, with a corresponding overstatement of reported pre-tax net income. Defendants reported year-end cash flow provided by operating activities at $18.359 billion, which was overstated by the same $132 million, ignoring adjustments unrelated to reserves. Exploration costs were reported to be $755 million, which was understated by $81 million, resulting in a further overstatement of reported pre-tax net income of $7 million. Thus, the annual net income Defendants reported for 2000, $12.719 billion, was overstated by a total of $139 million ($132 million plus $7 million), ignoring adjustments unrelated to reserves.

357. In or about March 2001, Royal Dutch issued its "Annual Report and Accounts 2000" (the "2000 RD Annual Report"), and Shell Transport issued its "Annual Report and Accounts 2000" (the "2000 ST Annual Report" and, together with the 2000 RD Annual Report, the "2000 Annual Reports"). Defendant van der Veer signed the 2000 RD Annual Report on March 14, 2001, and Defendant Moody-Stuart signed the 2000 ST Annual Report on March 15, 2001.

358. The 2000 Annual Reports set forth numerous materially false or misleading statements concerning proved hydrocarbon reserves. For example, the 2000 Annual Reports give the following information concerning proved hydrocarbon reserves replacement ratios:

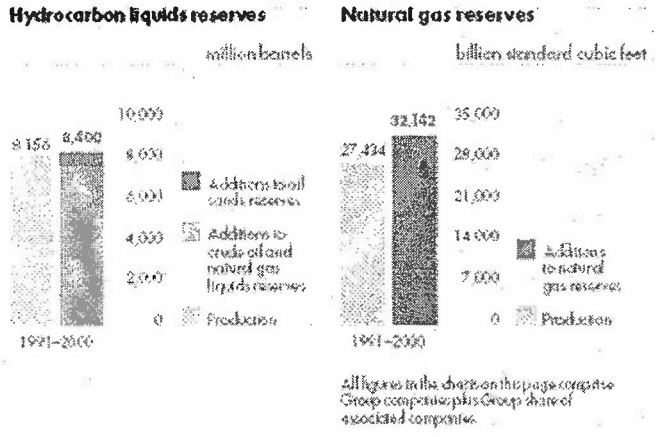
> Reserves
>
> The proved hydrocarbon reserves replacement ratio for 2000 was 105% (before the effects of a significant divestment and acquisition programme). Therefore production during the year of 1.4 billion barrels of oil equivalent was more than replaced. Including the net effect of divestments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

359. The 2000 Annual Reports graphically depict the Companies' hydrocarbon liquids and natural gas reserve information as follows:



360. In a section entitled "Supplementary information – oil and gas," the 2000 Annual Reports provide the following additional information about the Companies' reserves:

> 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.*** [Emphasis added.]

361. As Defendants knew or were reckless in not knowing, the statements in the previous three paragraphs – concerning proved hydrocarbon reserves replacement ratios, the conclusion that actual production was "more than replaced," the reasons given for additions to proved reserves, the graphical depiction of oil and gas reserves, and the exclusion from reported reserves of volumes attributable to discoveries "which are not at present considered proved" – were materially false and misleading when made for the reasons given in ¶ 302 and the paragraphs cited therein.

362. Certain of the Companies' financial metrics are directly tied to their reported proved hydrocarbon reserves. Thus, when Defendants made the foregoing materially false and misleading statements concerning those reserves (and related metrics, such as reserve replacement ratios), they also, as a consequence, made false and misleading financial statements. In the 2000 Annual Reports, Defendants reported that Depreciation, Depletion and Amortisation for 2000 was $7.885 billion, an understatement of approximately $132 million, with a corresponding overstatement of reported pre-tax net income. Defendants reported year-end cash flow provided by operating activities to be $18.359 billion, which was overstated by the same $132 million, ignoring adjustments unrelated to reserves. Exploration costs were reported to be $755 million, which was understated by $81 million, resulting in a further overstatement of reported pre-tax net income of $7 million. Thus, the annual net income Defendants reported for 2000, $12.719 billion, was overstated by a total of $139 million ($132 million plus $7 million), ignoring adjustments unrelated to reserves.

363. The 2000 Annual Reports also contain information about the Companies' corporate-governance and internal-control efforts. Both van der Veer, in his Message from the President, and Moody-Stuart, in his message from the Chairman, underscored the Companies'

purported commitment to "transparency": "We are committed to transparency, and to developing and integrating our reporting on how Shell companies fulfil their responsibilities."

364. Similarly, the 2000 RD Annual Report states that "The Supervisory Board and Board of Management of Royal Dutch Petroleum Company (Royal Dutch) remain committed to upholding the highest standards of integrity and transparency in their governance of the Company."

365. Under the heading "Other matters," the 2000 Annual Reports provide the following information, inter alia, concerning the Companies' internal controls:

> 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 this policy, a number of existing processes were strengthened and formalised in 2000.*** . . .
>
> ***[R]eview 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.***
>
> * * *
>
> 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. . . .

* * *

> 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.
>
> * * *
>
> 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.
>
> * * *
>
> 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***. [Emphasis added.]

366. As Defendants knew or were reckless in not knowing, the statements in the previous three paragraphs – concerning the Companies' purported commitment to transparency, Royal Dutch's commitment to upholding the highest standards of integrity and transparency, and the existence of strengthened, effective, and independent internal controls – were materially false and misleading when made for the reasons given in ¶ 309 and the paragraphs cited therein.

367. The 2000 RD Annual Report attaches KPMG's "Report of the Auditors" concerning Royal Dutch's annual accounts for 2000. The KPMG Report, which is dated March 14, 2001, states:

> We have audited the Annual Accounts for the year 2000 of Royal Dutch Petroleum Company. These Accounts are the responsibility of the Company's management. Our responsibility is to express an opinion on these Accounts based on our audit.
>
> We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual accounts. ***We believe that our audit provides a reasonable basis for our opinion.***
>
> ***In our opinion, these Accounts – of which the Financial Statements of the Royal Dutch/Shell Group of Companies and the Notes thereto on pages 37 to 57 form part – give a true and fair view of the financial position of the Company at December 31, 2000, and of the results and the cash flows for the year then ended*** in accordance with accounting principles generally accepted in the Netherlands and comply with the legal requirements in the Netherlands regarding annual accounts. [Emphasis added.]

368. Similarly, the 2000 ST Annual Report attaches PwC's "Report of the independent Auditors" concerning Shell Transport's financial statements for 2000. The PwC Report, which is dated March 15, 2001, states, inter alia: "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."

369. The 2000 Annual Reports also attach KPMG and PwC's "Report of the independent Auditors" for Royal Dutch and Shell Transport relating to specified financial statements. This Report, which is dated March 14, 2001, states in relevant part:

> 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. [Emphasis added.]

370. As KPMG and PwC knew or were reckless in not knowing, the statements in the previous three paragraphs – that the financial statements in question give a true and fair view of the financial position, results, and cash flow of Royal Dutch for the stated time period, that the financial statements in question give a true and fair view of the state of Shell Transport's affairs for the stated time period, that KPMG and PwC conducted their audits of the Companies in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of operations, and cash flow of the Companies for the stated time periods in all

material respects – were materially false and misleading when made for the reasons given in ¶ 313 and the paragraphs cited therein.

371. On or about March 22, 2001, Shell Transport filed a Form 6-K with the SEC (the "Mar. 22, 2001 6-K"). The Mar. 22, 2001 6-K presented the Companies' results for fourth-quarter and full-year 2000, set forth the same information described above in connection with the Feb. 21, 2001 6-K, and was materially false and misleading when made for the same reasons.

Statements Made in Second-Quarter 2001

372. On April 12, 2001, the Companies filed with the SEC their Annual Report on Form 20-F for the year ended December 31, 2000 (the "2000 20-F"), signed by Defendant Jeroen van der Veer for Royal Dutch, and by Defendant Mark Moody-Stuart for Shell Transport. Under the headings "Description of Activities/Exploration and Production," the 2000 20-F gives the following summary information for proved developed and undeveloped reserves (at year end) for 1998, 1999, and 2000:

PROVED DEVELOPED AND UNDEVELOPED RESERVES (at December 31)			
			million barrels
	2000	1999	1998
Crude oil and natural gas liquids			
Group companies	8,670	8,509	8,779
Group share of associated companies	1,081	1,266	1,252
	9,751	9,775	10,031
			thousand million standard cubic feet
Natural gas			
Group companies	50,842	52,847	54,333
Group share of associated companies	5,441	5,694	6,129
	56,283	58,541	60,462

373. Under the heading "Exploration and Production," the 2000 20-F gives the

following information concerning proved hydrocarbon reserves replacement ratios:

> 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.

In this same section, the 2000 20-F repeats verbatim the materially false and misleading language from the 1999 20-F concerning replacement ratios quoted in paragraph 340, above.

374. In a section entitled "Supplementary Information – Oil and Gas," the 2000 20-F provides the following additional information about the Companies' reserves:

> 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.*** [Emphasis added.]

375. As Defendants knew or were reckless in not knowing, the statements in the

previous three paragraphs – concerning the figures for proved developed and undeveloped reserves (at year end), proved hydrocarbon reserves replacement ratios, the conclusion that actual production was "more than replaced," the reasons given for additions to proved reserves, and the exclusion from reported reserves of volumes attributable to discoveries "which are not at present considered proved" – were materially false and misleading when made for the reasons given in ¶ 302 and the paragraphs cited therein.

376. Certain of the Companies' financial metrics are directly tied to their reported proved hydrocarbon reserves. Thus, when Defendants made the foregoing materially false and misleading statements concerning those reserves (and related metrics, such as reserve replacement ratios), they also, as a consequence, made false and misleading financial statements. In the 2000 20-F, Defendants reported that Depreciation, Depletion and Amortisation for 2000 was $7.885 billion, an understatement of approximately $132 million, with a corresponding overstatement of reported pre-tax net income. Defendants reported year-end cash flow provided by operating activities to be $18.359 billion, which was overstated by the same $132 million, ignoring adjustments unrelated to reserves. Exploration costs were reported to be $755 million, which was understated by $81 million, resulting in a further overstatement of reported pre-tax net income of $7 million. Thus, the annual net income Defendants reported for 2000, $12.719 billion, was overstated by a total of $139 million ($132 million plus $7 million), ignoring adjustments unrelated to reserves.

377. Under the heading "Other Matters," the 2000 20-F also provides the following information, inter alia, concerning the Companies' internal controls:

> 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. . . .

[R]eview 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.

* * *

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. . . .

* * *

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.

* * *

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.

* * *

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.*** [Emphasis added.]

378. As Defendants knew or were reckless in not knowing, the statements in the previous paragraph concerning the existence of strengthened, effective, and independent internal controls were materially false and misleading when made for the reasons given in ¶ 309 and the paragraphs cited therein.

379. The 2000 20-F attaches KPMG's "Report of Independent Accountants" for Royal Dutch relating to specified financial statements. The KPMG Report, which is dated March 14, 2001, states in relevant part:

We have audited the Financial Statements of Royal Dutch Petroleum Company for the years 2000, 1999 and 1998 appearing on pages R2 to R5. The preparation of these Financial Statements is the responsibility of the Board of Management. Our responsibility is to express an opinion on the Financial Statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits 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 the Board of

> Management in the preparation of the 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 Royal Dutch Petroleum Company 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 the accounting policies described on page R3. [Emphasis added.]

380. Similarly, the 2000 20-F attaches PwC's "Report of Independent Accountants" for Shell Transport relating to specified financial statements. The PwC Report, which is dated March 15, 2001, states in relevant part:

> We have audited the Financial Statements of The "Shell" Transport and Trading Company, Public Limited Company for the years 2000, 1999 and 1998 appearing on pages S2 to S8. The preparation of the Financial Statements is the responsibility of the Company's Directors. Our responsibility is to express an opinion on those Financial Statements based on our audits.
>
> ***We conducted our audits in accordance with auditing standards generally accepted in the United States.*** 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 the Company's Directors in the preparation of the 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 "Shell" Transport and Trading Company, Public Limited Company at December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2000*** in conformity with the accounting principles described in Note 1 on page S4. [Emphasis added.]

381. The 2000 20-F also attaches KPMG and PwC's "Report of Independent

Accountants" for Royal Dutch and Shell Transport relating to specified financial statements. This Report, which is dated March 14, 2001, states in relevant part:

> We have audited the Financial Statements appearing on pages G2 to G30 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 auditing standards generally accepted in the United States***. 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 the 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. [Emphasis added.]

382. As KPMG and PwC knew or were reckless in not knowing, the statements in the previous three paragraphs – that KPMG conducted its audits of Royal Dutch in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of operations, and cash flow of Royal Dutch for the stated time periods in all material respects; that PwC conducted its audits of Shell Transport in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of operations, and cash flow of Shell Transport for the stated time periods in all material respects; and that KPMG and PwC conducted their audits of the Companies in accordance with GAAS, and that the financial

statements in question fairly present the financial position, results of operations, and cash flow of the Companies for the stated time periods in all material respects – were materially false and misleading when made for the reasons given in ¶ 313 and the paragraphs cited therein.

Statements Made in First-Quarter 2002

383. On a February 7, 2002 conference call with analysts and investors, addressing the Companies' fourth-quarter and full-year 2001 results, a representative of the Companies from Investor Relations stated the following concerning Nigeria: "Huge growth program in Nigeria: expect to more than double production in Nigeria over next five years."

384. As Defendants knew or were reckless in not knowing, the statements quoted in the previous paragraph, concerning the Companies' "huge" growth program in Nigeria, and their expectation of doubling production in Nigeria over the following five years, were materially false and misleading when made because of the plethora of problems the Companies were encountering in Nigeria, including construction problems, infrastructure issues, problems complying with government mandates, lack of adequate government funding, and ethnic unrest. See ¶¶ 206-46.

385. On February 8, 2002, Defendant Watts spoke with Bloomberg's Guy Collins about the Companies' fourth-quarter earnings and outlook. The following exchange occurred:

> COLLINS: I want to ask you about Enron and any parallels there. Do you have off balance sheet liabilities? Do you have trigger mechanisms in place, that make you vulnerable to changes in the share price or credit ratings?
>
> WATTS: Shell is very different from Enron. We were criticized for that some time ago and I'm glad ***we have a absolutely rock-solid way we do our business. And, if you read our annual report, you read our footnotes and all the details, everything is in there. It's all completely transparent, as far as Shell is concerned.*** [Emphasis added.]

386. As Watts knew or was reckless in not knowing, the statements quoted in the

previous paragraph, concerning the Companies' "absolutely rock-solid way" of doing business, and the complete transparency of their annual report, were materially false and misleading when made for the reasons given in ¶ 309 and the paragraphs cited therein.

387. In February 2002, Royal Dutch filed a Form 6-K with the SEC, signed by Defendant van de Vijver on February 13, 2002 (the "Feb. 13, 2002 6-K"). The Feb. 13, 2002 6-K reported that "The proved hydrocarbon reserves replacement ratio for 2001 was 74%. Proved reserve additions were 1 billion barrels of oil equivalent (boe)."

388. As Defendants knew or were reckless in not knowing, the statements in the previous paragraph, concerning the proved hydrocarbon reserves replacement ratio for 2001, and the amount of proved reserve additions, were materially false and misleading when made for the reasons given in ¶ 302 and the paragraphs cited therein.

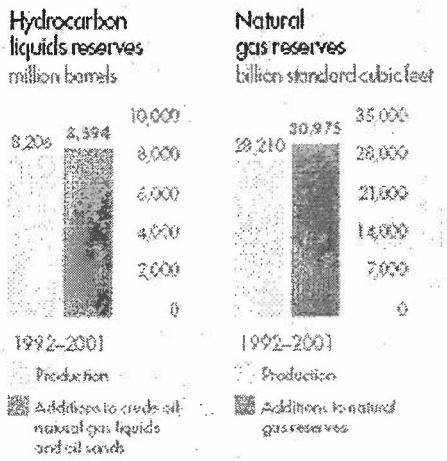
389. Certain of the Companies' financial metrics are directly tied to their reported proved hydrocarbon reserves. Thus, when Defendants made the foregoing materially false and misleading statements concerning the Companies' reserve replacement ratio, they also, as a consequence, made false and misleading financial statements. In the Feb. 13, 2002 6-K, Defendants reported that Depreciation, Depletion and Amortisation for 2001 was $6.117 billion, an understatement of approximately $84 million, with a corresponding overstatement of reported pre-tax net income. Defendants reported year-end cash flow provided by operating activities to be $16.933 billion, which was overstated by the same $84 million, ignoring adjustments unrelated to reserves. Exploration costs were reported to be $882 million, which was understated by $28 million, resulting in a further overstatement of reported pre-tax net income of $7 million. Thus, the annual net income Defendants reported for 2001, $10.852 billion, was overstated by a total of $91 million ($84 million plus $7 million), ignoring adjustments unrelated to reserves.

390. In or about March 2002, Royal Dutch issued its "Annual Report and Accounts 2001" (the "2001 RD Annual Report"), and Shell Transport issued its "Annual Report and Accounts 2001" (the "2001 ST Annual Report" and, together with the 2001 RD Annual Report, the "2001 Annual Reports"). Defendant van der Veer signed the 2001 RD Annual Report on March 13, 2002, and Defendant Watts signed the 2001 ST Annual Report on March 14, 2002.

391. The 2001 Annual Reports set forth numerous materially false or misleading statements concerning proved hydrocarbon reserves. For example, the 2001 Annual Reports give the following information concerning proved hydrocarbon reserves replacement ratios:

> Reserves
>
> The proved hydrocarbon reserves replacement ratio for 2001 is 74%. The proved hydrocarbon reserves replacement ratio before the effect of divestments and acquisitions is 52%, and the three-year rolling average (including oil sands) now stands at 101%. Proved reserves are equivalent to more than 14 years of current production. The additions to proved reserves arose mainly from discoveries and extensions in the USA and the UK, acquisitions in New Zealand, the USA and Brunei, improved recovery in Denmark and Oman and revisions in existing fields in the Netherlands and Nigeria, offset by negative revisions in Canada and Egypt.

392. The 2001 Annual Reports graphically depict the Companies' hydrocarbon liquids and natural gas reserve information as follows:



393. In a section entitled "Supplementary information – oil and gas," the 2001 Annual Reports provide the following additional information about the Companies' reserves:

> 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.*** [Emphasis added.]

394. As Defendants knew or were reckless in not knowing, the statements in the previous three paragraphs – concerning proved hydrocarbon reserves replacement ratios, the reasons given for additions to proved reserves, the graphical depiction of oil and gas reserves, and the exclusion from reported reserves of volumes attributable to discoveries "which are not at present considered proved" – were materially false and misleading when made for the reasons given in ¶ 302 and the paragraphs cited therein.

395. Certain of the Companies' financial metrics are directly tied to their reported proved hydrocarbon reserves. Thus, when Defendants made the foregoing materially false and misleading statements concerning those reserves (and related metrics, such as reserve replacement ratios), they also, as a consequence, made false and misleading financial statements. In the 2001 Annual Reports, Defendants reported that Depreciation, Depletion and Amortisation for 2001 was $6.117 billion, an understatement of approximately $84 million, with a corresponding overstatement of reported pre-tax net income. Defendants reported year-end cash flow provided by operating activities to be $16.933 billion, which was overstated by the same $84 million, ignoring adjustments unrelated to reserves. Exploration costs were reported to be $882 million,

which was understated by $28 million, resulting in a further overstatement of reported pre-tax net income of $7 million. Thus, the annual net income Defendants reported for 2001, $10.852 billion, was overstated by a total of $91 million ($84 million plus $7 million), ignoring adjustments unrelated to reserves.

396. The 2001 Annual Reports also contain information about the Companies' corporate-governance and internal-control efforts. The 2001 RD Annual Report states, for example, that "The Supervisory Board and Board of Management of Royal Dutch Petroleum Company (Royal Dutch) remain committed to upholding the highest standards of integrity and transparency in their governance of the Company." Similarly, the 2001 ST Annual Report states that "The Board of the 'Shell' Transport and Trading Company, p.l.c. (Shell Transport) is committed to the highest standards of integrity and transparency in its governance of the Company . . . ."

397. Under the heading "Other matters," the 2001 Annual Reports provide the following information, inter alia, concerning the Companies' internal controls:

> 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.
>
> ***Established review and reporting processes bring risk management into greater focus and enable the 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 overall effectiveness of the system of internal control and to perform a full annual review of the system's effectiveness.***

> ***At Group level and within each business, risk profiles which highlight the perceived impact and likelihood of significant risks are reviewed and discussed each quarter by the Committee of Managing Directors and by the Conference***. . . .
>
> 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 Group policies, standards and guidance material that relate to particular types of risk, structured investment decision processes, timely and effective reporting systems, and performance appraisal.
>
> * * *
>
> A procedure for reporting business control incidents enables management and the Group Audit Committee to monitor incidents arising 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.
>
> * * *
>
> 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 Group Internal Audit to provide the Group Audit Committee with ***independent assessments*** regarding the effectiveness of risk and control management. [Emphasis added.]

398. As Defendants knew or were reckless in not knowing, the statements in the previous two paragraphs – concerning the Companies' commitment to upholding the highest standards of integrity and transparency, and the existence of strengthened, effective, and independent internal controls – were materially false and misleading when made for the reasons given in ¶ 309 and the paragraphs cited therein.

399. The 2001 RD Annual Report attaches KPMG's "Report of the Auditors"

concerning Royal Dutch's annual accounts for 2001. The KPMG Report, which is dated March 13, 2002, states:

> We have audited the Annual Accounts for the year 2001 of Royal Dutch Petroleum Company. These Accounts are the responsibility of the Company's management. Our responsibility is to express an opinion on these Accounts based on our audit.
>
> We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual accounts. ***We believe that our audit provides a reasonable basis for our opinion.***
>
> ***In our opinion, these Accounts – of which the Financial Statements of the Royal Dutch/Shell Group of Companies and the Notes thereto on pages 47 to 68 form part – give a true and fair view of the financial position of the Company at December 31, 2001, and of the results and the cash flows for the year then ended*** in accordance with accounting principles generally accepted in the Netherlands and comply with the legal requirements in the Netherlands regarding annual accounts. [Emphasis added.]

400. Similarly, the 2001 ST Annual Report attaches PwC's "Report of the independent Auditors" concerning Shell Transport's financial statements for 2001. The PwC Report, which is dated March 14, 2002, states, inter alia: "In our opinion, the Financial Statements give a true and fair view of the state of the Company's affairs at December 31, 2001 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985."

401. The 2001 Annual Reports also attach KPMG and PwC's "Report of the independent Auditors" for Royal Dutch and Shell Transport relating to specified financial statements. This Report, which is dated March 13, 2002, states in relevant part:

> We have audited the Financial Statements appearing on pages 47 to 68 of the Royal Dutch/Shell Group of Companies for the years 2001, 2000 and 1999. 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, 2001 and 2000 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001*** in accordance with generally accepted accounting principles in the Netherlands and the United States. [Emphasis added.]

402. As KPMG and PwC knew or were reckless in not knowing, the statements in the previous three paragraphs – that the financial statements in question give a true and fair view of the financial position, results, and cash flow of Royal Dutch for the stated time period, that the financial statements in question give a true and fair view of the state of Shell Transport's affairs for the stated time period, and of its profit and cash flows, that KPMG and PwC conducted their audits of the Companies in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of operations, and cash flow of the Companies for the stated time periods in all material respects – were materially false and misleading when made for the reasons given in ¶ 313 and the paragraphs cited therein.

Statements Made in Second-Quarter 2002

403. On April 12, 2002, the Companies filed with the SEC their Annual Report on Form 20-F for the year ended December 31, 2001 (the "2001 20-F"), signed by Defendant Jeroen van der Veer for Royal Dutch, and by Defendant Philip Watts for Shell Transport. Under the headings "Description of Activities/Exploration and Production," the 2001 20-F gives the following summary information for proved developed and undeveloped reserves (at year end) for 1999, 2000, and 2001:

PROVED DEVELOPED AND UNDEVELOPED RESERVES (at December 31)			
			million barrels
	2001	2000	1999
Crude oil and natural gas liquids			
Group companies	8,544	8,670	8,509
Group share of associated companies	925	1,081	1,266
	9,469	9,751	9,775
			thousand million standard cubic feet
Natural gas			
Group companies	50,613	50,842	52,847
Group share of associated companies	5,216	5,441	5,694
	55,829	56,283	58,541

404. Under the heading "Exploration and Production," the 2001 20-F gives the following information concerning proved hydrocarbon reserves replacement ratios:

> Reserves
>
> The proved hydrocarbon reserves replacement ratio for 2001 is 74%. The proved hydrocarbon reserves replacement ratio before the effect of divestments and acquisitions is 52%, and the three-year rolling average (including oil sands) now stands at 101%. Proved reserves are equivalent to more than 14 years of current production. The additions to proved reserves arose mainly from discoveries and extensions in the USA and the UK, acquisitions in New Zealand, the USA and Brunei, improved recovery in Denmark and Oman and revisions in existing fields in the Netherlands and Nigeria, offset by

negative revisions in Canada and Egypt.

In this same section, the 2001 20-F repeats verbatim the materially false and misleading language from the 2000 20-F concerning proved hydrocarbon replacement ratios quoted in paragraph 373, above.

405. In a section entitled "Supplementary Information – Oil and Gas," the 2001 20-F provides the following additional information about the Companies' reserves:

> 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.*** [Emphasis added.]

406. As Defendants knew or were reckless in not knowing, the statements in the previous three paragraphs – concerning the figures for proved developed and undeveloped reserves (at year end), proved hydrocarbon reserves replacement ratios, the reasons given for additions to proved reserves, and the exclusion from reported reserves of volumes attributable to discoveries "which are not at present considered proved" – were materially false and misleading when made for the reasons given in ¶ 302 and the paragraphs cited therein.

407. Certain of the Companies' financial metrics are directly tied to their reported proved hydrocarbon reserves. Thus, when Defendants made the foregoing materially false and misleading statements concerning those reserves (and related metrics, such as reserve replacement ratios), they also, as a consequence, made false and misleading financial statements. In the 2001 20-F, Defendants reported that Depreciation, Depletion and Amortisation for 2001 was $6.117

billion, an understatement of approximately $84 million, with a corresponding overstatement of reported pre-tax net income. Defendants reported year-end cash flow provided by operating activities to be $16.933 billion, which was overstated by the same $84 million, ignoring adjustments unrelated to reserves. Exploration costs were reported to be $882 million, which was understated by $28 million, resulting in a further overstatement of reported pre-tax net income of $7 million. Thus, the annual net income Defendants reported for 2001, $10.852 billion, was overstated by a total of $91 million ($84 million plus $7 million), ignoring adjustments unrelated to reserves.

408. Under the heading "Other Matters," the 2001 20-F also provides the following information, inter alia, concerning the Companies' internal controls:

> 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.
>
> ***Established review and reporting processes bring risk management into greater focus and enable the 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 overall effectiveness of the system of internal control and to perform a full annual review of the system's effectiveness.***
>
> ***At Group level and within each business, risk profiles which highlight the perceived impact and likelihood of significant risks are reviewed and discussed each quarter by the Committee of Managing Directors and by the Conference.*** . . .
>
> 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 Group policies, standards and guidance material that relate to particular types of risk, structured investment decision processes, timely and effective reporting systems, and performance appraisal.
>
> * * *
>
> A procedure for reporting business control incidents enables management and the Group Audit Committee to monitor incidents arising 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.
>
> * * *
>
> 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 Group Internal Audit to provide the Group Audit Committee with ***independent assessments*** regarding the effectiveness of risk and control management. [Emphasis added.]

409. As Defendants knew or were reckless in not knowing, the statements in the previous paragraph concerning the existence of strengthened, effective, and independent internal controls were materially false and misleading when made for the reasons given in ¶ 309 and the paragraphs cited therein.

410. The 2001 20-F attaches KPMG's "Report of Independent Accountants" for Royal Dutch relating to specified financial statements. The KPMG Report, which is dated March 13, 2002, states in relevant part:

> We have audited the Financial Statements of Royal Dutch Petroleum Company for the years 2001, 2000 and 1999 appearing on pages R2-R6. The preparation of these Financial Statements is the responsibility of the Board of Management. Our responsibility is to express an opinion on the Financial Statements based on our

audits.

> ***We conducted our audits in accordance with auditing standards generally accepted in the United States***. Those standards require that we plan and perform the audits 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 the Board of Management in the preparation of the 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 Royal Dutch Petroleum Company at December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001*** in accordance with the accounting policies described on page R3. [Emphasis added.]

411. Similarly, the 2001 20-F attaches PwC's "Report of Independent Accountants" for Shell Transport relating to specified financial statements. The PwC Report, which is dated March 14, 2002, states in relevant part:

> We have audited the Financial Statements of The "Shell" Transport and Trading Company, Public Limited Company for the years 2001, 2000 and 1999 appearing on pages S2-S8. The preparation of the Financial Statements is the responsibility of the Company's Directors. Our responsibility is to express an opinion on those Financial Statements based on our audits.
>
> ***We conducted our audits in accordance with auditing standards generally accepted in the United States***. 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 the Company's Directors in the preparation of the 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 "Shell" Transport and Trading Company, Public Limited Company at December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001*** in conformity with the accounting principles described in Note 1 on page S4. [Emphasis added.]

412. The 2001 20-F also attaches KPMG and PwC's "Report of Independent Accountants" for Royal Dutch and Shell Transport relating to specified financial statements. This Report, which is dated March 13, 2002, states in relevant part:

> We have audited the Financial Statements appearing on pages G2-G32 of the Royal Dutch/Shell Group of Companies for the years 2001, 2000 and 1999. 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 auditing standards generally accepted in the United States***. 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 the 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, 2001 and 2000 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001*** in accordance with generally accepted accounting principles in the Netherlands and the United States. [Emphasis added.]

413. As KPMG and PwC knew or were reckless in not knowing, the statements in the previous three paragraphs – that KPMG conducted its audits of Royal Dutch in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of

operations, and cash flow of Royal Dutch for the stated time periods in all material respects; that PwC conducted its audits of Shell Transport in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of operations, and cash flow of Shell Transport for the stated time periods in all material respects; and that KPMG and PwC conducted their audits of the Companies in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of operations, and cash flow of the Companies for the stated time periods in all material respects – were materially false and misleading when made for the reasons given in ¶ 313 and the paragraphs cited therein.

Statements Made in Third-Quarter 2002

414. On August 1, 2002, the Companies issued a press release entitled "Royal Dutch/Shell Second Quarter Results – 'Robust Earnings in Uncertain Times.'" Commenting on Shell's performance, Philip Watts, who had become Chairman of the CMD in July 2001, stated in relevant part: "We continue to operate to the highest standards of transparency in our accounting and reporting." Shell Transport attached the press release to a Form 6-K filed with the SEC on or about August 27, 2002.

415. As Defendants knew or were reckless in not knowing, Watts' statement quoted in the previous paragraph, concerning the Companies' adherence to the highest standards of transparency in their accounting, was materially false and misleading (both upon issuance and upon filing with the SEC) for the reasons given in ¶ 309 and the paragraphs cited therein.

Statements Made in First-Quarter 2003

416. The Companies presented their results for fourth-quarter and full-year 2002 in a Form 6-K filed with the SEC that same month (the "Feb. 2003 6-K"). The Feb. 2003 6-K reported that "The total reserve replacement ratio (RRR) in 2002 was 117% including the

acquisition of Enterprise, and 50% excluding acquisitions and divestments. The organic RRR for oil/NGL was 85%."

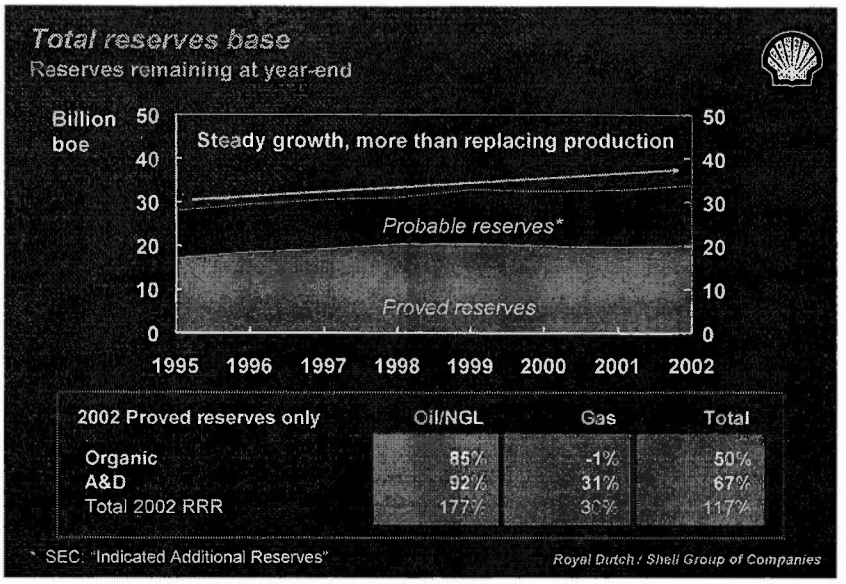
417. As Defendants knew or were reckless in not knowing, the statement in the previous paragraph, concerning reserve replacement ratios, was materially false and misleading when made for the reasons given in ¶ 302 and the paragraphs cited therein.

418. Certain of the Companies' financial metrics are directly tied to their reported proved hydrocarbon reserves. Thus, when Defendants made the foregoing materially false and misleading statements concerning those reserves (and related metrics, such as reserve replacement ratios), they also, as a consequence, made false and misleading financial statements. In the Feb. 2003 6-K, Defendants reported that Depreciation, Depletion and Amortisation for 2002 was $8.454 billion, an understatement of approximately $166 million, with a corresponding overstatement of reported pre-tax net income. Defendants reported year-end cash flow provided by operating activities to be $16.365 billion, which was overstated by the same $166 million, ignoring adjustments unrelated to reserves. Defendants overstated net assets by $467 million, with a further corresponding overstatement of reported pre-tax net income. Thus, the annual net income Defendants reported for 2002, $9.419 billion, was overstated by a total of $633 million ($166 million plus $467 million), ignoring adjustments unrelated to reserves.

419. The Companies announced these results for fourth-quarter and full-year 2002 on February 6, 2003. Press conferences were held in The Hague and London at which senior executives of the Group discussed the results and provided an update of the Group's performance against its current strategy and targets. According to a press release entitled "Performance and Strategy Update": "The total reserve replacement ratio (RRR) in 2002 was 117% including the acquisition of Enterprise, and 50% excluding acquisitions and divestments. The organic RRR for

oil/NGL was 85%. The gas reserves life of over 15 years remains one of the longest reserves lives in the industry." The Companies attached the press release to a Form 6-K signed by Defendant van der Veer on February 6, 2003, and filed with the SEC.

420. These numbers were underscored during presentations to analysts in London and New York on February 6 and 7, 2003, respectively, attended by Defendants Watts, van der Veer, Skinner, van de Vijver, Brinded, and Boynton. According to a speech given during the presentations: "We expect to continue growing our reserves base. In 2002 we had a one-year reserves replacement of 117% . . . 50% on an organic basis. Proved organic oil replacement was 108%, continuing our consistent ability to replace oil production. . . . On a 5-year average up to the end of 2002 our proved replacement ratio was 109% . . . including probable reserves it was 144%" (emphasis omitted). The presentation also gave a graphical representation of the Companies' total reserve base, including proved reserves:



421. As Defendants knew or were reckless in not knowing, the statements in the previous three paragraphs – concerning the Companies' reserve replacement ratio, the length of the Companies gas reserves life, and the graphical representation of the Companies' proved reserves – were materially false and misleading when made for the reasons given in ¶ 302 and the paragraphs cited therein.

422. During the same speech, the Companies acknowledged the passage of the Sarbanes-Oxley Act of 2002: "We will also be affected by changing markets, accounting standards and securities regulations. . . . ***Sarbanes-Oxley and other governance issues will be addressed by building on our already strong corporate governance.***" (Emphasis added.)

423. As Defendants knew or were reckless in not knowing, the statement quoted in the previous paragraph, concerning the Companies' "already strong corporate governance," was materially false and misleading when made for the reasons given in ¶ 309 and the paragraphs cited therein.

424. On a February 6, 2003 conference call with analysts discussing the Companies'

financial results for the fourth quarter and full year of 2002, Walter van de Vijver, then CEO of EP, stated, inter alia:

> So, what did we do in 2002? We think we've achieved a great deal in 2002. Let me highlight a few key points.
>
> * * *
>
> ***Let's move to our reserve base. We have a continued growth in our overall reserve base. In 2002 our overall reserve replacement was 117%. If you just look at oil, we actually had an organic replacement on the oil side of over a hundred percent, 108%.***
>
> * * *
>
> ***At the same time our gas reserves remain the highest in the industry, when you look at the reigning reserve life of about 15 and a half years. When you look at reserve replacement, what really matters is long-term performance, in line with the typical development cycle.***
>
> ***Our five-year effort to improve reserve replacement is 109%. For oil it's over 120%. Our five-year reserve replacement is 144%. And the culmination of [inaudible] that we use for planning and working our business.*** [Emphasis added.]

425. In the question and answer session of the February 6, 2003 conference call, the following questions were posed, inter alia:

> Q: (Bruce Lannai, A.G. Edwards) Could you expand a little bit on the reserve replacement number that you had? . . .
>
> A: (Walter van de Vijver) I guess you don't have access to the booklet, 'cuz we are all looking at, which actually breaks out the organic versus the total reserve replacement and also splits it out between oil and gas. ***So, the total reserve replace [sic] is almost 17%. If you look at it over a five-year period, it is almost 9%. As I mentioned, on the reserve replacement on the oil side we more than replace our reserve. That came predominantly from improved recovery and from discoveries coming through***. So, that is clearly something we would like to see, that these things come through the bottom line. If you look at some of the area acquisitions, one of our key areas in the group United

States has been doing extremely well in reserve replacement last year. They more than exceeded their production replacement, as well. I think they were around almost 20%.

So, that's one of the key areas that we see in the group. ***Overall we talk about our remaining reserve life, both on the oil side where we're looking at about 12 and a half years, and the gas side at 15 and a half years, those are very competitive and very strong positions.*** And I think that is very important to remember, as well as the facts that we look at our probable reserves and inclusion, as well, that we use for a planning base, we continue to see growth in the total reserve figure, as well. So, that is very encouraging. On the investment side, what we said over the next couple of years, maintaining that investment level of about 7.5 to 8 billion dollars per year, we say that about 15 to 20% goes to these real sort of frontier type of projects. We mentioned examples [inaudible].

* * *

Q: (Fred Loufer, Bear Stearns) On reserve replacement, first can you reconcile for us the two numbers you gave, 85% organic liquids replacement, and then -- that was shown in the table. And then in your comment you said 108% organic replacement for oil. That's the first part of the question. And the second is can you detail for us what was booked in the United States to – I think your number was 136% replacement? And then there's the third part, which just –

Which fields, yeah. And then thirdly, can you just talk about what major development projects are in the queue that weren't approved in time to be booked as approved reserves? What other ones are in the queue waiting to be booked maybe this year?

A: (Walter van de Vijver) ***The first question on the 85%, what it is there, it's oil and NGLs. The number, I'd say about oil -- at 9% it's oil only.*** That is splitting out oil and the NGL. NGLs you will appreciate, come with gas. The second question around the U.S., when it comes to reserve replacements, the key Areas where we had the positive revisions were in California in our operations that we have jointly with Exxon-Mobil where continued good performance allowed us to increase reserves. That's one of our top operating areas in the world. And then there has

been continued effort in reserves in deep water fields. These mature deep water fields who keep on growing and growing and delivering and delivering. . . .

* * *

Q: (Peter Nichol, ABN Amro) A couple of questions again on the upstream. Do you highlight the better performance and reserve replacement on the probable basis, when do you see that coming through to your approved result looking? And what else is the [INAUDIBLE] replacements on an organic bases on the program probable? And if I could ask something in a totally different light, do you see any implications for the groom structure arriving from the proposals in the Hicks report?

A: (Walter van de Vijver) Yeah. As I mentioned, we -- as a part of our normal day to-day manage [sic] process, we look very hard at the combination of approved and probable reserves. And those are continuously moving into the approved category. What we see happening is that on the oil side it's a bit different than on the gas side giving that the big projects we're involved in and how we sort of [inaudible]. Five-year efforts on the culmination is only 44%, which is something I feel very good about and that we monitor very, very closely. [Emphasis added.]

426. As Defendants knew or were reckless in not knowing, van de Vijver's statements quoted in the previous two paragraphs, concerning the Companies' reserve replacement ratios, remaining reserve life, growth in reserves base, and his explanations for these statements, were materially false and misleading when made for the reasons given in ¶ 302 and the paragraphs cited therein.

427. During the same conference call, Watts stated the following concerning the Companies' governance practices:

(Phillip Watts) Thank you, Walter. We have a different structure. ***We've had, if I may say, a super track record of governance within Shell, best practice, because frankly, we're here in the U.K. and we have to go to best practice. We're in the Netherlands and we have to go to best***

> ***practice. We're in the S.E.C. in the U.S., so you need best practice there.*** Our main problem here is reconciling all these best practices, that they fit together.
>
> That may sound a little flippant, but that's just something we've lived with for years. We found that when Sarbanes-Oxley came in, we had to do some tweaks, some specific things and whatever. ***But I don't think we're going to have any difficulty with signing the 20-F in a couple of weeks time in accordance with the new rules of Sarbanes-Oxley and from the S.E.C.*** . . . [Emphasis added.]

428. As Defendants knew or were reckless in not knowing, Watts' statements quoted in the previous paragraph, concerning the Companies' "super track record of governance within Shell, best practice," and their ability to sign the 2002 20-F in accordance with the requirements of the Sarbanes-Oxley Act of 2002 without "any difficulty," were materially false and misleading when made for the reasons given in ¶ 309 and the paragraphs cited therein.

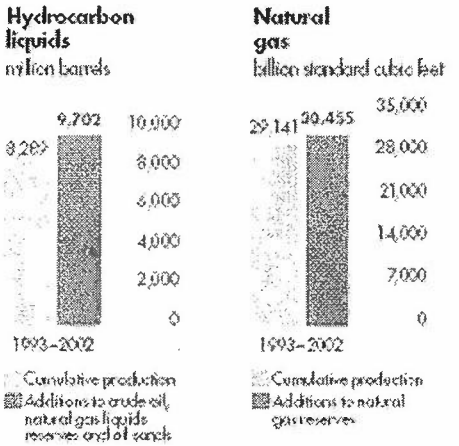
429. In or about March 2003, Royal Dutch issued its "Annual Report and Accounts 2002" (the "2002 RD Annual Report"), and Shell Transport issued its "Annual Report and Accounts 2002" (the "2002 ST Annual Report" and, together with the 2002 RD Annual Report, the "2002 Annual Reports"). Defendant van der Veer signed the 2002 RD Annual Report on March 5, 2003, and Defendant Watts signed the 2002 ST Annual Report on March 6, 2003.

430. The 2002 Annual Reports set forth numerous materially false or misleading statements concerning proved hydrocarbon reserves. For example, the 2002 Annual Reports give the following information concerning proved hydrocarbon reserves replacement ratios:

> Reserves
>
> The proved hydrocarbon reserves replacement ratio for 2002 was 117% and the five year rolling average (including oil sands) now stands at 109%. Excluding the effects of acquisitions and divestments the hydrocarbon reserves replacement ratio for 2002 was 50%. Proved reserves are equivalent to more than 13 years of current production. The additions to proved reserves arose mainly

from the acquisition of Enterprise, which substantially bolstered the Group's overall portfolio in Europe and the Americas. These were augmented by discoveries and extensions in the Caspian and the USA and improved recovery in West Africa, Asia Pacific and the USA.

431. The 2002 Annual Reports graphically depict the Companies' hydrocarbon liquids and natural gas reserve information as follows:



432. In a section entitled "Supplementary Information – Oil and Gas," the 2002 Annual Reports provide the following additional information about the Companies' reserves:

> 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.*** [Emphasis added.]

433. In a section entitled "Critical Accounting Policies," the 2002 Annual Reports state as follows:

> In order to prepare the Financial Statements in conformity with generally accepted accounting principles in the Netherlands and the

> USA, management has to make estimates and assumptions. ***The matters described below are considered to be the most critical*** in understanding the judgments that are involved in preparing the Financial Statements and the uncertainties that could impact the amounts reported on the results of operations, financial condition and cash flows. Accounting policies are described in Note 2 to the Financial Statements.
>
> Estimation of oil and gas reserves
>
> ***Oil and gas reserves have been estimated in accordance with industry standards and SEC regulations***. Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs ***under existing economic and operating conditions***. ***These estimates do not include probable or possible reserves***. Estimates of oil and gas reserves are inherently imprecise and represent only approximate amounts and are subject to future revision, as they are based on available reservoir data, prices and costs as of the date the estimate is made. Accordingly, the financial measures that are based on proved reserves are also subject to change. [Emphasis added.]

434. As Defendants knew or were reckless in not knowing, the statements in the previous four paragraphs – concerning proved hydrocarbon reserves replacement ratios, the conclusion that proved reserves are "equivalent to more than 13 years of current production," the reasons given for additions to proved reserves, the graphical depiction of oil and gas reserves, the exclusion from reported reserves of volumes attributable to discoveries "which are not at present considered proved," oil and gas reserves being estimated in accordance with industry standards and SEC regulations, and the estimates not including probable or possible reserves – were materially false and misleading when made for the reasons given in ¶ 302 and the paragraphs cited therein.

435. Certain of the Companies' financial metrics are directly tied to their reported proved hydrocarbon reserves. Thus, when Defendants made the foregoing materially false and

misleading statements concerning those reserves (and related metrics, such as reserve replacement ratios), they also, as a consequence, made false and misleading financial statements. In the 2002 Annual Reports, Defendants reported that Depreciation, Depletion and Amortisation for 2002 was $8.454 billion, an understatement of approximately $166 million, with a corresponding overstatement of reported pre-tax net income. Defendants reported year-end cash flow provided by operating activities to be $16.365 billion, which was overstated by the same $166 million, ignoring adjustments unrelated to reserves. Defendants overstated net assets by $467 million, with a further corresponding overstatement of reported pre-tax net income. Thus, the annual net income Defendants reported for 2002, $9.419 billion, was overstated by a total of $633 million ($166 million plus $467 million), ignoring adjustments unrelated to reserves.

436. The 2002 Annual Reports also contain information about the Companies' corporate-governance and internal-control efforts. Both van der Veer, in his Message from the President, and Watts, in his message from the Chairman, underscored the Companies' purported commitment to the values of "honesty" and "integrity," and to "having strong corporate governance" and "committing to transparency."

437. The 2002 RD Annual Report also states that "The Supervisory Board and Board of Management of Royal Dutch Petroleum Company (Royal Dutch) remain committed to upholding the highest standards of integrity and transparency in their governance of the Company." Similarly, the 2002 ST Annual Report states that "The Board of the 'Shell' Transport and Trading Company, p.l.c. (Shell Transport) is committed to the highest standards of integrity and transparency in its governance of the Company . . . ."

438. Under the heading "Other matters," the 2002 Annual Reports provide the following information, inter alia, concerning the Companies' internal controls:

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.

Established review and reporting processes bring risk management into greater focus and enable the Conference (meetings between the members of the Supervisory Board and the Board of Management of Royal Dutch and the Directors of Shell Transport) regularly to review the overall effectiveness of the system of internal control and to perform a full annual review of the system's effectiveness.

At Group level and within each business, risk profiles which highlight the perceived impact and likelihood of significant risks are reviewed each quarter by the Committee of Managing Directors and by the Conference. . . .

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 Group policies, standards and guidance material that relate to particular types of risk, structured investment decision processes, timely and effective reporting systems, and performance appraisal.

* * *

A procedure for reporting business control incidents enables management and the Group Audit Committee to monitor incidents arising 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.

* * *

> 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 Group Internal Audit to provide the Group Audit Committee with ***independent assessments*** regarding the effectiveness of risk and control management. [Emphasis added.]

439. As Defendants knew or were reckless in not knowing, the statements in the previous three paragraphs – concerning the Companies' strong corporate governance and its commitment to transparency, the Companies' commitment to upholding the highest standards of integrity and transparency, and the existence of strengthened, effective, and independent internal controls – were materially false and misleading when made for the reasons given in ¶ 309 and the paragraphs cited therein.

440. The 2002 RD Annual Report attaches KPMG's "Report of the Independent Auditors" concerning Royal Dutch's annual accounts for 2002. The KPMG Report, which is dated March 5, 2003, states:

> We have audited the Annual Accounts for the year 2002 of Royal Dutch Petroleum Company. These Accounts are the responsibility of the Company's management. Our responsibility is to express an opinion on these Accounts based on our audit.
>
> We conducted our audit in accordance with generally accepted auditing standards in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual accounts. ***We believe that our audit provides a reasonable basis for our opinion.***
>
> ***In our opinion, these Accounts – of which the Financial Statements of the Royal Dutch/Shell Group of Companies and the Notes thereto on pages 55 to 76 form part – give a true and fair view of the financial position of the Company at December 31, 2002, and of the results and the cash flows for the year then ended***

in accordance with accounting principles generally accepted in the Netherlands and comply with the legal requirements in the Netherlands regarding annual accounts. [Emphasis added.]

441. Similarly, the 2002 ST Annual Report attaches PwC's "Report of the Independent Auditors" concerning Shell Transport's financial statements for 2002. The PwC Report, which is dated March 6, 2003, states, inter alia:

> In our opinion:
>
> · the Financial Statements give a true and fair view of the state of the Company's affairs at December 31, 2002 and of its profit and cash flows for the year then ended . . . .

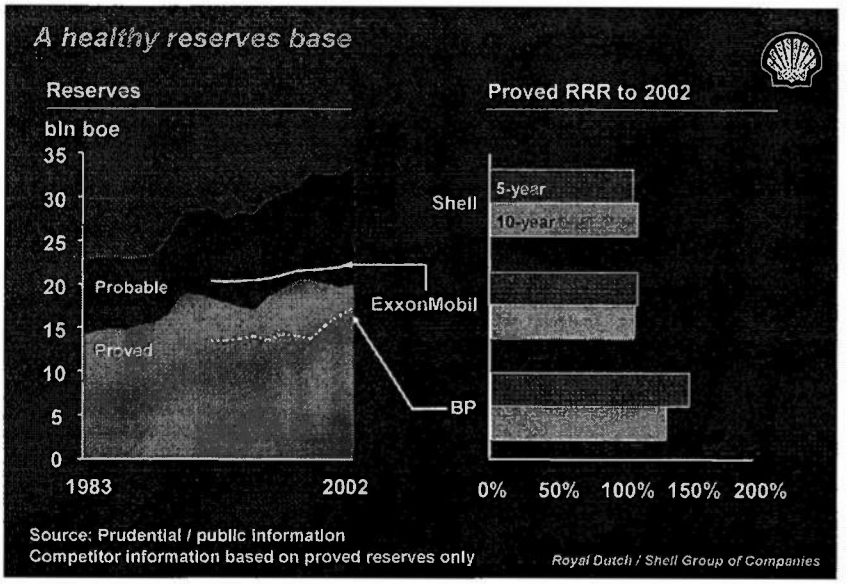
442. The 2002 Annual Reports also attach KPMG and PwC's "Report of the Independent Auditors" for Royal Dutch and Shell Transport relating to specified financial statements. This Report, which is dated March 5, 2003, states in relevant part:

> We have audited the Financial Statements appearing on pages 55 to 76 of the Royal Dutch/Shell Group of Companies for the years 2002, 2001 and 2000. 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 standard in the Netherlands and the United States***. 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, 2002 and 2001 and the results of its operations and its cash flows for***

> ***each of the three years in the period ended December 31, 2002*** in accordance with generally accepted accounting principles in the Netherlands and the United States. [Emphasis added.]

443. As KPMG and PwC knew or were reckless in not knowing, the statements in the previous three paragraphs – that the financial statements in question give a true and fair view of the financial position, results, and cash flow of Royal Dutch for the stated time period, that the financial statements in question give a true and fair view of the state of Shell Transport's affairs for the stated time period, and of its profit and cash flows, that KPMG and PwC conducted their audits in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of operations, and cash flow of the Companies for the stated time periods in all material respects – were materially false and misleading when made for the reasons given in ¶ 313 and the paragraphs cited therein.

444. On March 26, 2003, several executives of the Companies, including Defendant van de Vijver, gave a presentation to analysts focusing on the business strategies of the Exploration & Production and Gas & Power units. During this presentation, Shell's reserve base was designated "healthy" and "growing," and the following slide depicted the Companies' proved reserves:



445. As Defendants knew or were reckless in not knowing, the graphic representations in the previous paragraph concerning the Companies' proved reserves and reserve replacement ratios were materially false and misleading when made for the reasons given in ¶ 302 and the paragraphs cited therein.

446. On March 31, 2003, the Companies filed with the SEC their Annual Report on Form 20-F for the year ended December 31, 2002 (the "2002 20-F"), signed by Defendant Jeroen van der Veer for Royal Dutch, and by Defendant Philip Watts for Shell Transport. Under the headings "Description of Activities/Exploration and Production," the 2002 20-F gives the following summary information for proved developed and undeveloped reserves (at year end) for 2000, 2001, and 2002:

PROVED DEVELOPED AND UNDEVELOPED RESERVES (at December 31)			
			million barrels
	2002	2001	2000
Crude oil and natural gas liquids			
Group companies	9,026	8,544	8,670
Group share of associated companies	1,107	925	1,081

	10,133	9,469	9,751
	thousand million standard cubic feet		
Natural gas			
Group companies	48,240	50,613	50,842
Group share of associated companies	5,198	5,216	5,441
	53,438	55,829	56,283

447. Under the heading "Exploration and Production," the 2002 20-F gives the following information concerning proved hydrocarbon reserves replacement ratios:

> Reserves
>
> The proved hydrocarbon reserves replacement ratio for 2002 was 117% and the five year rolling average (including oil sands) now stands at 109%. Excluding the effects of acquisitions and divestments the hydrocarbon reserves replacement ratio for 2002 was 50%. Proved reserves are equivalent to more than 13 years of current production. The additions to proved reserves arose mainly from the acquisition of Enterprise, which substantially bolstered the Group's overall portfolio in Europe and the Americas. These were augmented by discoveries and extensions in the Caspian and the USA and improved recovery in West Africa, Asia Pacific and the USA.

In this same section, the 2002 20-F repeats verbatim the materially false and misleading language from the 2001 20-F concerning proved hydrocarbon replacement ratios quoted in paragraph 404, above.

448. In a section entitled "Supplementary Information – Oil and Gas," the 2002 20-F provides the following additional information about the Companies' reserves:

> 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.*** [Emphasis added.]

449. In a section entitled "Critical Accounting Policies," the 2002 20-F states as follows:

> In order to prepare the Financial Statements in conformity with generally accepted accounting principles in the Netherlands and the USA, management has to make estimates and assumptions. ***The matters described below are considered to be the most critical*** in understanding the judgments that are involved in preparing the Financial Statements and the uncertainties that could impact the amounts reported on the results of operations, financial condition and cash flows. Accounting policies are described in Note 2 to the Financial Statements.
>
> Estimation of oil and gas reserves
>
> ***Oil and gas reserves have been estimated in accordance with industry standards and SEC regulations***. Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs ***under existing economic and operating conditions. These estimates do not include probable or possible reserves***. Estimates of oil and gas reserves are inherently imprecise and represent only approximate amounts and are subject to future revision, as they are based on available reservoir data, prices and costs as of the date the estimate is made. Accordingly, the financial measures that are based on proved reserves are also subject to change. [Emphasis added.]

450. As Defendants knew or were reckless in not knowing, the statements in the previous four paragraphs – concerning the figures for proved developed and undeveloped reserves (at year end), proved hydrocarbon reserves replacement ratios, the conclusion that proved reserves are "equivalent to more than 13 years of current production," the reasons given for additions to proved reserves, the exclusion from reported reserves of volumes attributable to discoveries "which are not at present considered proved," oil and gas reserves being estimated in

accordance with industry standards and SEC regulations, and the estimates not including probable or possible reserves – were materially false and misleading when made for the reasons given in ¶ 302 and the paragraphs cited therein.

451. Certain of the Companies' financial metrics are directly tied to their reported proved hydrocarbon reserves. Thus, when Defendants made the foregoing materially false and misleading statements concerning those reserves (and related metrics, such as reserve replacement ratios), they also, as a consequence, made false and misleading financial statements. In the 2002 20-F, Defendants reported that Depreciation, Depletion and Amortisation for 2002 was $8.454 billion, an understatement of approximately $166 million, with a corresponding overstatement of reported pre-tax net income. Defendants reported year-end cash flow provided by operating activities to be $16.365 billion, which was overstated by the same $166 million, ignoring adjustments unrelated to reserves. Defendants overstated net assets by $467 million, with a further corresponding overstatement of reported pre-tax net income. Thus, the annual net income Defendants reported for 2002, $9.419 billion, was overstated by a total of $633 million ($166 million plus $467 million), ignoring adjustments unrelated to reserves.

452. Under the heading "Other Matters," the 2002 20-F also provides the following information, inter alia, concerning the Companies' internal controls:

> 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.

Established review and reporting processes bring risk management into greater focus and enable the Conference (meetings between the members of the Supervisory Board and the Board of Management of Royal Dutch and the Directors of Shell Transport) regularly to review the overall effectiveness of the system of internal control and to perform a full annual review of the system's effectiveness.

At Group level and within each business, risk profiles which highlight the perceived impact and likelihood of significant risks are reviewed each quarter by the Committee of Managing Directors and by the Conference. . . .

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 Group policies, standards and guidance material that relate to particular types of risk, structured investment decision processes, timely and effective reporting systems, and performance appraisal.

* * *

A procedure for reporting business control incidents enables management and the Group Audit Committee to monitor incidents arising 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.

* * *

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 Group Internal Audit to provide the Group Audit Committee with ***independent assessments*** regarding the effectiveness of risk and control management. [Emphasis added.]

453. As Defendants knew or were reckless in not knowing, the statements in the previous paragraph, concerning the existence of strengthened, effective, and independent internal

controls, were materially false and misleading when made for the reasons given in ¶ 309 and the paragraphs cited therein.

454. The 2002 20-F includes certifications required by the Sarbanes-Oxley Act of 2002. The certification of Defendant Jeroen van der Veer, then President and Managing Director of Royal Dutch, states, inter alia:

> 1. I have reviewed this annual report on Form 20-F of Royal Dutch Petroleum Company (N.V. Koninklijke Nederlandsche Maatschappij);
>
> 2. Based on my knowledge, this annual report ***does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report***;
>
> 3. Based on my knowledge, the ***financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report*** . . . . [Emphasis added.]

455. The certification of Defendant Judith Boynton, then Group Director of Finance, states, inter alia:

> 1. I have reviewed this annual report on Form 20-F of Royal Dutch Petroleum Company (N.V. Koninklijke Nederlandsche Maatschappij);
>
> 2. Based on my knowledge, this annual report ***does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report***;
>
> 3. Based on my knowledge, the ***financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of***

operations and cash flows of the registrant as of, and for, the periods presented in this annual report . . . . [Emphasis added.]

456. The certification of Defendant Philip Watts, then Chairman and a Managing Director of Shell Transport, states, inter alia:

1. I have reviewed this annual report on Form 20-F of The "Shell" Transport and Trading Company, p.l.c ;

2. Based on my knowledge, this annual report ***does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report***;

3. Based on my knowledge, the ***financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report*** . . . . [Emphasis added.]

457. Judith Boynton also signed a certification for Shell Transport, attached to the 2002 20-F, which states, inter alia:

1. I have reviewed this annual report on Form 20-F of The "Shell" Transport and Trading Company, p.l.c ;

2. Based on my knowledge, this annual report ***does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report***;

3. Based on my knowledge, the ***financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report*** . . . . [Emphasis added.]

458. As Defendants van der Veer, Boynton, and Watts knew or were reckless in not knowing, the statements in the previous four paragraphs, concerning the truth and non-misleading

nature of the 2002 20-F, were materially false and misleading when made for the reasons given in ¶¶ 450 & 453 and the paragraphs cited therein.

459. The 2002 20-F attaches KPMG's "Report of Independent Accountants" for Royal Dutch relating to specified financial statements. The KPMG Report, which is dated March 5, 2003, states in relevant part:

> We have audited the Financial Statements of Royal Dutch Petroleum Company for the years 2002, 2001 and 2000 appearing on pages R2 to R6. The preparation of these Financial Statements is the responsibility of the Board of Management. Our responsibility is to express an opinion on the Financial Statements based on our audits.
>
> ***We conducted our audits in accordance with auditing standards generally accepted in the United States***. Those standards require that we plan and perform the audits 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 the Board of Management in the preparation of the 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 Royal Dutch Petroleum Company at December 31, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002*** in accordance with the accounting policies described on page R3. [Emphasis added.]

460. Similarly, the 2002 20-F attaches PwC's "Report of Independent Accountants" for Shell Transport relating to specified financial statements. The PwC Report, which is dated March 6, 2003, states in relevant part:

> We have audited the Financial Statements of The "Shell" Transport and Trading Company, Public Limited Company for the years 2002, 2001 and 2000 appearing on pages S2 to S8. The preparation of the

> Financial Statements is the responsibility of the Company's Directors. Our responsibility is to express an opinion on those Financial Statements based on our audits.
>
> ***We conducted our audits in accordance with auditing standards generally accepted in the United States***. 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 the Company's Directors in the preparation of the 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 "Shell" Transport and Trading Company, Public Limited Company at December 31, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002*** in conformity with the accounting principles described in Note 1 on page S4. [Emphasis added.]

461. The 2002 20-F also attaches KPMG and PwC's "Report of Independent Accountants" for Royal Dutch and Shell Transport relating to specified financial statements. This Report, which is dated March 5, 2003, states in relevant part:

> We have audited the Financial Statements appearing on pages G2 to G33 of the Royal Dutch/Shell Group of Companies for the years 2002, 2001 and 2000. 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 in the Netherlands and the United States***. 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 the

> 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, 2002 and 2001 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002*** in accordance with generally accepted accounting principles in the Netherlands and the United States. [Emphasis added.]

462. As KPMG and PwC knew or were reckless in not knowing, the statements in the previous three paragraphs – that KPMG conducted its audits of Royal Dutch in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of operations, and cash flow of Royal Dutch for the stated time periods in all material respects; that PwC conducted its audits of Shell Transport in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of operations, and cash flow of Shell Transport for the stated time periods in all material respects; and that KPMG and PwC conducted their audits of the Companies in accordance with GAAS, and that the financial statements in question fairly present the financial position, results of operations, and cash flow of the Companies for the stated time periods in all material respects – were materially false and misleading when made for the reasons given in ¶ 313 and the paragraphs cited therein.

THE TRUTH BEGINS TO EMERGE

463. On January 9, 2004, the Shell Group partially revealed the truth about its reported reserves, stating that it would reduce its reserves holdings by 20%. The announcement was made in a press release at 7:00 a.m. under the arcane heading "proved reserve recategorisation." The reduction contemplated the reclassification of 3.9 billion barrels of oil and gas (2.7 billion barrels of oil and 1.2 billion boe of gas), one-fifth of the Companies' proved reserves. After removal of

the almost four billion boe of hydrocarbons, Shell Transport's reserve life – measured in years of future production – fell from more than 13 years to 10 years. The reclassified reserves would be categorized as "unproven" or having "scope of recovery."

464. Shell Transport's ADRs fell by 6.96% on January 9th, and Royal Dutch's ordinary shares (in the U.S.) fell by 7.87%. Analysts slashed their recommendations, and credit-rating agencies, which decide how much companies have to pay to borrow money, announced that they were poised to lower their opinion of Shell Transport's credit worthiness.

465. Analysts who follow the Companies, and who once praised them for their conservative reserves accounting, were "stunned." Richard Brakenhoff, an analyst with Kemper & Co. was quoted as saying: "Investors will be shocked as Shell was usually known for its conservative accounting policy." Brakenhoff believed that the recategorization would "reduce[ ] the value of the company by 10 percent using discounted cash flows." Goldman Sachs said that the recategorization raised "significant concerns with respect to the credibility of the company's underlying operational performance."

466. On March 3, 2004, after the boards of both Royal Dutch and Shell Transport reviewed the early results from Davis Polk's investigation of the Companies' overbooking of reserves, Watts and van de Vijver were forced to resign from their positions with the Shell Group.

467. The resignations were said to have been a consequence of persistent pressure from the Royal Dutch side of the Group. According to the news media, "[t]he formal investigation launched last month by the [SEC] appears to have been the last straw."

468. Analysts believed that another reason for the pressure on Watts and van de Vivjer was protection of the Companies' credit rating. "Shell is fiercely protective of its superior credit rating, such that the Company felt that Watts was a risk to the Company's ratings."

469. In a stock exchange release filed with the SEC on March 18, 2004 (on Form 6-K), the last day of the Class Period, the Shell Group announced yet again that it was restating downward its proved reserves for oil and natural gas. This was the second reclassification of reserves and was announced only one day before the Shell Group was due to file details of its 2003 reserves with the SEC – one of five authorities in the United States and Europe investigating the Companies. The Companies said that the equivalent of 250 million barrels of oil were being reclassified because they did not comply with SEC regulations. (The addition of 250 million boe increased the total amount of reserves that had been improperly booked as proved to 4.15 billion, or more than 20% of the originally reported figure.) In addition, the Companies announced that another 220 million boe, which as recently as February 2004 they had expected to book as proved for the year ended 2003, would not be included.

470. In the release, the Companies stated that they were making the reduction after further concerns arose about their reserves as they were completing their 2003 year-end accounts, which had been expected to be submitted to the SEC in their soon-to-be filed Form 20-F. As a result, the Companies delayed the filings and the publication of their annual report until May 2004. They also hired Ryder Scott Co., a petroleum consulting firm that performs reserves certifications and audits for oil and gas companies, to conduct further reviews of the Shell Group's oil and natural gas fields.

471. The added revision related, in part, to the Ormen Lange field in Norway (see supra). At Ormen Lange, Shell Transport used 3D seismic technology to determine reserves (based on reflected sound waves), but did not back up the results with other methods, as required by the SEC, such as drilling additional delineation wells to determine whether the 3D seismic interpretation was correct.

472. The Shell Group's decision not to re-book 220 million barrels of oil equivalent for 2003 reduced the Shell Group's annual reserve replacement ratio to 82% from 98% (which was announced in February 2004). The reduction also boosted the Shell Group's costs of finding and developing oil and natural gas for the year to $6.40 (5.23 euros) a barrel from $5.50 a barrel.

473. Moreover, the reserve restatement also affected the Group's bottom line through accounting for depreciation. In February 2004, the Companies said that their original reserve reclassification would result in an after-tax depreciation charge of $86 million. The new reclassification added charges of $20 million. The Companies said that an additional $10 million in write-offs had been identified as a result of the reserve downgrades.

474. After the end of the Class Period, additional information about the Companies' Class Period misconduct became public. On April 19, 2004, the Shell Group cut reserves for a third time, by an additional 300 million barrels. In an interview with Defendant Brinded on that date (by Cantos, a U.K.-based financial and corporate information provider), Brinded explained that the reduction followed the continued analysis of the Companies' reserves.

> [E]ssentially back in early March we established that we had a problem with the Ormen Lange booking and when we looked into it, it caused us some concerns that there might be wider-spread issues to deal with. So we set in train immediately in early March an exercise involving external experts from Ryder Scott together with our own teams to look at those reserves which we felt might be most at risk. After just a few days of that exercise we had covered 40 per cent of the reserves base and we realised that we had a material reduction to book, or to de-book, and we announced that on the 18th March – a reduction of 470 million barrels. At that point, I said that we were going to go on and complete the exercise on the worldwide reserves base.
>
> In the last four weeks that's what we've done, 300 fields have been reviewed. In fact, reductions have been made now in total to almost 100 fields and we've covered 90 per cent of our fields. That's all but the very small fields essentially. So we've now completed that exercise, as a result of this latest phase, with a further reduction of

> some 300 million barrels for the pre-2003 reserve base and a reduction of some 200 million barrels in what we would otherwise have been booking in 2003.

475. In his April 19, 2004 interview, Brinded conceded that the reclassifications had a material adverse impact on the Companies' competitive position:

> But what is clear is that our competitive position in reserves, our recent reserves replacement ratio, and the current lifetime of our reserves doesn't leave us that well placed competitively . . . .

476. In total, as of April 2004, the three reductions include the reclassification of 4.47 billion boe, or about 23%, as of December 31, 2002, the last time the Shell Group reported reserves figures to the SEC. For 2003, the reclassification includes a reduction of 500 million boe.

477. As explained by Brinded in his April 19th interview:

> [T]he change is really . . . a result of this third tranche . . . . [E]ssentially we're looking at a different type of field . . . , one-third of them are in proved developed reserves category. In the past we've been stressing that 90-95 per cent of the reductions were in the undeveloped category and only a very small proportion in the developed category. This time about a third are in the proved developed category.
>
> The distinguishing feature being that proved developed means it is on stream, it's producing. You've built the platform, you've drilled the wells, it's producing oil. That means you're starting to depreciate the asset and you depreciate it based on a proportion of the production in that year divided by the total proven reserves base. So if you shrink your proven reserves base, then you should be depreciating more in that year. So when we have to make revisions to proved developed reserves, we have to go back and make a change to the depreciation calculation and that change is your net income and that's why there is a material financial impact.
>
> . . . [I]n terms of materiality though I just want to stress it averages something like $100 million a year over the last four years.

478. On April 19, 2004, the Companies also released the Executive Summary of the GAC Report. A few hours after the Shell Group disclosed the conclusions in the GAC Report, Standard & Poor's ("S&P") stripped the Companies of the AAA credit rating (dropping to AA+) they had maintained for 14 years. The lowered credit rating means that the Companies will now have to pay more to finance operations.

479. On April 22, 2004, Moody's Investor Services ("Moody's") followed S&P, cutting the Shell Group's credit rating one notch to AA1 from AAA. Moody's made the cut following the GAC report, which it said "indicates a range of reporting and oversight flaws inconsistent with a highly rated entity, and raises major questions about Royal Dutch/Shell's controls, reporting standards and corporate governance." Moody's also attacked the Shell Group's dual structure, saying that it would slow the Shell Group's ability to make the changes it had promised and regain credibility in the financial community.

480. On May 24, 2004, the Companies downgraded the size of their proven oil and gas reserves for the fourth time in 2004. The Companies said that the latest reduction reflected "an adjustment with respect to royalties paid in cash in Canada." The downgrade involved an additional 103 million barrels from proved to less certain categories.

> For the years ended 1999 to 2002, proved reserves and production included royalties paid in cash on certain properties in Canada (consistent with practice for properties outside North America). These have now been removed from proved reserves (consistent with practice for properties in the United States), resulting in a reduction at 31 December 2003, relative to earlier announcements, of 103 million barrels of oil equivalent (boe) and a reduction of production of 9 mln boe for the year 2003.
>
> The aggregate effect on proved reserves of the reserves restatement is 4.47 billion boe, of which 4.35 billion boe was previously announced as reserves recategorisations. The remainder relates to adjustments for royalties paid in cash on certain Canadian properties described above. With a reserve replacement ration for

2003 of 63%, proved reserves were 14.35 billion boe at 31 December 2003, or 10.2 years of production (all excluding oil sands).

481. Also on May 24th, the Shell Group announced that it would restate certain of its financial results, for 2001, 2002, and 2003, as a consequence of the reserve recategorization. The Companies stated that the restatement was part of its shift toward using stricter American accounting rules for all its accounts, rather than a combination of Dutch and American rules. The Shell Group made the announcement ahead of the planned filing and dissemination of its annual report on May 28, 2004.

482. The financial impact of the restatement is shown in the tables below. These tables appeared in the Shell Group's press release of May 24, 2004:

Financial impact on Net Income under US GAAP for the Group ($ millions)

	2001	**2002**	**2003**
19 April 2004 announcement *(Provisional estimate of the effect of reserves restatement on net income relative to previously reported 2003 results).*	*(40)*	*(100)*	*(130)*
Year-end Net Income as previously reported (including unaudited results for 2003 reported in earnings release on 5 February 2004)	**10,852**	**9,419**	**12,699**
Effect of reserves restatement relative to previously reported results	(42)	(108)	(106)
FAS19 – Exploration costs	(14)	(61)	(81)
FAS144 – Impairments	0	0	(62)
FAS133 – Marked-to-market	0	(39)	(75)
Other	0	0	103
Sub-total	(56)	(208)	(221)
Effect of accounting policy change for inventories	(446)	511	18

Total Adjustments	(502)	303	(203)
Net Income	**10,350***	**9,722***	**12,496**

Table 2. Supplementary oil and gas information (unaudited) – proved crude oil and natural gas liquids reserves for the Group

Crude oil and natural gas liquids (Million barrels)	**2001**	**2002**	**2003**
Group Companies:			
As previously reported as at 31 December	**8,544**	**9,026**	-
Effect of reserves restatement as published in Annual Report	(2,437)	(2,621)	-
As at 31 December	**6,107***	**6,405***	**5,723**
Group share of Associated Companies:			
As previously reported as at 31 December	925	1,107	-
Effect of reserves restatement as published in Annual Report	(206)	(174)	-
As at 31 December	**719***	**933***	**882**
Oil Sands (not restated)	600	600	652

Table 3. Supplementary oil and gas information (unaudited) – proved natural gas reserves for the Group - note: 5,800 million standard cubic feet of natural gas = 1 million boe.

Natural gas (thousand million standard cubic feet)	**2001**	**2002**	**2003**
Group Companies:			
As previously reported as at 31 December	50,613	48,240	-
Effect of reserves restatement as published in Annual Report	(8,554)	(7,950)	-
As at 31 December	**42,059***	**40,290***	**41,601**
Group share of Associated Companies:			
As previously reported as at 31 December	5,216	5,198	-
Effect of reserves restatement as published in Annual Report	(2,397)	(1,786)	-
As at 31 December	**2,819***	**3,412***	**3,319**

Table 4. Supplementary oil and gas information (unaudited) – standardised measure of discounted cash flow for the Group ($ million)

	2001	2002	2003
19 April 2004 announcement *Provisional estimate effect of reserves restatement in 2002*	-	*<(10%)*	-
Group Companies:			
As previously reported as at 31 December	45,878	65,702	-
Effect of reserves restatement as published in Annual Report	(5,464)	(5,340)	-
As at 31st December	**40,414***	**60,362***	**53,844**
Group share of Associated Companies:			
As previously reported as at 31 December	3,888	7,070	-
Effect of reserves restatement as published in Annual Report	(1,005)	(1,308)	-
As at 31 December	**2,883***	**5,762***	**5,828**

*As restated

483. On May 28, 2004, the Group issued its financial results for the year 2003. As the OBSERVER noted on May 30, 2004, "[i]n the report Shell admits to inadequate controls, lack of resources and unclear lines of responsibility that allowed the scandal to happen."

484. As discussed at paragraphs 296-97 above, on August 24, 2004, the SEC issued its Cease and Desist Order, concluding that the Companies had, in violation of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, knowingly or recklessly reported proved reserves that were non-compliant with Rule 4-10 of Regulation S-X of the Exchange Act, and failed (i) to ensure that the Companies' internal proved reserves estimation and reporting guidelines complied with Rule 4-10, and (ii) to take timely and appropriate action to ensure that their reported proved reserves were not overstated in their filings with the SEC and other public statements. The SEC

also concluded that the Companies had violated Section 13(a) of the Exchange Act and Rules 13a-1 and 12b-20 thereunder, and Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act.

485. In a separate civil action filed simultaneously with the proceeding that was the subject of the Cease and Desist Order, Royal Dutch and Shell Transport consented to the entry of a judgment by the U.S. District Court for the Southern District of Texas, Houston Division, pursuant to Section 21(d) of the Exchange Act, ordering Royal Dutch and Shell Transport, together, to pay $1 disgorgement and a $120 million civil penalty. *SEC v. Royal Dutch Petroleum Co. and The "Shell" Transport and Trading Company, p.l.c.*, No. H-04-3359 (S.D. Tex. Aug. 24, 2004).

486. Also on August 24, 2004, the FSA issued its Final Notice to Shell Transport and Royal Dutch (the "FSA Final Notice"), in which the FSA imposed a penalty of £17 million for "market abuse" and breaches of the FSA's Listing Rules.

SHELL DEFENDANTS' VIOLATIONS OF GAAP

487. Given the accounting irregularities described above, the Companies announced that their discounted cash flows and proved reserves were in violation of GAAP and the following principles:

a. The principle that "interim financial reporting should be based upon the same accounting principles and practices used to prepare annual financial statements" was violated (APB No. 28, ¶ 10);

b. The principle that "financial reporting should provide information that is useful to present to potential investors and creditors and other users in making rational investment, credit, and similar decisions" was violated (FASB Statement of Concepts No. 1, ¶ 34);

c. The principle that "financial reporting should provide information about the economic resources of an enterprise, the claims to those resources, and effects of transactions, events, and circumstances that change resources and claims to those resources" was violated (FASB Statement of Concepts No. 1, ¶ 40);

d. The principle that "financial reporting should provide information about an enterprise's financial performance during a period" was violated (FASB Statement of Concepts No. 1, ¶ 42);

e. The principle of "completeness, meaning that nothing is left out of the information that may be necessary to insure that it validly represents underlying events and conditions," was violated (FASB Statement of Concepts No. 2, ¶ 79);

f. The principle that "financial reporting should be reliable in that it represents what it purports to represent" was violated (FASB Statement of Concepts No. 2, ¶¶ 58-59); and

g. The principle that "conservatism be used as a prudent reaction to uncertainty to try to ensure that uncertainties and risks inherent in business situations are adequately considered was violated. (FASB Statement of Concepts No. 2, ¶ 95).

488. The adverse information concealed by Defendants during the Class Period and detailed above was in violation of Item 303 of Regulation S-K under the federal securities law (17 C.F.R. 229.303).

SHELL DEFENDANTS' VIOLATIONS OF SEC RULES

489. As alleged, the SEC defines proved oil and gas reserves (Rule 4-10(a) of Regulation S-X of the Exchange Act), as follows:

> Proved oil and gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data

> demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e , prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

See also FAS 25 Suspension of Certain Accounting Requirements for Oil and Gas Producing Entities ¶ 34 (Feb. 1979).

490. Moreover, the SEC states: "The concept of reasonable certainty implies that, as more technical data becomes available, a positive, or upward, revision is much more likely than a negative, or downward, revision." SEC Div. of Corp. Fin: Frequently Requested Accounting and Fin. Reporting Interpretations and Guidance ("SEC Guidance") (Mar. 31, 2001).

491. The Shell Group's overstatement of its proved reserves by 23% is in violation of the above-referenced principles. More specifically, the Shell Group violated SEC rules by including, in its proved reserves figures, oil and gas projects and venture that did not meet SEC standards for proved reserves, as alleged herein.

ADDITIONAL SCIENTER ALLEGATIONS

492. Defendants knew of, or recklessly disregarded, facts readily available to them demonstrating that the Shell Group's financial statements and statements concerning proved reserves were materially false and misleading when made. As alleged herein, Defendants acted with scienter in that Defendants knew that the public documents and statements issued or disseminated in the name of the Shell Group were materially false and misleading, knew that such statements or documents would be issued, or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws.

493. As set forth elsewhere herein in detail, Defendants, by virtue of their receipt of information reflecting the true facts regarding the Shell Group's publicly reported proved reserves

and financial statements, their control over and/or receipt of information of the Shell Group's allegedly materially misleading misstatements and/or their associations with the Shell Group that made them privy to confidential proprietary information concerning the Shell Group, participated in the fraudulent scheme alleged.

494. A strong inference of Defendants' knowledge and/or recklessness arises from the following facts, taken singly or collectively:

a. Defendants learned first-hand of the improper classification of proved reserves set forth herein, as senior Shell Group executives and other Shell Group personnel had communicated throughout the Class Period, both orally and in writing, that the Shell Group's classification of proved reserves did not comport with SEC guidelines.

b. Defendants, by accepting and adopting the findings of the GAC Report without qualification, acknowledge that the Shell Group's lack of internal controls led to the reserves reclassification and restatement of the Companies' financial statements.

c. Moreover, the reclassification and restatement itself constitutes strong circumstantial evidence that the Group Defendants acted with scienter. Under GAAP, the need to restate a previously reported financial statement arises only when the facts that necessitate the restatement existed at the time the financials were originally issued. See Accounting Principles Board Opinion No. 20, ¶ 13. By restating prior financials, Defendants have effectively admitted that the Companies' improper classification of reserves as proved was therefore known or recklessly disregarded at the time all of the foregoing fraudulent financial statements were originally released, and that the originally issued financial statements were materially misleading.

d. The magnitude and duration of the alleged fraud also constitutes strong circumstantial evidence that Defendants acted with scienter. As set forth herein, the alleged fraud

commenced as early as 1997, with the improper booking of reserves in Australia (Gorgon), and continued until the Companies disclosed the full truth about improper classification of reserves on March 18, 2004. The impact of the alleged fraud had a material effect on the Shell Group's reported proved reserves, reserve replacement ratio, and finding and development costs: the volume of proved reserves was reduced by 23%, or 4.47 billion boe, the Shell Group's reserve replacement ratio fell to 57%, and the per-barrel costs to find and develop oil and gas rose to a staggering $7.90 from $4.27. Moreover, as a result of the recategorization, the Shell Group has only 10.2 years of reserve life (the time it would take to deplete existing reserves at current production rates), which is three to four years less than its competitors (BP – 14.1 yrs.; ExxonMobil – 13.5 yrs.; and ChevronTexaco – 13 yrs.), and well below the over 13 years of reserves previously represented by Defendants.

e. The Individual Defendants were also motivated to participate in the fraud alleged because their bonus compensation was tied to reported reserves. As reported by the news media, and confirmed in the GAC Report, the Cease and Desist Order, the Notice to Take Action, and the Barendregt memoranda, Shell Group executives were awarded year-end bonuses based upon a Group-wide "scorecard" system, which rated Shell's performance on a number of metrics, including financial targets tied directly to reported reserves.

APPLICABILITY OF PRESUMPTION OF RELIANCE: FRAUD-ON-THE MARKET DOCTRINE

495. In connection with their claims under Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, the Pennsylvania Funds and the Class will rely, in part, upon the presumption of reliance established by the fraud-on-the-market doctrine in that:

a. Defendants made public misrepresentations or failed to disclose material facts during the Class Period;

b. the omissions and misrepresentations were material;

c. the ordinary shares and ADRs of the Companies traded in an open and efficient market;

d. the misrepresentations and omissions alleged would tend to induce a reasonable investor to misjudge the value of the Companies' securities; and

e. the Pennsylvania Funds and members of the Class purchased their Royal Dutch and Shell Transport securities between the time Defendants failed to disclose or misrepresented material facts and the time the true facts were disclosed, without knowledge of the omitted or misrepresented facts.

496. At all relevant times, the market for the Companies' ordinary shares was an efficient market for the following reasons, among others:

a. Royal Dutch ordinary shares and Shell Transport ADRs met the requirements for listing, and were listed and actively traded, on the NYSE, a highly efficient market;

b. Royal Dutch and Shell Transport ordinary shares met the requirements for listing, and were listed and actively traded, on, among other foreign exchanges, the London Stock Exchange and the Amsterdam Stock Exchange, highly efficient markets;

c. as regulated issuers, Royal Dutch and Shell Transport filed periodic reports with the SEC and other regulatory agencies;

d. the Companies' securities were followed by securities analysts employed by major brokerage firms who wrote reports that were distributed to the sales force and customers of their respective firms. These reports were publicly available and entered the public marketplace; and

e. Royal Dutch and Shell Transport regularly issued press releases that were carried by national and international newswires. Each of these releases was publicly available and entered the public marketplace.

497. As a result, the market for Royal Dutch and Shell Transport securities promptly digested current information with respect to both Royal Dutch and Shell Transport from all publicly-available sources and reflected such information in the price of the Companies' securities. Under these circumstances, all purchasers of Royal Dutch and Shell Transport securities during the Class Period suffered similar injury through their purchases of Royal Dutch and Shell Transport securities at artificially inflated prices and a presumption of reliance applies.

NO STATUTORY SAFE HARBOR

498. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this Complaint. Many of the statements referred to historical or existing conditions. The specific statements pleaded herein were not identified as "forward-looking statements" when made. Nor was it stated with respect to any of the statements forming the basis of this Complaint that actual results "could differ materially from those projected." To the extent there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made the particular speaker knew that the particular forward-looking statement was false, and/or the forward-looking

statement was authorized and/or approved by an executive officer of Royal Dutch and/or Shell Transport who knew that those statements were false when made.

CLASS ACTION ALLEGATIONS

499. The Pennsylvania Funds bring this action as a class action pursuant to Federal Rules of Civil Procedure 23(a) and (b)(3). As alleged, the Class consists of all persons who purchased Royal Dutch ordinary shares and Shell Transport ordinary shares and ADRs on the open market during the Class Period. Excluded from the Class are Defendants, members of the Individual Defendants' families, any entity in which any Defendant has a controlling interest or is a parent or subsidiary of or is controlled by the Companies, and the officers, directors, affiliates, legal representatives, heirs, predecessors, successors, or assigns of any of the Defendants.

500. The members of the Class are so numerous that joinder of all members is impracticable. While the exact number of Class members is unknown to Lead Plaintiff at this time and can only be ascertained through appropriate discovery, Lead Plaintiff believes that there are thousands, if not hundreds of thousands, of members of the Class who traded Royal Dutch ordinary shares and Shell Transport ordinary shares and/or ADRs during the Class Period. During the Class Period, there were more than 2 billion outstanding shares of Royal Dutch common stock trading in Amsterdam, more than 520 million outstanding shares of Royal Dutch common stock trading on the NYSE, more than 9.6 billion outstanding shares of Shell Transport common stock trading in London, and more than 48 million outstanding Shell Transport ADRs trading on the NYSE. Members of the Class are geographically dispersed throughout the United States and abroad.

501. Common questions of law and fact exist as to all members of the Class and predominate over any questions affecting solely individual members of the Class. Among the questions of law and fact common to the Class are whether:

a. the federal securities laws were violated by Defendants' acts as alleged herein;

b. the Companies omitted and/or issued materially false and misleading statements during the Class Period;

c. Defendants acted knowingly or with recklessness in issuing false and misleading statements;

d. the market prices of the Companies' securities during the Class Period were artificially inflated because of Defendants' conduct complained of herein; and

e. the members of the Class have sustained damages and, if so, what is the proper measure of damages.

502. Lead Plaintiff's claims are typical of the claims of the members of the Class as Lead Plaintiff and members of the Class sustained damages arising out of Defendants' wrongful conduct in violation of federal laws as complained of herein.

503. Lead Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in complex multiparty litigation, such as class actions and securities litigation. Lead Plaintiff has no interests antagonistic to or in conflict with those of the Class.

504. A class action is superior to other available methods for the fair and efficient adjudication of the controversy since joinder of all members of the Class is impracticable. Furthermore, because the damages suffered by individual Class members may be relatively small,

the expense and burden of individual litigation make it impossible for the Class members individually to redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

CLAIMS FOR RELIEF

COUNT I

(Against The Group Defendants for Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Promulgated Thereunder)

505. Lead Plaintiff repeats and realleges each and every allegation contained in ¶¶ 1-504, as if fully set forth herein.

506. This Count is asserted against the Group Defendants under Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated thereunder.

507. During the Class Period, the Group Defendants, singly and in concert, directly engaged in a common plan, scheme, and unlawful course of conduct, pursuant to which they knowingly or with recklessness engaged in acts, transactions, practices, and courses of business that operated as a fraud and deceit upon Lead Plaintiff and the other members of the Class; made various deceptive and untrue statements of material facts and omitted to state material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading; and employed devices, schemes and artifices to defraud in connection with the purchase and sale of securities. The purpose and effect of said scheme, plan, and unlawful course of conduct were, among other things, to: (a) conceal the adverse facts concerning the Companies' operations, particularly with respect to its reported classification of proved oil and gas reserves; (b) artificially inflate and maintain the market price of Royal Dutch and Shell Transport securities; and (c) cause Lead Plaintiff and the other members of the Class to purchase Royal Dutch and Shell securities at inflated prices.

508. The Group Defendants had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or deliberately acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such Defendants' material misrepresentations and/or omissions were done knowingly or with recklessness and for the purpose and effect of concealing the Companies' operations and business affairs from the investing public and supporting the artificially inflated price of their securities. As demonstrated by the Group Defendants' statements throughout the Class Period, if they did not have actual knowledge of the misrepresentations and omissions alleged, they were reckless in failing to obtain such knowledge by refraining from taking those steps necessary to discover whether those statements were false or misleading.

509. As a result of the dissemination of the materially false and misleading statements set forth above, the market price of the Companies' securities was artificially inflated during the Class Period. In ignorance of the false and misleading nature of the statements described above and the deceptive and manipulative devices and contrivances employed by said Defendants, Lead Plaintiff and the other members of the Class relied, to their detriment, on the integrity of the market in purchasing the Companies' securities. Had Lead Plaintiff and the other members of the Class known the truth, they would not have purchased said securities or would not have purchased them at the inflated prices that were paid.

510. Lead Plaintiff and the other members of the Class have suffered substantial damages as a result of the wrongs herein alleged in an amount to be proved at trial.

511. By reason of the foregoing, the Group Defendants violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder in that they: (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material facts or omitted to state

material facts in order to make the statements made, in light of the circumstances under which they were made, not misleading; or (c) engaged in acts, practices, and a course of business that operated as a fraud and deceit upon Lead Plaintiff and the other members of the Class in connection with their purchases of the Companies' securities during the Class Period.

COUNT II

(Against PwC and KPMG for Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Promulgated Thereunder)

512. Lead Plaintiff repeats and realleges each and every allegation contained in ¶¶ 1-511, as if fully set forth herein.

513. PwC and KPMG served as the Shell Group's auditors and principal accounting firms for Shell Transport and Royal Dutch, respectively, commencing before and continuing throughout the Class Period. PwC and KPMG acted in these capacities pursuant to the terms of engagement agreements that they had with Shell Transport and Royal Dutch that required, *inter alia*, PwC and KPMG to: (i) audit the Group's financial statements in accordance with GAAS; (ii) report the results of audits and quarterly reviews to the Shell Group and the GAC; and (iii) issue audit reports regarding the conformance of the Companies' and the Shell Group's financial statements with GAAP, which were incorporated into SEC fillings and other reports distributed to shareholders and members of the public; and (iv) assist in the preparation and review of the Companies' quarterly financial statements, which were included in the Companies' filings (via Forms 6-K) with the SEC.

A. PwC's and KPMG's Role in Each False and Misleading Statement

514. As detailed above, the Shell Group's Class Period filings with the SEC were materially false and misleading. PwC and KPMG played a pivotal role in the preparation of these filings.

515. PwC and KPMG provided unqualified Independent Auditors' Reports for the Shell Group's annual reports for the years ended 1998 through 2002. These unqualified audit opinions and reports violated GAAS and greatly enhanced and facilitated the fraud alleged herein.

516. Additionally, both PwC and KPMG conducted reviews of the Group's quarterly financial statements, attached as exhibits to Forms 6-K, before their being filed with the SEC.

517. The Shell Group has admitted, via the GAC Report, that the overbooking of the Group's oil and gas reserves was made possible "because of certain deficiencies in the Company's controls." PwC and KPMG, as the Companies' "independent" auditors, were required to assess the Group's internal disclosure, financial, and accounting controls and whether such controls had been placed in operation, were effective and complied with all applicable laws, including the federal securities laws, to provide assurance about the safeguarding of assets, financial reporting, operations and compliance with regulations. PwC and KPMG were required to evaluate whether poor controls might lead to or contribute to the risk that fraud might not be detected.

518. Finding that certain deficiencies in the Group's internal controls were at the heart of the reserve reclassification, the GAC Report criticized the Shell Group's internal controls, reporting standards, and corporate governance. Throughout the Class Period, PwC and KPMG received memoranda and conducted meetings and other communications with senior executives, board members, and the Companies' GRA about these issues. For example, PwC and KPMG received at least two memoranda from the GRA (Barendregt) that warned early on of potentially serious systemic problems with Shell Transport's reserves reporting. Despite these and other serious deficiencies in the Group's internal controls, PwC and KPMG issued clean audit opinions throughout the Class Period.

519. An auditor has responsibilities with respect to required supplemental information to apply limited procedures to determine whether the supplemental information, such as oil and gas reserves and forecasted future cash flow based on those reserves, is in conformance with prescribed guidelines. AU § 558. In estimating oil and gas reserves (including proved reserves), information about a company's reserves is considered required supplemental information within the context of AU § 558 and, therefore, an auditor is required to perform limited procedures to verify that the reserve information conforms with the applicable guidelines. AU § 558.01-.03.

520. In determining whether the reserve information conforms to accounting principles, the auditor is required to make certain inquiries, as well as to compare the information for consistency. The auditor should make inquiries to determine management's understanding of the specific requirements for disclosure of the reserve information. The auditor should also inquire about the qualifications of the person calculating the reserve estimates, the calculation of the standardized method of discounted future net cash flows and the methods for documenting the information about the company's reserve estimates. The auditor should also compare the following information: (1) the company's reserve estimates with the company's recent production; and (2) the company's reserve quantity information with the corresponding information used for depletion and amortization. The auditor should also question management about any inconsistencies determined in making these comparisons. AU § 558.04-.05.

521. If after applying these procedures the auditor has unresolved substantial doubt about the required supplemental information and its adherence to the prescribed guidelines, the auditor should identify this limitation in its audit opinion in accordance with the procedures prescribed by the professional standards. AU § 558.06. Here, PwC and KPMG issued false clean

audit opinions indicating they had no unresolved doubt about the Shell Group's reserve information and its compliance with GAAP.

B. PwC's and KPMG's Audits Violated GAAS

522. PwC and KPMG consistently represented that each performed its audits in a manner consistent with GAAS. Such representations were materially false, misleading and without reasonable basis.

523. PwC and KPMG violated GAAS by, among other things, failing to properly conduct their respective audits of the Companies.

524. GAAS, as approved and adopted by the American Institute of Certified Public Accountants ("AICPA"), defines the conduct of auditors in performing and reporting on audit engagements. Statements on Auditing Standards ("SAS") are endorsed by the AICPA as the authoritative promulgation of GAAS.

525. PwC's and KPMG's failure to qualify, modify, or abstain from issuing their respective audit opinions on the Shell Group's Class Period financial statements, when each knew or recklessly disregarded the numerous adverse facts and "red flags" set forth above, caused PwC and KPMG to violate at least the following provisions of GAAS:

a. PwC violated GAAS Standard of Reporting No. 1, which requires the audit report to state whether the financial statements are presented in accordance with GAAP. PwC's and KPMG's audit reports falsely represented that the Companies' Class Period financial statements were presented in accordance with GAAP when they were not for the reasons stated herein.

b. PwC and KPMG violated Standard of Reporting No. 4, which requires that, when an opinion on the financial statements taken as a whole cannot be expressed, the reasons

therefor must be stated. PwC and KPMG should have stated that no opinion could be issued by each on the Companies' Class Period financial statements or issued an adverse opinion stating that those financial statements were not fairly presented. The failure to make such qualification, correction, modification, and/or withdrawal, was a violation of GAAS, including Standard of Reporting No. 4. PwC and KPMG also violated the requirement of Standard of Reporting No. 4 that in cases where a firm is not independent, an opinion cannot be expressed on the audited financial statements.

c. PwC and KPMG violated GAAS General Standard No. 2, which requires an auditor to maintain an independence in mental attitude in all matters related to the assignment.

d. PwC and KPMG violated GAAS and the standards set forth in SAS No. 1 and SAS No. 82 by, among other things, failing to adequately plan and supervise the work of its staff and to establish and carry out procedures reasonably designed to search for and detect the existence of material misstatements caused by error or fraud.

e. PwC and KPMG violated GAAS General Standard No. 3, which requires that due professional care must be exercised by the auditor in the performance of the audit and the preparation of the report.

f. PwC and KPMG violated Standard of Fieldwork No. 3, which requires sufficient competent evidential matter to be obtained through inspection, observation, inquiries and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit.

g. PwC and KPMG also failed to adhere to at least the following statements of Auditing Standards:

1. SAS No. 31, which requires that an auditor obtain all corroborating information to support the financial statements being audited including checks, invoices, contracts, minutes of meetings, confirmations or other written representations by knowledgeable people, and information obtained from independent sources;

2. SAS No. 67, which requires that an auditor establish and perform a confirmation process with third parties to verify information utilized in the audit; and

3. SAS No. 19, which requires that an auditor not substitute client representations for audit procedures necessary to form a reasonable basis as to the opinion being given on financial statements.

C. PwC's and KPMG's Scienter

1. PwC's and KPMG's Unfettered Access to Information

526. During yearly audits and quarterly reviews of the Group's books, records and financial statements, members of PwC's and KPMG's engagement teams had virtually limitless access to information concerning the Group's true financial condition and status of the Companies' proved reserves:

a. PwC and KPMG were present at the Group's headquarters frequently throughout each reporting year;

b. PwC and KPMG performed review, audit and other services;

c. PwC and KPMG had unfettered access to documents and employees at all Group offices and knew or recklessly disregarded that the Companies were improperly reclassifying reserves as proved when circumstances did not permit classification of reserves as proved under SEC guidelines;

d. PwC and PKMG had conversations with Group management and employees about the Companies' accounting practices; and

e. PwC and KPMG attended Group Audit Committee meetings and answered the Group Audit Committee's questions about the Companies' financial statements and internal controls.

527. Indeed, PwC and Shell International participated in a program called "secondment," in which a Shell UK employee was assigned to work for (or be seconded to) PwC UK to learn fiscal account preparation, due diligence, and audit functions, while a PwC UK employee was seconded to Shell UK to learn Shell's audit functions and accounting policies. According to CS 7, who participated in the program, the secondment program was intended, in part, to foster a liaison function among the participants, and to enable the official audit function to run smoothly. CS 7 stated that the program was ongoing at least as late as 1992, and perhaps later.

528. By virtue of this unfettered access, PwC and KPMG knew or recklessly disregarded that contrary to SEC guidelines, the Group had been improperly classifying reserves as proved. Accordingly, PwC's and KPMG's unqualified audit opinions and reports were knowingly or recklessly improper and without any reasonable basis.

D. PwC's and KPMG's Lack of Independence

529. At all relevant times, PwC and KPMG served in a dual role to Shell Transport and Royal Dutch: one, as an auditor, and the other, as a consultant to the Companies. This dual role violated GAAS and contravenes the spirit of SEC rules regarding auditor independence. For example, the SEC has adopted a regulation (17 C.F.R. 210.2-01(b)) on auditor qualifications, the independence requirement of which bars an accountant from auditing a firm or its affiliates if that

firm has employed the auditor or anyone else from the auditor's office during the period covered by the report.

530. With respect to independence, GAAS states that:

> It is of utmost importance to the profession that the general public maintain confidence in the independence of independent auditors. Public confidence would be impaired by evidence that independence was actually lacking, and it might also be impaired by the existence of circumstances which reasonable people might believe likely to influence independence. ***To be independent, the auditor must be intellectually honest; to be recognized as independent, he must be free from any obligation to or interest in the client, its management, or its owners.... Independent auditors should not only be independent in fact; they should avoid situations that might lead outsiders to doubt their independence.*** [Emphasis added.]

AU § 220.03.

531. PwC and KPMG compromised their required auditor independence during the Class Period. Royal Dutch/Shell were long-time, crown jewel clients from PwC and KPMG. Both KPMG and PwC received fees for their audit and non-audit services. As shown in the table below, the non-audit fees that Royal Dutch and Shell Transport paid were substantial:

Auditors' remuneration
$ million
Remuneration of
KPMG and PricewaterhouseCoopers

	2002	2001	2000	1999	1998
Audit fees	25	18	17	18	18
Fees for non-audit services	35	32	47	30	41

532. The 2002 fees were restated as follows: audit fees were increased to $27 million and non-audit fees were reduced to $18 million. For the first time, the Companies provided figures for audit-related fees, which were $17 million (as restated). These fees were particularly important to the partners of KPMG and PwC as part of their incomes was dependent on the continued business with the Shell Group.

E. Remaining Exchange Act Allegations Against PwC and KPMG

533. PwC and KPMG had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or deliberately acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such Defendants' material misrepresentations and/or omissions were done knowingly or with recklessness and for the purpose and effect of concealing the Companies' operations and business affairs from the investing public and supporting the artificially inflated price of their securities.

534. As a result of the dissemination of the materially false and misleading statements set forth above, the market price of the Companies' securities was artificially inflated during the Class Period. In ignorance of the false and misleading nature of the statements described above and the deceptive and manipulative devices and contrivances employed by said Defendants, Lead Plaintiff and the other members of the Class relied, to their detriment, on the integrity of the market in purchasing the Companies' securities. Had Lead Plaintiff and the other members of the Class known the truth, they would not have purchased said securities or would not have purchased them at the inflated prices that were paid.

535. By reason of the foregoing, PwC and KPMG have violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder and are liable to Lead Plaintiff and the other members of the Class for the substantial damages that they suffered in connection with their purchase of the Companies' securities during the Class Period.

COUNT III

(Against the Individual Defendants for Violations of Section 20(a) of the Exchange Act)

536. Lead Plaintiff repeats and realleges each and every allegation contained in ¶¶ 1-535, as if fully set forth herein.

537. The Individual Defendants acted as controlling persons of the Companies within the meaning of Section 20(a) of the Exchange Act, 15 U.S.C. § 78t(a), as alleged herein. By virtue of their high-level positions, participation in and/or awareness of the Companies' operations, and/or intimate knowledge of the Companies' reported oil and gas reserves, the Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Companies, including the content and dissemination of the various statements that Lead Plaintiff contend are false and misleading. The Individual Defendants were provided with or had unlimited access to copies of the Companies' reports, press releases, public filings and other statements alleged by Lead Plaintiff to be misleading before and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

538. In particular, the Individual Defendants had direct and supervisory involvement in the day-to-day operations of the Companies and, therefore, are presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

539. By virtue of their positions as controlling persons, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of the wrongful conduct, Lead Plaintiff and other members of the Class suffered damages in connection with their purchases of the Companies' securities during the Class Period.

COUNT IV

(Against the Group Defendants for Violation of Section 14(a) of the Exchange Act and Rule 14a-9 Promulgated Thereunder)

540. Lead Plaintiff repeats and realleges each and every allegation above except those that allege Defendants' knowledge or reckless ignorance of the wrongdoing described herein.

541. This Count is brought pursuant to Section 14(a) of the Exchange Act, 15 U.S.C. § 78n(a), and Rule 14a-9 promulgated thereunder by the SEC, 17 C.F.R. § 240.14a-9, on behalf of the members of the Class against the Group Defendants.

542. The Defendants named herein violated Section 14(a) of the Exchange Act and Rule 14a-9 thereunder in that these Defendants solicited proxies or permitted the use of their names to solicit proxies from the members of the Class by means of a Notice of Meeting that contained statements that, at the time and in the light of the circumstances under which they were made, were false and misleading with respect to material facts, and omitted to state material facts necessary to make the statements therein not false or misleading.

A. The 2001 Notices on Meeting

1. Shell Transport

543. On April 5 and 6, 2001, Shell Transport and Royal Dutch each disseminated a Notice of Meeting for the annual meeting of shareholders to be held on May 17, 2001 in London and The Hague (the "2001 Shell Transport Notice" and the "2001 Royal Dutch Notice").

544. Resolution 5 of the 2001 Shell Transport Notice solicited proxies for the re-appointment of PwC as the Company's auditors. Resolution 6 called for authority to settle the remuneration of the auditors for 2001.

545. The 2001 Shell Transport Notice was materially false and misleading because it omitted material information about PwC's involvement in, and knowledge of, the misconduct

complained of herein, including the Companies' improper reserve classifications and related accounting and internal control deficiencies. Such information would be material in the context of PwC's re-appointment as Shell Transport's auditor and its remuneration in that capacity.

546. The 2001 Shell Transport Notice also sought adoption of the "Report of the Directors and the Accounts of the Company" for the year ended December 31, 2000 (Resolution 8). The Report of Directors is contained in the 2000 ST Annual Report. Importantly, the Report of Directors incorporates by reference the "report to Shareholders on Directors' Remuneration." The report on Directors' Remuneration contains the "Emoluments of Directors in office during 2000," including the compensation for Defendant Watts (£873,025). By asking shareholders to adopt the Report of Directors, which included the payments to the Individual Defendants, including Defendant Watts, Defendants were obligated to disclose all material facts, including the Individual Defendants' involvement in, and knowledge of, the wrongdoing alleged herein, and the true state of the Companies' reserves. This is especially true because such compensation was performance-based. Omission of such material information rendered the 2001 Shell Transport Notice materially false and misleading. As such, the adoption of the Report of Directors is a nullity, and the compensation paid to the Individual Defendants should be forfeited and/or rescinded.

B. The 2002 Notices of Meeting

547. On or about April 11, 2002, Shell Transport and Royal Dutch each disseminated a Notice of Meeting for the annual meeting of shareholders to be held on May 16, 2002 in London and The Hague (the "2002 Shell Transport Notice" and the "2002 Royal Dutch Notice").

1. Shell Transport

548. Resolution 5 of the 2002 Shell Transport Notice solicited shareholder approval for an increase of the sum available for the remuneration of Shell Transport's directors for 2002 and subsequent years. The 2002 Notice contained a statement of support for Resolution 5, which stated as follows:

> **Directors' Remuneration**
>
> The current fee basis for the remuneration of your Company's Directors has not changed since 1997: it is an annual fee of £25,000 per Director plus an extra fee of £3,750 per annum per Committee for those Directors who are appointed as members of the Group Audit, Remuneration and Succession Review or Social Responsibility Committees. Shell Transport Directors who chair one of those Committees receive an additional £1,850 per annum. These Committee fees are increased pro-rata where the number of meetings of the Committee attended during the year exceeds three. Since 1992 the Chairman of the Board has received a fee of £40,000 per annum.
>
> The Managing Directors believe that the fees of the non-executive Directors should be commensurate with the responsibilities borne by Directors of the Company and the time spent on the Company's affairs. The fees should also be at a level as to appear reasonable to the high calibre candidates that the Board seeks to recruit in competition with many comparable boards who currently pay in excess of the fees offered by the Company. We are therefore seeking shareholders' approval to an increase of £400,000 in the total sum available each year for Directors' remuneration.
>
> Subject to the above increase, a Director's fee of £50,000 per annum but with no extra fees for Committee membership (except an additional £5,000 per annum for Committee chairmen) would be paid to each Director with effect from July 1, 2002. The Chairman of the Board in addition to the Director's fee would receive £25,000 per annum.
>
> We believe that this structure would leave reasonable flexibility to adjust the number of Directors and fees in line with market levels without breaching the £900,000 maximum available.

549. With regard to Resolution 5, the 2002 Shell Transport Notice was materially false and misleading because it failed to disclose and/or misrepresented Defendants' wrongful conduct with regard to the improper classification and public reporting of proved reserves and the related accounting at the Companies. These issues are closely tied to Defendants' remuneration and would be material to shareholders in the context of increased compensation to such Defendants in light of Defendants' alleged misconduct.

550. The 2002 Shell Transport Notice sought adoption of the "Report of the Directors and the Accounts of the Company" for the year ended December 31, 2001 (Resolution 9). The Report of Directors is contained in the 2001 ST Annual Report. Importantly, the Report of Directors incorporates by reference the "report to Shareholders on Directors' Remuneration." The report on Directors' Remuneration contains the "Emoluments of Directors in office during 2001," including the compensation for Defendant Watts (£1,590,654). By asking the shareholders to adopt the Report of Directors, which included the payments to the Individual Defendants, such as Defendant Watts, Defendants were obligated to disclose all material facts, including the Individual Defendants' involvement in, and knowledge of, the wrongdoing alleged herein, and the true state of the Companies' reserves. This is especially true because such compensation was performance-based. Omission of such material information rendered the 2002 Shell Transport Notice materially false and misleading. As such, the adoption of the Report of Directors is a nullity, and the compensation paid to the Individual Defendants should be forfeited and/or rescinded.

551. Resolution 6 of the 2002 Shell Transport Notice solicited proxies for the re-appointment of PwC as the Company's auditors. Resolution 6 called for authority for the Shell

Transport Board to settle the remuneration of the auditors for 2002. The Statement in the 2002 Shell Transport Notice with respect to auditor's fees stated as follows:

> **Auditors' fees**
>
> For many years PricewaterhouseCoopers and their predecessors as Auditors of the Company have analysed their fees into two components – one for the Companies Act audit and the other for regulatory audit and review work such as reporting on the Summary Financial Statements and compliance with the Combined Code. These two components of the audit fee have been separately described as "audit fees" and "other fees" in the Annual Report each year. Since the two amounts can properly be regarded as covering audit related services and the "other fees" do not relate to consultancy services, the combined fee will in future be disclosed as audit fees. Fees in respect of any non-audit services performed by the Auditors will then be transparent and disclosed separately.
>
> Further to a fee arrangement entered into in 1998 the Auditors' fee for the year 2000, on the basis set out above was £16,015. The Board now proposes a fee for 2001 of £25,500. The Directors consider that the work involved justifies this increase and is appropriate in all the circumstances. This fee covers the audit of Shell Transport itself and the fees payable to the joint auditors of the Royal Dutch/Shell Group of Companies are disclosed in the Group Financial Statements on page 67 of the Annual Report.

552. The 2002 Shell Transport Notice as to Resolution 6 was materially false and misleading because it omitted material information about PwC's involvement in, and knowledge of, the misconduct alleged herein, including the Companies' improper reserve classifications and related accounting and internal control deficiencies. Such information would be material in the context of PwC's re-appointment as Shell Transport's auditor and its remuneration in that capacity.

2. <u>Royal Dutch</u>

553. Resolution 5 of the 2002 Royal Dutch Notice solicited shareholder approval for an increase of the sum available for the remuneration of members of the Supervisory Board. The

2002 Royal Dutch Notice was materially false and misleading because it failed to disclose and/or misrepresented Defendants' wrongful conduct with regard to the improper classification and public reporting of reserves and related accounting at the Companies. These issues are closely tied to the Individual Defendants' remuneration and would be material to shareholders in the context of increased compensation to such Defendants in light of Defendants' alleged misconduct.

C. 2003 Notices of Meeting

554. On or about March 20, 2003, Shell Transport and Royal Dutch each disseminated a Notice of Meeting for the annual meeting of shareholders to be held on April 23, 2003 in London and The Hague (the "2003 Shell Transport Notice" and the "2003 Royal Dutch Notice").

1. Shell Transport

555. Resolution 3 of the 2003 Shell Transport Notice called for the re-election of Defendant Watts as a director. Resolution 9 called for the election of Defendant Boynton as a director.

556. Resolutions 3 and 9 of the 2003 Shell Transport Notice were materially false and misleading because they omitted material information about Defendant Watts' and Boynton's involvement in, and knowledge of, the Companies' improper reserve reclassifications and related accounting and internal control deficiencies. Such information would be material in the context of their fitness to serve as directors of Shell Transport and their remuneration in such capacity.

557. Indeed, Defendant Watts was paid £864,897 for 2003 his services to the Shell Group, and Defendant Boynton was paid £400,770 for her services during the same time period. Because their election to the Shell Board was improperly obtained, such amounts should be forfeited and distributed to Lead Plaintiff and members of the Class.

558. Furthermore, the 2003 Shell Transport Notice sought adoption of the "Report of the Directors' and Accounts of the Company" for the year ended December 31, 2002 (Resolution 1). The report incorporated by reference the "report to Shareholders on Directors' Remuneration," contained in the 2002 ST Annual Report. The report contained the "Emoluments of Directors in office during 2002," including £1,802,198 paid to Defendant Watts. By asking shareholders to adopt the Report of Directors, which included the payments to the Individual Defendants, including Defendant Watts, Defendants were obligated to disclose all material facts, including the Individual Defendants' involvement in, and knowledge of, the wrongdoing alleged herein, and the true state of the Companies' reserves. This is especially true because such compensation was performance-based. Omission of such material information rendered the 2003 Shell Transport Notice materially false and misleading. As such, the adoption of the Report of Directors is a nullity, and the compensation paid to the Individual Defendants should be forfeited and/or rescinded.

559. Resolution 14 of the 2003 Shell Transport Notice called for authorization for the directors to take action to implement and establish the "Shell Long Term Incentive Plan." Specifically, Resolution 14 called for:

> That the Directors be and are hereby authorised to take all actions that they consider necessary, desirable or expedient (1) to implement and establish the Shell Petroleum N.V. Long-term Incentive Plan and The Shell Petroleum Company Limited Long-term Incentive Plan (together the "Plans") summarised in the Explanatory Notes forming part of this Notice and to be constituted by the draft rules produced to the Meeting and, for the purposes of identification, initialled by the Chairman, subject to such modifications as the Directors may consider necessary or desirable to take account of any applicable statutory or regulatory requirements or prevailing practice; and (2) to implement and establish further plans based on the Plans described above modified to take account of local tax, exchange controls or securities laws in overseas territories, provided that any shares made available under

such further plans are treated as counting against any limits on individual or overall participation under the Plans.

560. The 2003 Shell Transport Notice also contained "explanatory notes" about the Plans that stated:

> LONG-TERM INCENTIVE PLAN – EXPLANATORY NOTES
>
> Shell Petroleum N.V. and The Shell Petroleum Company Limited each intend to adopt a new Long-term Incentive Plan ("the Plan") for Group Managing Directors and other selected senior executives. The Plan for each of Shell Petroleum N.V. and The Shell Petroleum Company Limited will be identical except to the extent necessary to deal with different legal requirements applying to each company. A summary of the main features of the Plan is set out below, together with details of the way in which it is intended to operate. The remuneration policy under which the Plan will operate is set out in the Remuneration Report of the Annual Report and Accounts 2002 and pages 6 and 7 of the Summary Annual Report and Accounts 2002.
>
> 1. Operation of the Plan
>
> Awards under the Plan will normally only be made within a period of 14 days after the announcement of the "Royal Dutch/Shell Group of Companies Results" for a quarter or a year and it is intended to operate the Plan only once each year. However, the first awards are intended to be made as soon as practicable after the approval of the adoption of the Plan by the shareholders of Shell Transport and Royal Dutch.
>
> 2. Eligibility
>
> Group Managing Directors and other selected senior executives will be eligible to participate. Group Managing Directors will be selected for participation in the Plan on the recommendation of the Remuneration and Succession Review Committee ("REMCO"). The Board of Shell Petroleum N.V. or The Shell Petroleum Company Limited, as appropriate, will administer the Plan for other senior executives.
>
> 3. Award
>
> Under the Plan, participants will be made a conditional award of shares in either Shell Transport or Royal Dutch. The receipt of

shares comprised in the award will be conditional on the participant remaining in employment (subject to certain exceptions discussed in item 7 below) and on the satisfaction of performance targets over the performance period. The performance period will not be less than three consecutive financial years. In the case of Group Managing Directors, REMCO will make recommendations on the number of shares which may be conditionally awarded to a participant in any year. No participant will in any year receive an award in excess of two times base salary (including directors' fees) in force on the award date.

Benefits under the Plan are discretionary and are not pensionable.

4. Performance targets

The receipt of shares will be conditional on the satisfaction of performance targets which will be determined ahead of any awards, and will be set in the first quarter of the financial year in which such awards are to be made. The performance targets for Group Managing Directors will be established at the recommendation of REMCO and will need to be agreed by both the Board of Directors of Shell Transport and the Supervisory Board of Royal Dutch.

If the adoption of the Plan is approved, the performance targets will be linked to the total shareholder return ("TSR", the average weighted share price performance plus dividends of Shell Transport and Royal Dutch) relative to two separate groups of comparator companies, over a performance period of three financial years. Two separate comparator groups have been chosen because REMCO considers that it is appropriate to test performance both against major home markets and industry competitors.

The first comparator group will consist of the largest twenty companies (by way of market capitalisation) in the FTSE 100 share index together with the largest ten companies (also by way of market capitalisation) in the AEX index, (in each case, at the beginning of the relevant performance period). As at January 1, 2003, the first comparator group, in addition to Shell Transport and Royal Dutch, was FTSE: Anglo American, AstraZeneca, Aviva, Barclays, BG Group, BP, British American Tobacco, BT Group, Diageo, GlaxoSmithKline, HBOS, HSBC Holdings, Lloyds TSB Group, National Grid Transco, Rio Tinto, The Royal Bank of Scotland, Tesco, Unilever PLC and Vodaphone Group; and AEX: ABN Amro, AEGON, Ahold, Akzo Nobel, Heineken, ING Group, KPN, Philips and Unilever N.V. In the case of Shell Transport and

Royal Dutch, and Unilever PLC and Unilever N.V., the weighted average TSR of the two companies will be used.

The second comparator group will be the five major international integrated oil companies, which, as at January 1, 2003, were BP, ChevronTexaco, ExxonMobil, the Royal Dutch/Shell Group and Total.

Half of each conditional award will be tested against the first comparator group and half against the second comparator group. These groups will be used for the first performance period (January 1, 2003 to December 31, 2005).

For the first comparator group, 100% of the shares tested against that group will be received for 75th percentile and above performance and 25% will be received for median performance with a straight-line calculation between those two points. No shares will be received for performance below median. This method of calculation has been chosen because it is consistent both with shareholders' expectations and market practice.

For the second comparator group, 100% of the shares tested against that group will be received if the Royal Dutch/Shell Group of Companies is in first place, 75% for second place and 50% for third place. No shares will be received for fourth or fifth place.

The performance targets may be amended if anything happens which causes REMCO, in the case of Group Managing Directors, to reasonably consider that changed performance targets would be a fairer measure of performance, and would not be more easy or difficult to satisfy.

At the end of the performance period, REMCO, in the case of Group Managing Directors, will determine the extent to which the performance targets have been satisfied and will calculate the number of shares (if any) a participant should receive in respect of an award.

5. Dividends

A participant will have no rights to dividends in respect of shares comprised in an award prior to the transfer of any such shares. However, awards will be adjusted for any payment of dividend by increasing the number of shares comprised in the award on the dividend payment date by applying a formula of which the numerator is the amount of gross dividend payable in respect of

these shares and the denominator is the market value of a share on the dividend payment date.

6. Satisfaction of the awards

Awards will be satisfied by the transfer of existing shares or, in exceptional circumstances on the recommendation of REMCO, for awards made to Group Managing Directors, by means of a cash payment. No new shares will be issued under the Plan. Shares determined to be due pursuant to an award will be transferred to the participant free of charge. All personal taxes and social security contributions due in relation to the award and any transfer of shares or cash payments made pursuant thereto will be due and payable by the participant concerned.

7. Cessation of employment

Generally, if a participant leaves the employment of the Royal Dutch/Shell Group of Companies, he will not receive any shares. However, if a participant leaves before the end of a performance period due to death, injury, ill-health or disability, he will receive a number of shares (if any) on cessation of employment calculated by applying the performance targets up to the end of the month prior to cessation, and, if REMCO so recommends, pro-rated to take account of the period between the date of the award and the date of cessation. If he leaves due to redundancy or by mutual agreement or due to the sale of his employing company then REMCO may recommend that he receive shares calculated as set out above.

If a participant leaves employment due to normal retirement in accordance with his employment contract then the award continues.

8. Takeover and reconstruction

In the event of a takeover as defined in the Plan, participants will have shares transferred to them as soon as practicable after the takeover. The number of shares (if any) will be calculated by applying the performance targets up to the end of the month prior to the takeover.

In the event of a reconstruction as defined in the Plan, awards may be replaced with (as far as possible) equivalent new awards or shares in the new company or companies replacing Shell Transport or Royal Dutch as a result of that reconstruction. Performance targets may be amended as mentioned in item 4 above.

9. Variation of share capital

Awards may be varied to take account of variations in the share capital of Shell Transport or Royal Dutch.

10. Amendment

Any proposed change to the provisions of the Plan which would be to the advantage of participants or future participants and relates to the definition of the categories of persons to whom awards may be made under the Plan, the limit on individual awards discussed in item 3 above, or the rights of participants in the event of variation of capital of Shell Transport or Royal Dutch requires the prior approval of the shareholders of Shell Transport and Royal Dutch in general meeting. No such approval is required for other changes, including changes intended to benefit the administration of the Plan, or to comply with or take account of existing or proposed legislation or to secure favourable tax treatment for the companies of the Royal Dutch/Shell Group or participants.

11. Termination

The Plan may be terminated at any time and in any event no awards may be made after the tenth anniversary of the approval of the adoption of the Plan by the shareholders of Shell Transport and Royal Dutch.

561. Shell Transport's 2003 Annual Report (the "2003 ST Annual Report") states that, with regard to Shell Transport's Long-Term Incentive Plan, "REMCO recommended that each Group Managing Director be made a conditional award of performance shares with a face value of two times the individual's base pay, which took place on August 19, 2003. The actual number of shares received will be determined in 2006 and will be based on the Group's performance and competitive position over the period 2003-2005." Because of the wrongdoing alleged herein, no such awards should be made to any of the Individual Defendants and, to the extent that such awards were made, they should be rescinded and/or paid to Lead Plaintiff and members of the Class.

562. The 2003 ST Annual Report contains a disclosure that appears to indicate that Defendant Watts was granted 427,872 performance shares under the Long-Term Incentive Plan, valued at approximately £752,498, and that Defendant Boynton was granted 266,475 performance shares, valued at £468,650. Although a footnote to these awards states that none of Watts' shares "qualified for release," there is no indication of what actually has happened to these shares. Indeed, a conflicting press release indicates Watts and Boynton have forfeited these shares. Given the circumstances, Defendants Watts and Boynton should, at the very least, be required to forfeit such awards to the extent they have not already done so.

563. With regard to Resolution 14, the 2003 Shell Transport Notice was materially false and misleading because it failed to disclose and/or misrepresented Defendants' wrongful conduct with regard to the improper classification and public reporting of proved reserves, and related accounting at the Companies. These issues are closely tied to Individual Defendants' remuneration and would be material to shareholders in the context of increased compensation to such Defendants in light of Defendants' alleged misconduct.

564. Resolution 10 of the 2003 Shell Transport Notice solicited proxies for the re-appointment of PwC as the Company's auditors. Resolution 11 of the 2003 Shell Transport Notice called for authority for the Shell Transport Board to settle the remuneration of the auditors for 2003.

565. The 2003 Shell Transport Notice was materially false and misleading with regard to the resolutions concerning PwC because it omitted material information about PwC's involvement in, and knowledge of, the misconduct complained of herein, including the Companies' improper reserve reclassifications and related accounting and internal control

deficiencies. Such information would be material in the context of PwC's re-appointment as Shell Transport's auditor and its remuneration in that capacity.

566. Item 3 of the 2003 Royal Dutch Notice contained a "[p]roposal to approve the adoption of a new Long-term Incentive Plan." In the "explanatory notes" about the plan, the 2003 Royal Dutch Notice stated:

> It is proposed to approve the adoption of a new Long-term Incentive Plan (the "Plan") for Group Managing Directors, including those who are also Managing Directors of Royal Dutch, and other selected senior executives.
>
> The introduction of the Plan has been recommended by the Remuneration and Succession Review Committee ("REMCO"). REMCO is a joint committee of the Supervisory Board of Royal Dutch and the Board of Directors of Shell Transport, the two parent companies of the Royal Dutch/Shell Group of Companies (the "Group"). It has responsibility for making recommendations on remuneration of Group Managing Directors.
>
> In recommending the Plan, REMCO made the following observations:
>
> "Shell's practice, in terms of the long-term incentive opportunity it offers to its executives, is now substantially below that of the other major integrated oil companies, and the few comparable Dutch and UK companies of the Group's scope and size. Shell's approach to executive pay has always been conservative, and continues to be so. However, the level of competitive gap between Shell and its peers is no longer tenable. We therefore propose the introduction of a second element to our long-term incentive structure."
>
> Under the Plan, Group Managing Directors and selected senior executives may receive a conditional award of shares in either Royal Dutch or Shell Transport. These shares are only released to the extent that the Group achieves challenging performance targets over the three financial years after award, and (subject to certain exceptions as set out in the Plan) the executive remaining in employment over the three-year period.
>
> If adoption of the Plan is approved, the performance targets will be linked to the total shareholder return of the weighted average of the

parent companies of the Group relative to two separate groups of comparator companies.

567. The explanatory notes directed shareholders to the "Remuneration section of the Annual Report and Accounts 2002" and "of the Summary Annual Report and Accounts 2002" for the "[d]etails of the remuneration policy under which the Plan will be operated . . . ." Royal Dutch's 2003 Summary Annual Report and Accounts states: "Participants will be made a conditional award of shares in either Royal Dutch or Shell Transport. The receipt of shares comprised in the award will be conditional on the participant remaining in employment (subject to certain exceptions, including normal retirement) and on the satisfaction of performance targets over the performance period. The performance period will not be less than three consecutive financial years." Because of the wrongdoing alleged herein, no such awards should be made to any of the Individual Defendants and, to the extent that such awards were made, they should be rescinded and/or paid to Lead Plaintiff and members of the Class.

568. Item 6 of the 2003 Royal Dutch Notice seeks re-appointment of Defendant Jacobs to the Supervisory Board. The explanatory notes to Item 6 were materially false and misleading, as they omitted material information about Defendant Jacobs' involvement in, and knowledge of, the wrongdoing complained of herein. Such information would be material in the context of his fitness to serve as a Supervisory Director and his remuneration in such capacity.

569. In 2003, Defendant Jacobs was paid € 77,000 in fees for his service on the Royal Dutch Supervisory Board. Because his election to the Supervisory Board was improperly obtained, such amounts should be forfeited and distributed to Lead Plaintiff and members of the Class.

D. Remaining Section 14(a) and Rule 14a-9 Allegations

570. Each Defendant named in this Count has engaged in some or all of the unlawful acts, transactions and activities alleged herein, including the preparation and/or distribution of false and misleading Proxy materials that failed to disclose facts necessary to make the statements therein not misleading in light of the circumstances under which they were made.

571. The Notices of Meeting described herein contained untrue statements of material fact and omitted to state material facts necessary to make the statements not misleading in light of the circumstances under which they were made. As a result, Lead Plaintiff and the members of the Class were denied the opportunity to make an informed decision in voting on the matters described herein.

572. By virtue of the foregoing, Lead Plaintiff and the other members of the Class were damaged. Accordingly, they are entitled to recover damages from the Defendants named in this Count and each of them, jointly and severally.

COUNT V

(Against the Group Defendants for Violation of Section 14(a) of the Exchange Act and Rule 14a-9 Promulgated Thereunder for Equitable Relief)

573. Lead Plaintiff repeats and realleges each and every allegation above except those that allege Defendants' knowledge or reckless ignorance of the wrongdoing described herein.

574. This Count is brought pursuant to Section 14(a) of the Exchange Act, 15 U.S.C. § 78n(a), and Rule 14a-9 promulgated thereunder by the SEC, 17 C.F.R. § 240.14a-9, on behalf of the members of the Class against the Group Defendants. Lead Plaintiff seeks equitable relief in connection with this Count.

575. The Defendants named herein violated Section 14(a) of the Exchange Act and Rule 14a-9 thereunder in that these Defendants solicited proxies or permitted the use of their names to solicit proxies from the members of the Class by means of a Notice of Meeting that contained statements which, at the time and in the light of the circumstances under which they were made, were false and misleading with respect to material facts, and omitted to state material facts necessary to make the statements therein not false or misleading.

A. The 2001 Notices of Meeting

1. Shell Transport

576. As set forth herein, Resolution 8 of the Shell Transport 2001 Notice solicited proxies for the adoption of the Report of Directors for the year ended December 31, 2000. The Report of Directors, which is contained in the 2000 ST Annual Report, incorporates by reference Shell Transport's Statement on Corporate Governance. As set forth herein, certain statements contained in that section were materially false and misleading.

577. For example, the Corporate Governance section of the 2000 ST Annual Report, at pages 34-35, touts the purported enhancement of the Group's "risk and control reporting." Those pages contain the following information, inter alia, concerning the Companies' internal controls:

> 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 this policy, a number of existing processes were strengthened and formalised in 2000.*** . . .

[R]eview 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.

* * *

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. . . .

* * *

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.

* * *

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.

* * *

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.*** [Emphasis added.]

578. As set forth herein, in ¶ 366, these statements were materially false and misleading when made.

2. Royal Dutch

579. Item 2.C. of the 2001 Royal Dutch Notice solicited proxies for the discharge of the Royal Dutch Managing Directors for "responsibility in respect of their management and the members of the Supervisory Board for their supervision for the year 2000."

580. The 2001 Royal Dutch Notice as to Item 2.C. was materially false and misleading insofar as it omitted material information about the involvement in, and knowledge of, the misconduct alleged herein by the Individual Defendants, who then served on the Supervisory Board or the Board of Management. Such information would be material in the context of considering whether to discharge these board members from responsibility for their management of Royal Dutch and the Companies.

B. The 2002 Notices of Meeting

1. Shell Transport

581. As set forth herein, Resolution 9 of the 2002 Shell Transport Notice solicited proxies for the adoption of the Report of Directors for the year ended December 31, 2001. The Report of Directors, which is contained in the 2001 ST Annual Report, incorporates by reference Shell Transport's Statement on Corporate Governance. As set forth herein, certain statements contained in that section were materially false and misleading. For example, the 2001 ST Annual

Report states that "The Board of the 'Shell' Transport and Trading Company, p.l.c. (Shell Transport) is committed to the highest standards of integrity and transparency in its governance of the Company . . . ."

582. The Corporate Governance section of the 2001 ST Annual Report also contains a cross-reference to page 43 of the Report to demonstrate "the approach in the Group to risk management and internal controls." Page 43 of 2001 ST Annual Report states:

> 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.
>
> ***Established review and reporting processes bring risk management into greater focus and enable the 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 overall effectiveness of the system of internal control and to perform a full annual review of the system's effectiveness.***
>
> ***At Group level and within each business, risk profiles which highlight the perceived impact and likelihood of significant risks are reviewed and discussed each quarter by the Committee of Managing Directors and by the Conference.*** . . .
>
> 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 Group policies, standards and guidance material that relate to particular types of risk, structured investment decision processes, timely and effective reporting systems, and performance appraisal.

* * *

> A procedure for reporting business control incidents enables management and the Group Audit Committee to monitor incidents arising 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.
>
> * * *
>
> 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 Group Internal Audit to provide the Group Audit Committee with ***independent assessments*** regarding the effectiveness of risk and control management. [Emphasis added.]

583. As set forth in ¶ 398 , these statements were materially false and misleading when made.

2. Royal Dutch

584. Item 2 of the 2002 Royal Dutch Notice solicited proxies for the discharge of the Royal Dutch Managing Directors for "responsibility in respect of their management and the members of the Supervisory Board for their supervision for the year 2000."

585. The 2002 Royal Dutch Notice as to Item 2 was materially false and misleading because it omitted material information about the involvement in, and knowledge of, the misconduct alleged herein by the Individual Defendants, who then served on the Supervisory Board or the Board of Management. Such information would be material in the context of considering whether to discharge them from responsibility for their management of Royal Dutch and the Companies.

C. 2003 Notices of Meeting

1. Shell Transport

586. Resolution 1 of the 2003 Shell Transport Notice sought proxies for the adoption of the Report of Directors for the year ended December 31, 2002. The Report incorporates by reference the Company's corporate governance practices contained in the 2002 ST Annual Report. For example, the 2002 ST Annual Report falsely states that "The Board of the 'Shell' Transport and Trading Company, p.l.c. (Shell Transport) is committed to the highest standards of integrity and transparency in its governance of the Company . . . ."

587. The 2002 ST Annual Report also provided the following materially false and misleading information concerning, inter alia, the Companies' internal controls (these pages were incorporated by reference in the Corporate Governance report, which was incorporated by reference in the Report of Directors):

> 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.
>
> ***Established review and reporting processes bring risk management into greater focus and enable the Conference (meetings between the members of the Supervisory Board and the Board of Management of Royal Dutch and the Directors of Shell Transport) regularly to review the overall effectiveness of the system of internal control and to perform a full annual review of the system's effectiveness.***
>
> ***At Group level and within each business, risk profiles which highlight the perceived impact and likelihood of significant risks***

> ***are reviewed each quarter by the Committee of Managing Directors and by the Conference***. . . .
>
> 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 Group policies, standards and guidance material that relate to particular types of risk, structured investment decision processes, timely and effective reporting systems, and performance appraisal.
>
> * * *
>
> A procedure for reporting business control incidents enables management and the Group Audit Committee to monitor incidents arising 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.
>
> * * *
>
> 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 Group Internal Audit to provide the Group Audit Committee with ***independent assessments*** regarding the effectiveness of risk and control management. [Emphasis added.]

588. As set forth in ¶ 439, these statements were materially false and misleading when made.

2. <u>Royal Dutch</u>

589. Item 2 of the 2003 Royal Dutch Notice solicited proxies for the discharge of the Royal Dutch Managing Directors for "responsibility in respect of their management and the members of the Supervisory Board for their supervision for the year 2000."

590. The 2003 Royal Dutch Notice as to Item 2 was materially false and misleading because it omitted material information about the involvement in, and knowledge of, the misconduct alleged herein by the Individual Defendants who then served on the Supervisory Board or the Board of Management. Such information would be material in the context of considering whether to discharge them from responsibility for their management of Royal Dutch and the Companies.

D. Remaining Section 14(a) and Rule 14a-9 Allegations

591. Each Defendant named in this Count has engaged in some or all of the unlawful acts, transactions and activities alleged herein, including the preparation and/or distribution of false and misleading Proxy materials that failed to disclose facts necessary to make the statements therein not misleading in light of the circumstances under which they were made.

592. The Notices of Meeting described herein contained untrue statements of material fact and omitted to state material facts necessary to make the statements not misleading in light of the circumstances under which they were made. As a result, Lead Plaintiff and the members of the Class were denied the opportunity to make an informed decision in voting on the matters described herein.

593. By virtue of the foregoing, Lead Plaintiff and the members of the Class were injured. To remedy the underlying circumstances that form the basis of the improper proxy solicitations, Lead Plaintiff seeks equitable relief that includes, among other things, (a) the consolidation of the Supervisory Board, the Board of Management of Royal Dutch and the Board of Directors of Shell Transport; (b) the formation of a Corporate Governance Committee, composed of independent directors, whose responsibilities would include the creation and implementation of, and the strengthening of existing, internal controls; (c) the formation of a

Legal Compliance Committee, composed of independent directors, whose responsibilities would include ensuring the Shell Group's compliance with all applicable laws, rules and regulations affecting the Group's businesses and operations; (d) the restructuring of the Companies' financial reporting of oil and gas reserves to ensure independent review by requiring the Companies to employ outside auditors, approved by a majority vote of shareholders, to audit the Companies' global reserves in accordance with U.S. GAAP and SEC rules and regulations. The outside auditors will report the audited results to a Reserves Reporting Committee composed entirely of independent directors. The report shall be released to shareholders annually; and (e) such other corporate governance reforms as may be considered prudent, including, but not limited to, the reforms identified in paragraph (c) below.

WHEREFORE, Lead Plaintiff, on its own behalf and on behalf of the Class, prays for judgment against Defendants as follows:

a. declaring this action to be a proper class action under Rule 23 of the Federal Rules of Civil Procedure;

b. awarding compensatory damages in favor of Lead Plaintiff and the other members of the Class against all Defendants for the damages sustained by Lead Plaintiff and the Class as a result of the acts and transactions alleged herein, together with interest thereon;

c. awarding equitable relief in favor of Lead Plaintiff and the other members of the Class, including the imposition of corporate governance reforms, as may be considered prudent to prevent a recurrence of the wrongful conduct described herein, including, but not limited to:

(1) the consolidation of the Supervisory Board, the Board of Management of Royal Dutch and the Board of Directors of Shell Transport;

(2) the formation of a Corporate Governance Committee, composed of independent directors, whose responsibilities would include the creation and implementation of, and the strengthening of existing, internal controls;

(3) the formation of a Legal Compliance Committee, composed of independent directors, whose responsibilities would include ensuring the Shell Group's compliance with all applicable laws, rules and regulations affecting the Group's businesses and operations;

(4) the restructuring of the Companies' financial reporting of oil and gas reserves to ensure independent review by requiring the Companies to employ outside auditors, approved by a majority vote of shareholders, to audit the Companies' global reserves in accordance with U.S. GAAP and SEC rules and regulations. The outside auditors will report the audited results to a Reserves Reporting Committee composed entirely of independent directors. The report shall be released to shareholders annually;

(5) the creation of a written charter for the internal audit function, which shall include, among other things, the adoption of procedures for testing and investigating the integrity and reliability of the Companies' accounting and internal control systems, including periodic independent verification;

(6) the creation of policies and procedures that will ensure that the Companies' internal audit and reserves reporting departments, or persons responsible for the internal audit and reserves reporting function, shall have sufficient authority to perform their function, and report independently to both senior management and the Audit Committee and Reserves Reporting Committee of the Board of Directors, on a periodic basis (at least

quarterly), to discuss internal controls and other issues related to the integrity of the Companies' financial statements and reserves reporting;

(7) the requirement that the Chair of the unified Board of Directors be a non-management, independent director;

(8) the requirement that all committees of the unified Board of Directors shall be composed entirely of independent directors;

(9) the requirement that all corporate governance procedures shall be reviewed and re-evaluated by the Corporate Governance Committee on a regular basis, and in no case less than bi-annually. This review and re-evaluation process shall be documented, and a report regarding same be prepared for presentation to the whole Board and the shareholders before the Companies' annual meeting of shareholders;

(10) the requirement that the Board's independent directors meet as a group (the "Independent Directors' Group"), without senior management and without any non-independent directors, at least once each fiscal quarter. The Independent Directors' Group will be entitled, by a majority vote, to retain legal counsel, accountants, or other independent experts, at the Companies' expense, to advise the Independent Directors' Group concerning issues that arise in the exercise of its functions, responsibilities, and powers. A Lead Independent Director shall be appointed, who shall be responsible for, among other things, overseeing and supervising the corporate governance of the Companies in conjunction with the Corporate Governance Committee, and assuring that all the corporate governance resolutions adopted are actually and effectively implemented. The Lead Independent Director will serve for a one year term, subject to reappointment by a majority vote taken of all independent Directors each year thereafter;

(11) the creation of an internal system in which executives, managers, and employees of the Companies can openly and candidly approach any member of the unified Board of Directors, or any member of a special committee thereof, to report events, conduct, or circumstances that are, or appear to be, improper or illegal;

(12) the creation of a system that reforms executive compensation; and

(13) the creation of a system of procedures designed to permit greater shareholder input into the policies and guidelines of the unified Board.

d. awarding injunctive relief in favor of Lead Plaintiff and the Class against the Group Defendants and their agents and all persons acting under, in concert with, or for them, including an accounting of and imposition of a constructive trust and/or freeze of the remuneration received by the Individual Defendants as a consequence of the misconduct alleged herein;

e. awarding Lead Plaintiff the fees and expenses incurred in this action, including reasonable allowance of fees for Lead Plaintiff's attorneys and experts, and other costs;

f. granting such other and further relief as this Court may deem just and proper.

JURY TRIAL DEMAND

Lead Plaintiff demands a jury trial of all issues so triable.

DATED: September 13, 2004

Respectfully submitted,

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APPENDIX

GLOSSARY OF ACRONYMS AND DEFINED TERMS

ADR:	American Depository Receipt
AICPA:	American Institute of Certified Public Accountants
Barendregt:	Anton Barendregt, who was GRA during the Class Period
boe:	Barrels of oil equivalent
Boynton:	Defendant Judith Boynton
Brinded:	Defendant Malcolm Brinded
Cease and Desist Order:	August 24, 2004 order issued by the SEC, in which the Companies agreed to pay a fine of $120 million and to spend $5 million in development and implementation of an internal compliance program
Class Period:	From April 8, 1999, through March 18, 2004
CMD:	Committee of Managing Directors, an informal committee comprising the senior executives from both Royal Dutch and Shell Transport
Commission:	United States Securities and Exchange Commission
Company:	The "Shell" Transport and Trading Company
Companies:	Royal Dutch and Shell Transport
Conference:	An informal body comprised of all the members of the Supervisory Board and the Board of Management of Royal Dutch and the Directors of Shell Transport
CS:	Confidential source

Davis Polk:	Davis Polk & Wardwell, which prepared the GAC Report
December 8th Report:	42-page internal report to senior Group executives, dated December 8, 2003, describing significant overstatement of the Companies' proved oil and gas reserves by 2.1 billion to 3.6 billion boe
Deepwater Group:	Shell Deepwater Development Inc.
EOR:	Enhanced Oil Recovery
EP:	The Companies' Exploration and Production unit
Exchange Act:	Securities Exchange Act of 1934
Executive Summary:	The Executive Summary to the GAC Report
F & D:	Finding and Development
FAS:	Financial Accounting Standard
FASB:	Financial Accounting Standards Board
FID:	Final Investment Decision
FPSO:	Deep-sea Floating Production, Storage, and Off-loading vessel used at Bonga field in Nigeria
FSA:	Financial Services Authority, Britain's regulator of publicly traded companies
GAC:	Group Audit Committee
GAC Report:	Report of Davis Polk to the GAC of March 31, 2004
GAAP:	Generally Accepted Accounting Principles in the U.S.
GAAS:	Generally Accepted Auditing Standards in the U.S.

GRA:	Group Reserves Auditor
GRC:	Group Reserves Coordinator
The Group:	Royal Dutch and Shell Transport
IEA:	International Energy Agency
Jacobs:	Defendant Aad Jacobs
KPMG:	Defendants KPMG International KPMG NV
KPMG International:	Defendant KPMG International
KPMG NV:	Defendant KPMG Accountants N.V.
Lead Plaintiff:	SERS and PSERS
LEAP:	Leadership and performance group created at Royal Dutch/Shell in the mid-1990s to improve business practices, reduce expenses, and increase income by intensively studying particular issues and consulting experts. In 1997 LEAP was instructed to "create value through entrepreneurial management of hydrocarbon resource volumes."
LNG:	Liquefied natural gas
Miller:	Defendant Steven L. Miller
Moody-Stuart:	Defendant Mark Moody-Stuart
Moody's:	Moody's Investor Services
NNOC:	Nigerian National Oil Corporation, which became the NNPC in 1977
NNPC:	Nigerian National Petroleum Corporation
Notice to Take Action:	The Final Notice issued to the Companies by the FSA on August 24, 2004
NSEPCo:	Nigeria Shell Exploration and Production Company Limited

NYSE:	New York Stock Exchange
OPEC:	Organization of Petroleum Exporting Countries
OU:	Operating unit
Oxburgh:	Lord Ron Oxburgh
PDO:	Petroleum Development Oman
P.D.O:	Plan for Development and Operation
PSERS:	Lead Plaintiff, Pennsylvania Public School Employees' Retirement System
PwC:	Defendants PwC International and PwC UK
PwC International:	Defendant PricewaterhouseCoopers International Limited
PwC UK:	Defendant PricewaterhouseCoopers LLP
RAB:	Reserves Addition Bonus, which was a tax break offered by the Nigerian government from 1991 to 1999 to oil companies for oil-reserve additions – or any oil reserves added over and above what they expected to find
RD Annual Report:	Royal Dutch's Annual Report for the year identified
Roels:	Defendant Harry Roels
Royal Dutch:	N.V. Koninklijke Nederlandsche Petroleum Maatschappij (a/k/a the Royal Dutch Petroleum Company)
RRR:	Reserves Replacement Ratio, which compares additions to proved reserves to production (it puts side-by-side oil newly-claimed to be in the ground to oil taken out of the ground, usually on an annual basis)
Rule 4-10:	Rule 4-10 of Regulation S-X, 17 C.F.R. § 210.4-10

SAS:	Statements on Auditing Standards
SEC:	United States Securities and Exchange Commission
SEPCo:	Shell Exploration & Production Company
SERS:	Lead Plaintiff, Pennsylvania State Employees' Retirement System
Shell Group Defendants:	All defendants except KPMG and PwC
Shell Norway:	Norske Shell (with a 16% interest in the Ormen Lange field)
Skinner:	Defendant Paul Skinner
The Shell Group:	Royal Dutch and Shell Transport
Shell Transport:	The "Shell" Transport and Trading Company
SPDC:	Shell Petroleum Development Company of Nigeria, Ltd.
S&P:	Standard & Poor's
ST Annual Report:	Shell Transport's Annual Report for the year identified
Van de Vijver:	Defendant Walter van de Vijver
Van den Bergh:	Defendant Maarten van den Bergh
Van der Veer:	Defendant Jeroen van der Veer
VCTs:	Value Creation Teams, created by the Group n 1998 to improve EP's profitability
Watts:	Defendant Sir Philip Watts

CERTIFICATE OF SERVICE

I, Deborah Williams, hereby certify that on September 13, 2004, I caused the foregoing Consolidated Amended Class Action Complaint to be served by electronic mail and FedEx on the following defendants' counsel:

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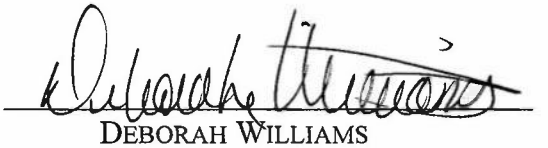

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