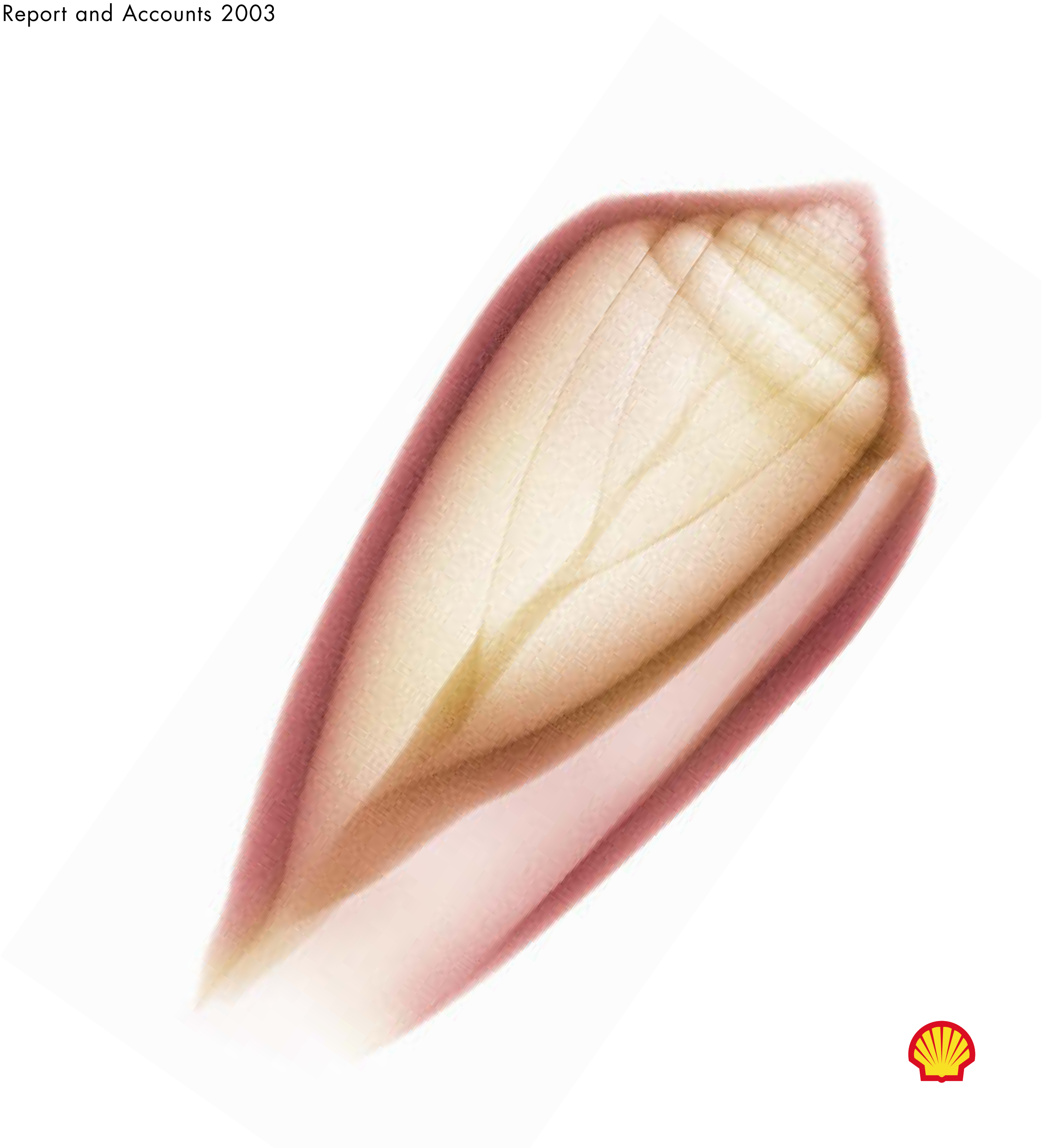
Royal Dutch Petroleum Company

N.V. Koninklijke Nederlandsche Petroleum Maatschappij

Annual Report and Accounts 2003



Guide to contents

Report structure
Royal Dutch Petroleum Company owns 60% of the Royal Dutch/Shell Group. Throughout this report, coloured page markers are used to identify sections that relate to these entities:

- Royal Dutch Petroleum Company
- Royal Dutch/Shell Group

Royal Dutch Petroleum Company

Royal Dutch/Shell Group

Royal Dutch Petroleum Company

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

The shell pictured on the cover of this report is *Conus* from the Shell International collection at the Natural History Museum in London.

About this report

Welcome to the Annual Report and Accounts 2003 for Royal Dutch Petroleum Company. In this report you will find information relating to the Royal Dutch/Shell Group of Companies on pages 5 to 95, including a review of the 2003 operational and financial performance of the businesses. On pages 1 to 4 and 96 to 124, you will find information about Royal Dutch Petroleum Company, one of the Parent Companies of the Royal Dutch/Shell Group.

Message to shareholders

Jeroen van der Veer, President of Royal Dutch and Chairman of the Committee of Managing Directors, on a visit to the Pernis refinery and petrochemicals plant in the Netherlands.

Financial highlights

Total Dividend[a]
per ordinary share
€1.76

Earnings
net income
$12,496 million[b]

a A second interim dividend of €1.02 was made payable to shareholders in May 2004.
b Based on accounting principles generally accepted in the US.

All shareholders will know of the exceptional circumstances that have delayed the publication of this report. 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.

Clearly the key step in restoring shareholder confidence will be to deliver consistently strong business performance and competitive results. As our 2003 and first quarter 2004 results show, Shell remains a sound and profitable business and I firmly believe that we have real strengths on which to grow our business, and rebuild our reputation. In that context, I want to highlight some of the achievements of 2003 which are outlined in this report.

Our earnings of $12.5 billion were highly competitive and we generated record levels of cash for the Group. We also made good progress on important projects that will provide a solid basis for future growth. The production of the first synthetic crude oil at the Athabasca Oil Sands in Canada was a key step in developing this major unconventional oil resource. We also built on our strengths in deep water; the Na Kika project in the Gulf of Mexico came on stream in record water depths and production also started at the Bijupirá-Salema fields in Brazil.

We continued to expand our gas business through the Sakhalin II project (which will open up opportunities in the growing Asian and North American markets for liquefied natural gas). That focus on gas was further reinforced with the historic agreement giving us access to explore for gas in Saudi Arabia. In addition, the Qatar Shell Gas to Liquids project positions the Group favourably for the development of an exciting new transport fuel market with strong growth potential.

In other business areas, earnings in Oil Products increased, although there is more work to do to meet the challenge of improving our US downstream performance. Chemicals continued to face difficult business conditions, but remained cash positive.

We would not normally report on first quarter results in this report but, in the circumstances, I believe it is important to mention our satisfactory performance across all our business activities at the start of the year. These results demonstrate strong cash delivery, helped by high oil and gas prices. The underlying strengths of the Group enable sustained dividend growth for shareholders. A second interim dividend for 2003 of €1.02 made payable in May 2004, will make a total dividend for the year of €1.76 per ordinary share. This represents an increase of 2.3% over the 2002 dividend.

I recognise that the events around the reserves restatement have prompted a wider debate about both the structure and governance of the Group. We have undertaken extensive discussions with investors on these matters and will report back on progress at the General Meeting of Shareholders. This work is in addition to ongoing activity to ensure that we operate in compliance with the appropriate codes of corporate governance. In the Netherlands the new Dutch corporate governance code was issued by the Tabaksblat Committee. While the code does not apply to the 2003 reporting year, we are already applying the majority of the provisions and where we are not we have begun to amend processes to reflect some of the remaining provisions. We will continue to review the implications of the code and consider further amendments as necessary. Action is also being taken to ensure compliance as a foreign private 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 UK to amend processes to meet the provisions of the revised Combined Code on Corporate Governance.

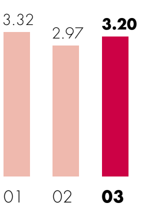
Looking ahead, I am committed to ensuring that we use all the lessons of this difficult period to strengthen our business and to start rebuilding our reputation. I do not underestimate the scale of that task, but I am confident that we have the resources, the people and the determination to ensure that our business once again has the full confidence of our shareholders – based on both the performance we deliver and the principles and values by which we deliver it.

Jeroen van der Veer
President of Royal Dutch and Chairman of the Committee of Managing Directors
May 22, 2004

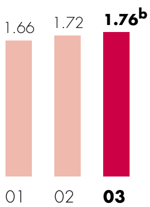
Financial highlights

Royal Dutch Petroleum Company
(Netherlands GAAP)

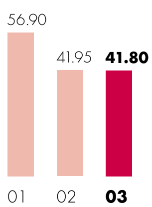
Net income[a]
€ per share



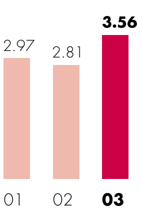
Dividends
€ per share



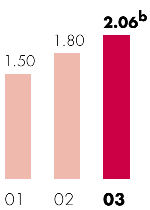
Year-end share price
€ (Euronext)



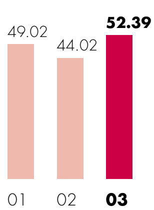
Net income[a]
$ per share



Dividends
$ per share



Year-end share price
$ (New York Stock Exchange)



Information prior to 2003 has been restated for comparative purposes (see pages 99 to 104).

For information about the data contained in the charts relating to Royal Dutch, consult the Shareholder information section on page 124.

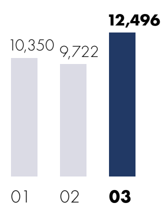
a Basic earnings per share.
b The 2003 figures include the second interim dividend made payable in May 2004. Together with the interim dividend of €0.74 ($0.85) already made payable in 2003 this will constitute the total dividend for 2003, subject to finalisation by the General Meeting of Shareholders to be held on June 28, 2004. See the Report of the Supervisory Board on page 97 for details.

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

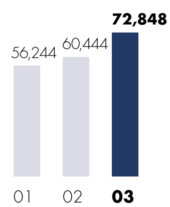
GAAP = generally accepted accounting principles.

Royal Dutch/Shell Group of Companies
(US GAAP)

Net income
$ million



Net assets
$ million



Information prior to 2003 for the Group has been restated where applicable to take account of the Reserves Restatement, a change in accounting policy for certain inventories, and a change in treatment of exploration costs and gas contracts (see pages 52 to 54).

Introduction to the Royal Dutch/Shell Group

1

2

3

4

5

6

7

8

Since 1907, the Royal Dutch/Shell Group has grown and developed its business interests around the world. We are best known to the public for our service stations and for exploring and producing oil and gas on land and at sea; but we deliver a much wider range of energy solutions and petrochemicals to customers. These include transporting and trading oil and gas, marketing natural gas, producing and selling fuel for ships and planes, generating electricity and providing energy efficiency advice. We also produce and sell petrochemical building blocks to industrial customers globally and we are investing in making renewable and lower-carbon energy sources competitive for large-scale use.

1 Middle Eastern settlement vehicle from the 1920s and 1930s.

2 Crew working on a drilling rig in Egypt in 1956.

3 The Methane Princess, one of two Shell-managed LNG tankers delivered in 1964.

4 A UK service station of the 1930s.

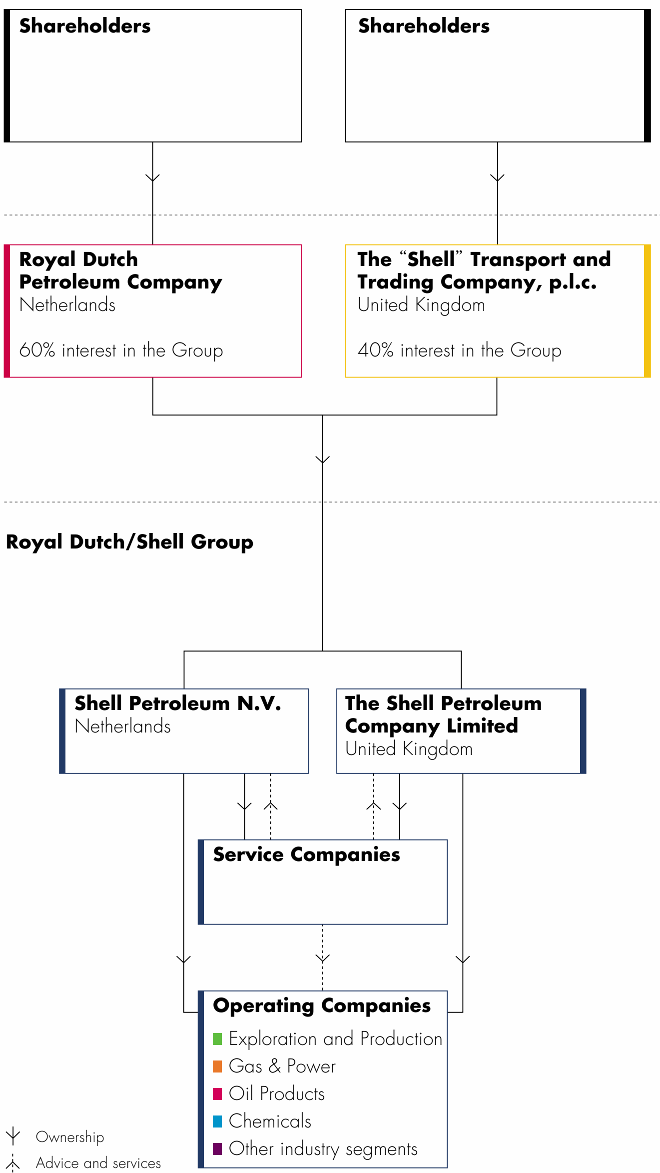
5 Road tanker in Poste Late, Rio de Janeiro, 2003.

6 Crew working on a drilling rig at Petroleum Development Oman in Fahud, 2003.

7 The Granatina, commissioned by Shell Gas & Power to supply its growing number of LNG terminals, delivered in 2003.

8 The Princess Road service station in Hong Kong, 2003.

Structure of the Royal Dutch/Shell Group



Shareholders
Shareholders hold shares in either Royal Dutch Petroleum Company (Royal Dutch) or in The "Shell" Transport and Trading Company, p.l.c. (Shell Transport). Shares of one or both companies are listed and traded on stock exchanges in eight European countries (Austria, Belgium, France, Germany, Luxembourg, the Netherlands, Switzerland and the UK) and in the USA.

Parent Companies
As Parent Companies, Royal Dutch and Shell Transport do not directly engage in operational activities. They are public companies based in the Netherlands and in the UK respectively. The Parent Companies own the shares in the Group Holding Companies but are not part of the Royal Dutch/Shell Group of Companies. They appoint Directors to the Boards of the Group Holding Companies, from which they receive income in the form of dividends. The Parent Companies receive most of their income in this way.

Royal Dutch/Shell Group of Companies
The numerous companies in which Royal Dutch and Shell Transport own investments are collectively referred to as the Royal Dutch/Shell Group of Companies.

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

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

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

Management structure and principal executives

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

Committee of Managing Directors	Business and functional responsibilities	Geographical responsibilities	Principal executives		
Jeroen van der Veer[a] Chairman of CMD	Finance Human Resources International Directorate Legal Strategic Planning, Sustainable Development and External Affairs	Canada Middle East Russia South Asia USA	**Finance** Acting Chief Financial Officer: Tim Morrison[b] **Human Resources** Director: John Hofmeister	**International Directorate** Director: Hugh Mitchell **Legal** Director: Beat Hess	**Strategic Planning, Sustainable Development and External Affairs** Director: Adrian Loader[c]
Malcolm Brinded[d] Vice-Chairman of CMD	Exploration and Production Gas & Power Shell Trading Contracting and Procurement Information Technology	East Asia and Australasia Nigeria	**Exploration and Production** Chief Executive: Malcolm Brinded John Bell Ron van den Berg Matthias Bichsel Tom Botts Lorin Brass John Darley Carol Dubnicki Curtis Frasier Dominique Gardy Simon Henry[e] Raoul Restucci Brian Ward	**Gas & Power** Chief Executive: Malcolm Brinded Renger Bierema Bob Fryer Michael O'Callaghan Guy Outen Ann Pickard Cath Tanna Charles Watson Peter de Wit	**Shell Trading** President: Mike Warwick **Contracting and Procurement** Head of Contracting and Procurement: Kees Linse **Information Technology** Chief Information Officer: Mike Rose
Rob Routs[f]	Oil Products Chemicals Renewables Shell Consumer Shell Hydrogen Group Research	Africa (excluding Nigeria) Europe	**Oil Products** Chief Executive: Rob Routs Ron Blakely Lynn Elsenhans Iain Everingham Martin Lawrence Greg Lewin Haw-Kuang Lim David Pirret Ronald Schellekens Leslie Van de Walle Mark Williams John Wills	**Chemicals** Chief Executive: Rob Routs Jan van der Eijk Tan Ek Kia Fran Keeth Hans Von Der Linde Rosemarie Mecca Scott Roberts Sven Royall Mike Wilkinson	**Renewables** Chief Executive: Karen de Segundo **Shell Consumer** Chief Executive: Charles Harrison **Shell Hydrogen** Chief Executive: Jeremy Bentham **Group Research** Group Research Adviser: Peter Kwant

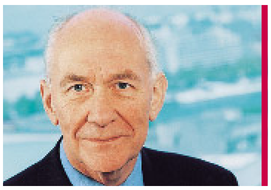
a Jeroen van der Veer succeeded Sir Philip Watts as Chairman of CMD on March 3, 2004.
b Tim Morrison succeeded Judith Boynton as Acting Chief Financial Officer on April 19, 2004.
c Adrian Loader is responsible for the Central and South America regions.
d Malcolm Brinded succeeded Walter van de Vijver as Chief Executive of Exploration and Production on March 3, 2004.
e Simon Henry succeeded Frank Coopman as Chief Financial Officer of Exploration and Production on April 7, 2004.
f Rob Routs succeeded Jeroen van der Veer as Chief Executive of Chemicals on March 3, 2004.

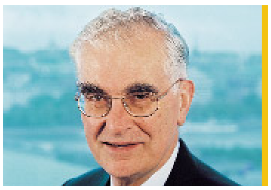
The Boards of the Parent Companies

As at May 2004

The members of the Supervisory Board and the Board of Management of Royal Dutch Petroleum Company and the Directors and Managing Directors of The "Shell" Transport and Trading Company, p.l.c. meet regularly during the year to discuss reviews and reports on the business and plans of the Royal Dutch/Shell Group.

Members of the Supervisory Board of Royal Dutch and non-executive Directors of Shell Transport


1 Aad Jacobs ø


2 Lord Oxburgh[a] # ◆


3 Teymour Alireza #


4 Maarten van den Bergh #


5 Sir Peter Burt ø ◆


6 Dr Eileen Buttle #


7 Luis Giusti ø


8 Nina Henderson ø +

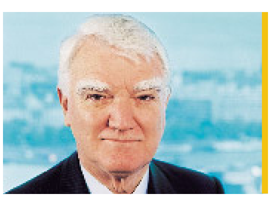

9 Sir Peter Job + ◆


10 Sir John Kerr + ◆


11 Wim Kok #


12 Jonkheer Aarnout Loudon + #

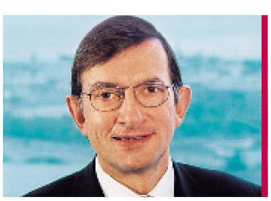

13 Professor Hubert Markl +


14 Sir Mark Moody-Stuart


15 Lawrence Ricciardi ø


16 Henny de Ruiter ø +

Managing Directors


17 Jeroen van der Veer


18 Malcolm Brinded[b]


19 Rob Routs

a Lord Oxburgh was appointed non-executive Chairman of Shell Transport on March 3, 2004. He succeeded Sir Philip Watts who was Chairman and Managing Director of Shell Transport.

b Malcolm Brinded was appointed a Managing Director of Shell Transport on March 3, 2004, having resigned as a Managing Director of Royal Dutch on the same date.

The Boards of the Parent Companies are denoted as follows:
▮ Royal Dutch
▮ Shell Transport

Royal Dutch Supervisory Board

Aad Jacobs
Chairman

Maarten van den Bergh
Wim Kok
Jonkheer Aarnout Loudon
Professor Hubert Markl
Lawrence Ricciardi
Henny de Ruiter

Royal Dutch Board of Management

Jeroen van der Veer
President of Royal Dutch and Chairman of the Committee of Managing Directors

Rob Routs
Managing Director of Royal Dutch and Group Managing Director

Shell Transport non-executive Directors

Lord Oxburgh
Chairman

Teymour Alireza
Sir Peter Burt
Dr Eileen Buttle
Luis Giusti
Nina Henderson
Sir Peter Job
Sir John Kerr
Sir Mark Moody-Stuart

Shell Transport Managing Director

Malcolm Brinded
Managing Director of Shell Transport and Vice-Chairman of the Committee of Managing Directors

1 Aad Jacobs ⌀
Chairman of the Supervisory Board of Royal Dutch
Born May 28, 1936. A Dutch national, appointed a member of the Supervisory Board in 1998 and Chairman in 2002. Due to retire in 2007. Previously Chairman of the Board of Management of ING Group. Chairman of the Supervisory Boards of Joh. Enschedé, Imtech and VNU; Vice-Chairman of the Supervisory Boards of Buhrmann and IHC Caland and a member of the Supervisory Board of ING Group.

2 Lord Oxburgh KBE FRS # ◆
Non-executive Chairman of Shell Transport
Born November 2, 1934. A British national, appointed a Director in 1996 and non-executive Chairman in March 2004. Latest date for retirement by rotation 2004 and he will retire in 2005 following his 70th birthday. Held a number of scientific and university appointments including Chief Scientific Advisor, Ministry of Defence and Rector, Imperial College of Science, Technology and Medicine. Chairman SETNET and Chairman House of Lords Select Committee on Science and Technology.

3 Teymour Alireza #
Non-executive Director of Shell Transport
Born September 7, 1939. A Saudi Arabian national, appointed a Director in 1997. Latest date for retirement by rotation 2006. President and Deputy Chairman of The Alireza Group. Also Chairman of the National Pipe Company Ltd, Saudi Arabia and a Director of Arabian Gulf Investments (Far East) Ltd and of Riyad Bank Saudi Arabia. Member of the International Board of Trustees of the World Wide Fund for Nature.

4 Maarten van den Bergh #
Member of the Supervisory Board of Royal Dutch
Born April 19, 1942. A Dutch national, appointed a member of the Supervisory Board in 2000. Due to retire by rotation in 2004. Managing Director of Royal Dutch from 1992–2000 and President from 1998–2000. Chairman of the Board of Directors of Lloyds TSB and a member of the Boards of Directors of BT and British Airways.

5 Sir Peter Burt FRSE ⌀ ◆
Non-executive Director of Shell Transport
Born March 6, 1944. A British national, appointed a Director in 2002. Latest date for retirement by rotation 2006. Joined the Bank of Scotland in 1975 and rose to become Chief General Manager. Later appointed Group Chief Executive and in 2001 became Executive Deputy Chairman of HBOS plc and Governor of the Bank of Scotland until 2003. Chairman of Gleacher Shacklock Limited and a director of a number of charitable organisations. In February 2004 he was appointed non-executive Chairman of ITV plc.

6 Dr Eileen Buttle CBE #
Non-executive Director of Shell Transport
Born October 19, 1937. A British national, appointed a Director in 1998 following retirement from a career of public scientific appointments. Latest date for retirement by rotation 2004. Member of a number of UK Government and European Union advisory committees on environmental aspects of UK and European research and of Boards of Trustees of environmental non-governmental organisations.

7 Luis Giusti ⌀
Non-executive Director of Shell Transport
Born November 27, 1944. A Venezuelan national, appointed a Director in 2000. Latest date for retirement by rotation 2004. Chairman and Chief Executive Officer of Petroleos de Venezuela, SA (PDVSA) from 1994–1999. Before joining PDVSA in 1976, worked for the Venezuelan Shell oil company. Senior Advisor at the Center for Strategic and International Studies in Washington DC.

8 Mary (Nina) Henderson ⌀ +
Non-executive Director of Shell Transport
Born July 6, 1950. A US national, appointed a Director in 2001. Latest date for retirement by rotation 2004. Previously President of a major division and Corporate Vice-President of Bestfoods, a major US foods company, responsible for worldwide core business development. Non-executive Director of Pactiv Corporation, AXA Financial Inc., Del Monte Foods Company and Visiting Nurse Service of New York.

9 Sir Peter Job KBE + ◆
Non-executive Director of Shell Transport
Born July 13, 1941. A British national, appointed a Director in 2001. Latest date for retirement by rotation 2005. Previously Chief Executive of Reuters plc. Non-executive Director of Schroders plc, GlaxoSmithKline plc, TIBCO Software Inc, Instinet Group Inc, and a member of the Supervisory Board of Deutsche Bank AG and of Bertelsmann AG.

10 Sir John Kerr GCMG + ◆
Non-executive Director of Shell Transport
Born February 22, 1942. A British national, appointed a Director in 2002. Latest date for retirement by rotation 2006. Previously Head of the Diplomatic Service, Principal Private Secretary to the Chancellor of the Exchequer, UK Permanent Representative to the EU, British Ambassador to the USA and Foreign Office Permanent Under Secretary of State. Non-executive Director of Rio Tinto plc, Scottish American Investment Trust plc and Trustee of the National Gallery and of the Rhodes Trust.

11 Wim Kok #
Member of the Supervisory Board of Royal Dutch
Born September 29, 1938. A Dutch national, appointed a member of the Supervisory Board with effect from July 1, 2003. Due to retire by rotation in 2007. Chaired the Confederation of Dutch trade unions (FNV) before becoming a member of the Lower House of Parliament and parliamentary leader of the Partij van de Arbeid (Labour Party). Appointed Minister of Finance in 1989 and Prime Minister in 1994, serving for two periods of government up to July 2002. Member of the Supervisory Boards of ING Group, KLM and TPG.

12 Jonkheer Aarnout Loudon + #
Member of the Supervisory Board of Royal Dutch
Born December 10, 1936. A Dutch national, appointed a member of the Supervisory Board in 1997. Due to retire in 2007. Member of the Board of Management of Akzo from 1977–1994 (Akzo Nobel as from 1994) and its Chairman from 1982–1994. Chairman of the Supervisory Boards of ABN AMRO Bank and Akzo Nobel and a member of the International Advisory Board of Allianz.

13 Professor Hubert Markl +
Member of the Supervisory Board of Royal Dutch
Born August 17, 1938. A German national, appointed a member of the Supervisory Board in 2002. Due to retire by rotation in 2006. President of the Max-Planck-Gesellschaft from 1996–2002. Professor of Biology at the University of Constance 1974–2003. Member of the Supervisory Boards of Aventis, BMW, and Münchener Rückversicherungs-Gesellschaft.

14 Sir Mark Moody-Stuart KCMG
Non-executive Director of Shell Transport
Born September 15, 1940. A British national, appointed a non-executive Director in 2001. Latest date for retirement by rotation 2006. Appointed a Managing Director in 1991 and Chairman of Shell Transport from 1997–2001. Chairman of Anglo American plc and a Director of HSBC Holdings plc and Accenture. Member of the UN Secretary General's Advisory Council for the Global Compact.

15 Lawrence Ricciardi ⌀
Member of the Supervisory Board of Royal Dutch
Born August 14, 1940. A US national, appointed a member of the Supervisory Board in 2001. Due to retire by rotation in 2005. Previously President of RJR Nabisco, Inc. and subsequently Senior Vice-President and General Counsel of IBM. Senior Advisor to the law firm Jones Day and to Lazard Frères & Co. Member of the Board of Directors of The Reader's Digest Association, Inc.

16 Henny de Ruiter ⌀ +
Member of the Supervisory Board of Royal Dutch
Born March 3, 1934. A Dutch national, appointed a member of the Supervisory Board in 1994. Due to retire in 2004. Managing Director of Royal Dutch from 1983–1994. Chairman of the Supervisory Boards of Univar and Wolters Kluwer, Vice-Chairman of the Supervisory Board of Aegon and a member of the Supervisory Board of Heineken.

17 Jeroen van der Veer
President of Royal Dutch and Chairman of the Committee of Managing Directors
Born October 27, 1947. A Dutch national, Chairman of the Committee of Managing Directors since March 2004. Appointed President of Royal Dutch in 2000, having been a Managing Director since 1997. Joined the Group in 1971 in refinery process design and held a number of senior management positions around the world. Also a member of the Supervisory Board of De Nederlandsche Bank and a non-executive Director of Unilever.

18 Malcolm Brinded CBE FREng
Managing Director of Shell Transport and Vice-Chairman of the Committee of Managing Directors
Born March 18, 1953. A British national, was appointed a Director and Managing Director of Shell Transport and became Vice-Chairman of the Committee of Managing Directors in March 2004. Previously a Managing Director of Royal Dutch since 2002. Joined the Group in 1974 and has held various positions around the world. Country Chair for Shell in the UK from 1999–2002 and Director of Planning, Environment and External Affairs at Shell International Ltd. from 2001–2002.

19 Rob Routs
Managing Director of Royal Dutch and Group Managing Director
Born September 10, 1946. A Dutch national, was appointed a Managing Director of Royal Dutch and became a Group Managing Director with effect from July, 2003. Joined the Group in 1971. Held various positions in the Netherlands, Canada and the USA. Previously President and Chief Executive Officer of Shell Oil Products USA and President of Shell Oil Company and Country Chair for Shell in the USA.

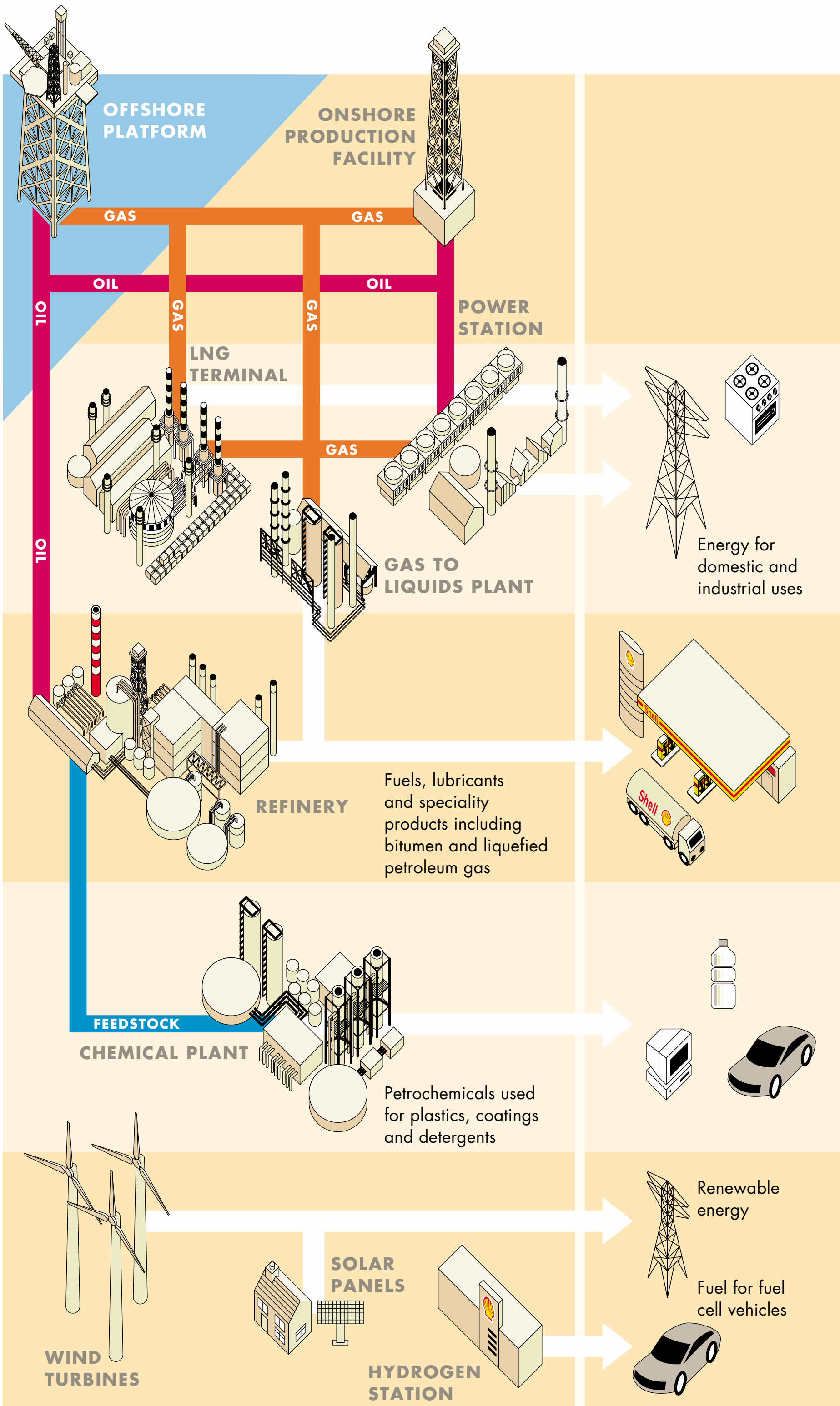
Company Secretary, Royal Dutch
Michiel Brandjes
Joined the Group in 1980 as a Legal Adviser. General Attorney of the Company since May 2003. Appointed Company Secretary in February 2004.

Company Secretary, Shell Transport
Jyoti Munsiff
Joined the Group in 1969 as a Legal Adviser. Appointed Company Secretary in 1993.

Key to Committee membership
- ⌀ Group Audit Committee
- # Social Responsibility Committee
- + Remuneration and Succession Review Committee
- ◆ Shell Transport Nomination Committee

What we do

With approximately 119,000 employees in more than 145 countries and territories around the world, the companies that comprise the Royal Dutch/Shell Group are engaged in Exploration and Production, Gas & Power, Oil Products, Chemicals, and Other industry segments including Renewables, Shell Consumer and Shell Hydrogen.



Exploration and Production

17,100
employees

$9.1 billion
earnings

$39.3 billion
capital employed

Gas & Power

2,100
employees

$2.3 billion
earnings

$12.2 billion
capital employed

Oil Products

81,600
employees

$2.9 billion
earnings

$35.3 billion
capital employed

Chemicals

8,600
employees

-$209 million
earnings

$10.4 billion
capital employed

Other industry segments

2,800
employees

-$267 million
earnings

$864 million
capital employed

Shell around the world

The following key indicates the nature of the operations carried out in each listed country or territory, at the time of this report going to print:

Key

- **E+P** E = Exploration P = Production
- ● (orange) Downstream natural gas/power generation
- ● (yellow) Refining
- ● (magenta) Marketing – Oil Products
- ● (blue) Chemicals – manufacturing/marketing
- ● (purple) Other – including Renewables, Consumer, Hydrogen and Trading

Europe

	E/P	Gas/power	Refining	Marketing	Chemicals	Other
Austria	E+P			●		
Belgium		●		●	●	
Bulgaria				●		
Croatia				●		
Czech Republic			●	●		
Denmark	E+P	●	●	●		
Estonia				●		
Finland				●		
France			●	●	●	●
Germany	P	●	●	●	●	●
Gibraltar				●		
Greece		●		●	●	●
Hungary				●		
Iceland				●		●
Ireland, Republic of	E			●	●	
Italy	P	●	●	●	●	
Latvia				●		
Lithuania				●		
Luxembourg				●	●	●
Netherlands	E+P	●	●	●	●	●
Norway	E+P	●	●	●	●	●
Poland				●	●	●
Portugal				●		●
Romania				●		
Serbia and Montenegro				●		
Slovakia				●		
Slovenia				●		
Spain		●		●	●	
Sweden			●	●		●
Switzerland				●		
Turkey		●	●	●	●	●
United Kingdom	E+P	●	●	●	●	●

Commonwealth of Independent States

	E/P	Gas/power	Refining	Marketing	Chemicals	Other
Azerbaijan	E			●		
Kazakhstan	E+P			●		
Russia	E+P	●		●	●	
Turkmenistan				●		
Ukraine				●		

Africa

	E/P	Gas/power	Refining	Marketing	Chemicals	Other
Angola	E					
Benin				●		
Botswana				●		
Burkina Faso				●		
Cameroon	E+P		●	●		
Cape Verde Islands				●		
Congo				●		
Côte d'Ivoire			●	●	●	
Democratic Republic of Congo				●		
Djibouti				●		
Egypt	E+P	●		●		
Eritrea				●		
Ethiopia				●		
Gabon	E+P		●	●		
The Gambia				●		
Ghana				●		
Guinea				●		
Guinea-Bissau				●		
Kenya			●	●	●	
Lesotho				●		
Madagascar				●		
Mali				●		
Mauritius				●		
Morocco	E			●	●	●
Mozambique				●		
Namibia				●		●
Nigeria	E+P	●		●		
Réunion				●		
Rwanda				●		
Senegal			●	●		
South Africa			●	●	●	●
Sudan				●		
Swaziland				●		
Tanzania				●		
Togo				●		
Tunisia				●		
Uganda				●		
Zimbabwe				●	●	

Middle East and South Asia

	E/P	Gas/power	Refining	Marketing	Chemicals	Other
India		●		●	●	●
Iran	P			●		
Jordan				●	●	
Oman	E+P	●		●		
Pakistan	E+P		●	●		
Qatar		●				
Saudi Arabia	E		●	●	●	
Sri Lanka				●		●
Syria	P			●		
United Arab Emirates	E+P			●	●	●
Yemen				●		

Asia Pacific

	E/P	Gas/power	Refining	Marketing	Chemicals	Other
Australia	E+P	●	●	●	●	●
Brunei	E+P	●	●	●		
Cambodia				●		
China	E+P	●		●	●	●
Cook Islands				●		
Fiji				●		
Guam				●		
Indonesia				●	●	
Japan		●	●	●	●	●
Laos				●		
Malaysia	E+P	●	●	●	●	
New Caledonia				●		
New Zealand	E+P		●	●	●	
Palau				●		
Papua New Guinea				●		
Philippines	E+P	●	●	●	●	●
Saipan				●		
Singapore		●	●	●	●	●
South Korea		●		●	●	
Taiwan			●	●	●	
Thailand			●	●	●	●
Tonga				●		
Vanuatu				●		
Vietnam				●	●	

Americas

	E/P	Gas/power	Refining	Marketing	Chemicals	Other
Argentina	P		●	●	●	●
Bahamas				●		
Barbados				●		●
Belize				●		
Bermuda				●		
Bolivia		●		●		
Brazil	E+P	●		●	●	
British Antilles				●		
Canada	E+P	●	●	●	●	●
Chile				●	●	●
Colombia		●		●	●	
Costa Rica				●		
Dominican Republic			●	●		
Ecuador				●		
El Salvador			●	●		
French Antilles & Guiana			●	●		
Grenada				●		
Guatemala				●		
Guyana				●		
Haiti				●		
Honduras				●		
Jamaica				●	●	
Mexico		●		●	●	●
Netherlands Antilles				●		
Nicaragua				●		
Panama				●		
Paraguay				●		●
Peru				●		
Puerto Rico				●	●	
St. Kitts and Nevis				●		
St. Lucia				●		
St. Vincent				●		
Surinam				●		
Trinidad and Tobago				●		
Uruguay				●		●
USA	E+P	●	●	●	●	●
Venezuela	P	●		●	●	

Strategic direction

Long term, the Group aims to be world leader in energy and petrochemicals. Short term, our focus is on rebuilding credibility through performance and on regaining trust through consistently acting with strong business principles.

Our goal is to deliver superior shareholder returns with a minimum commitment of sustaining dividends in real terms. Robust, sustained profitability and growth through competitive edge are key to this goal.

Robust profitability
Competitive unit earnings and strong cash generation, sufficient to deliver cash neutrality at conservative conditions, are core measures of performance. Key enablers are: capital discipline, cost leadership and operational excellence, active portfolio management and combining personal accountability with strong teamwork.

Competitive edge
A genuinely diverse and inclusive global business with talented people enabled to develop their full potential, technology focus and innovation to meet customers' needs are critical differentiators. Key enablers are: the Shell brand, our global reach, customer-focused innovation (such as differentiated fuels) and technology (such as Gas to Liquids).

Our aspired portfolio aims for sustained value growth. We plan to increase the proportion of Exploration and Production assets and focus more on Gas & Power to take advantage of the shift to gas in meeting the world's energy needs. In Oil Products and Chemicals our focus remains on profitable growth and cash generation. We also continue to develop new sources of income and look to strengthen our positions in North America, Asia and offshore Africa.

Business Principles
Though confidence in us has clearly been shaken by recent events around reserves as discussed on page 17, we reaffirm that Shell businesses and people, throughout the world and at every level, must always act in accordance with our long-standing Business Principles. These include our commitment to contribute to sustainable development. We run extensive assurance processes with the aim of ensuring that this happens, and we will renew and strengthen these processes as needed.

1 The Molikpaq platform, offshore Sakhalin Island.

2 The laboratory at the world's first commercial Gas to Liquids plant in Bintulu, Malaysia.

3 One of 12 gas wells at the Groningen field in the Netherlands.

Our strategy in action

1

Unlocking Russian energy resources

As the holder of the world's largest gas reserves and the second largest oil exporter, Russia will continue to play a major role in meeting the world's energy needs. It represents a key area of future growth for us, and an opportunity to meet our strategic objectives of increasing our Exploration and Production assets and providing a greater focus on gas.

Our investment in the Sakhalin II project in the far east of Russia meets these strategic priorities. This challenging development builds on our leading position in the development and marketing of liquefied natural gas (LNG) and our strong commercial relationships in Asia. Sakhalin, due on stream in 2007, represents a major project which will provide significant value over the long term.

Our Russian interests have also increased through our investment in the $1 billion development of the Salym fields in western Siberia. Production from these fields is expected to start in 2005 and to peak at 120,000 barrels a day.

These projects highlight our position as a leading foreign direct investor in Russia's energy sector.

2

3

Developing fuels of the future

Demand for transport fuels will continue to grow across the world. Traditional gasoline and diesel fuels will play a major role in meeting that demand in the short to medium term. The Group continues to innovate to improve the performance of these conventional fuels and to reduce their impact on the environment.

We are also working on a range of projects to develop a new generation of fuels which will help to meet the challenges of providing sustainable transport. One of the most exciting developments in this area is our planned multi-billion dollar investment to build a Gas to Liquids (GTL) plant in Ras Laffan, Qatar. The GTL plant will provide ultra-clean fuels that offer significant environmental advantages, especially in urban areas with high air pollution.

GTL fuels will be a valuable addition to an increasingly competitive and sophisticated fuels market and are one example of our commitment to technological development and customer-focused innovation. They provide further diversity in our portfolio, giving the flexibility of converting natural gas into liquid products and building on the strong position we have established in LNG. Looking further ahead, we continue to support the development of alternative fuels derived from renewable sources and hydrogen.

Extending the life of key assets

The giant Groningen field in the north of the Netherlands is at the heart of the Dutch gas system. For almost 40 years this asset has provided solid earnings and strong cash generation.

In 1999, we embarked on a 10-year, $2 billion project to renovate and modernise the 29 separate production facilities, extending the life of the field by another 40 years, and to install 500MW of gas compression. By 2010, the gas production capacity of the renovated field will be some 350 million cubic metres (12 billion standard cubic feet) per day. It will also continue to play the essential role of swing producer, balancing large fluctuations in daily and seasonal demand.

All of the renovated production facilities will be connected through a fibre optic network to a control centre. New technology will be introduced to improve the environmental performance of the operations at Groningen further, bringing a 70% reduction in emissions to the atmosphere. The upgraded facilities will allow for highly flexible and efficient remote operations, reducing operating costs.

By applying new technology and the principles of sustainable development to extend the life of this field, Groningen will continue to play a key part in both the Dutch and European gas markets and make a significant contribution to our profitability for decades to come.

Contributing to sustainable development

We retain our commitment to our core values of honesty, integrity and respect for people in all our activities, as set out in the Statement of General Business Principles in 1976. Recent events emphasise the crucial importance – as well as the challenge – of always living up to these principles in practice. Sustainable development has been an important part of these principles since 1997.

At the heart of our approach is a belief that we should carry out our business activities in an economically, environmentally and socially sustainable way. We work with stakeholders to understand and manage better the impacts our operations and products have on society and the environment. We try to follow this approach in all of our activities from project development and supply chain to the services and products we supply to our customers.

Our sustainable development commitment helps us to understand and respond to changes in the business environment and to meet the changing expectations of customers. It also provides an incentive to develop new technology, reduces business risk and influences the development of our portfolio. We believe that these are real competitive advantages that will help to ensure the long-term profitability of our business. We report our progress in contributing to sustainable development annually in The Shell Report (www.shell.com/shellreport).

1

Protecting biodiversity

The Group recognises that we have a responsibility to minimise and mitigate the effect of our activities on the environment. We do that in a number of ways, including developing and implementing measures to protect biodiversity.

We have developed formal guidelines to ensure that biodiversity considerations are integrated into all the Group's projects and operations and that the impacts on biodiversity of those activities are properly assessed, monitored and mitigated. Our partnerships with a range of conservation organisations help to inform and strengthen this work. This approach was further strengthened in 2003, when the Group made a commitment not to explore or drill for oil and gas resources in natural World Heritage sites. All these efforts underline that biodiversity is important to Shell wherever we work and that we are committed to refining and improving the way we work to protect and preserve the environment surrounding all our operations.

1 Staff and visitors can enjoy three managed nature reserves on the Stanlow manufacturing site in the UK.

2 Shell Gabon and the Shell Foundation, in partnership with the Smithsonian Institution, are sponsoring a biodiversity assessment and monitoring project in Gabon.

3 Creeburn Lake, near the Muskeg River Mine, has been leased by Shell Canada and preserved as a natural site.

4 The contract for building a cycle lane for workers to get to the Nanhai petrochemicals site in China was awarded to a company set up by resettled villagers with the help of the CNOOC and Shell Petrochemicals Company Limited and the local government.

2

3

Developing sustainable projects

Ensuring that we develop projects in a sustainable way, taking account of the needs of the communities in which we work, is a key priority for the Group. We believe involving those communities at the very start of the project development can reduce the risk of objections and costly delays.

The Athabasca Oil Sands Project in Canada, which started full production in 2003, is an example of how this approach was applied in practice. Recognising that a development on this scale would raise a number of social and environmental concerns, Shell Canada embarked on a structured engagement programme with a wide range of stakeholders. This ran from the initial planning of the project through to construction, operation and future reclamation.

That work resulted in a series of actions to ensure that the economic, social and environmental interests of the local community were recognised. These included reducing the environmental impact of the project, providing support to local business development, and the construction of community facilities.

The success of this potentially controversial project shows how setting the highest environmental and social standards can deliver real business advantage for the Group. We will continue to refine and develop that work in future projects.

4

Market overview

The business environment in 2004 is characterised by a continued global recovery. However, growing global imbalances, ongoing volatility in the Middle East and increasing tensions in various regions of the world make this recovery fragile. Our diverse portfolio means we are well positioned to meet the challenges of such an environment.

The world economy in 2004

The outlook for the global economy has brightened. Fuelled by an expansionary macro-economic policy stance and driven by strong productivity growth, economic output in the USA has picked up markedly. With the recovery becoming increasingly broad-based and robust, the US economy looks set to return to its long-term growth path in 2004.

Benefiting from that recovery, economic activity has also risen in other countries, notably within the European Union and in Japan. However, in these economies important structural challenges remain, undermining the dynamism of their recovery.

China's economy is the second largest in the world and with near double digit expansion is increasingly becoming a global growth engine. Output is also rising rapidly in a number of other emerging market economies, especially in Asia. In Russia, the forward momentum remains strong and there are now also signs of a recovery in Latin America after three years of stagnation.

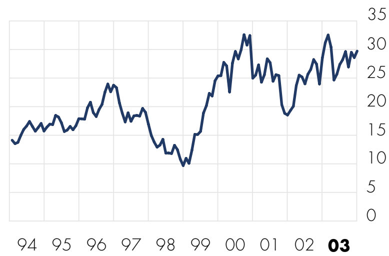
Oil and gas prices

Average oil prices for 2004 could well be above the OPEC price band. Oil price volatility is expected to remain high due to tight OECD stocks, continued instability in the Middle East and other possible short-term supply disruptions.

We expect that the prospect of general global economic expansion could cause oil demand to increase and oil prices to remain firm for the remainder of 2004. Much of this growth will be met by non-OPEC production increases and the return of Iraqi oil to the market. Lower prices are possible, but the timing and duration of any price reduction remains uncertain and will be influenced by geopolitical factors and OPEC response.

In North America, gas prices may again average above $4 per million British thermal unit (MMbtu) over the next two years, compared with the 2003 average of around $5.60/MMbtu. The pace of economic recovery should help demand growth in the USA but the supply outlook remains uncertain. Looking forward, lower prices relative to 2003 could dampen domestic production growth in the near term, although LNG will enter the market at more sustained and higher levels in 2004 with the reopening of existing regasification capacity.

Crude oil prices
Brent Blend: average monthly spot prices
$ per barrel



Industry structure and competition

Despite high decline rates in the mature areas of North America and Europe, all the oil majors are expected at least to maintain 2002 levels of production over the next five years. This will require significant new investment and replacement of declining positions. In 2003 the Group reinforced both the diversity of its geographic positions and its range across the energy value chain with a number of significant new projects. While Shell holds a leading position in global LNG, competition has intensified.

Capital spending on refining and marketing is peaking and all the oil majors are constraining downstream capital expenditure in favour of upstream and gas opportunities. On the retail side, in mature markets like the USA and Europe, portfolio rationalisation and optimisation is likely to continue.

In the relatively mature petrochemical markets of North America and Europe, the continuing trend is to strengthen competitive positions by focusing portfolios, investing in existing sites and limiting new expansion. Asia Pacific remains the area with the greatest growth potential.

Operational and Financial Review

Summary of Group results

Financial results			$ million
	2003	2002 As restated	2001 As restated
Net income	**12,496**	9,722	10,350
Change from previous year	***+29%***	*-6%*	*-20%*

The Group's net income for 2003 was $12,496 million, 29% higher than in 2002. These earnings reflect higher realised prices in Exploration and Production and higher earnings in Gas & Power. A stronger business environment in Oil Products and the delivery of operational performance improvements in all businesses also had a positive impact on the results.

Exploration and Production earnings were 34% higher than last year at $9,105 million. Total hydrocarbon production[1] fell by 1% to 3.9 million barrels of oil equivalent (boe) per day. Oil and oil sands production increased by 1% while gas production fell by 5%. Hydrocarbon prices were generally higher in 2003 compared with 2002 (Brent crude prices averaged $28.85 a barrel compared with $25.05 in 2002) as a result of the conflict in Iraq, OPEC behaviour, lower inventories worldwide and cold weather in Europe and North America. The reserves replacement ratio in 2003 was 63%, including the impact of the Reserves Restatement. The Group's total proved reserves at the end of 2003 were 14.35 billion barrels of oil equivalent. (More detailed information on reserves is available on pages 20 and 21.)

Earnings in Gas & Power were at a record level at $2,289 million, benefiting from the sale of the Group's shareholding in Ruhrgas, higher prices and record liquefied natural gas volumes.

An improved business environment and higher refining and marketing margins in all regions helped Oil Products earnings to increase by 9% to $2,860 million.

Business conditions remained difficult in Chemicals which showed a loss of $209 million. These results reflect asset impairment and restructuring charges totalling $478 million.

Total capital investment[2] was $14.3 billion, compared with $14.2 billion (excluding major acquisitions) in 2002. Proceeds from asset disposals in 2003 were $4.5 billion; this generated $2.0 billion of after-tax income, all of which was offset by net charges for impairment, restructuring and various other items including tax credits, resulting in a net charge of $104 million. At the end of the year the debt ratio[3] was 20.9%. Cash and cash equivalents amounted to $2.0 billion.

All Group financial information contained in the Operational and Financial Review is presented in accordance with accounting principles generally accepted in the United States. The restatements described below are reflected in prior period information where applicable.

Reserves Restatement and Financial Restatement

On January 9, 2004, the Group announced the removal of approximately 3.9 billion barrels of oil equivalent (boe) of oil and gas that were originally reported as proved reserves as at 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 amount to be removed from end-2002 proved reserves has been increased to 4.47 billion boe. The Group is restating the unaudited oil and gas reserves disclosures contained in the supplementary information accompanying the Group Financial Statements (the Reserves Restatement) to remove these volumes at the earliest date on which they did not represent "proved reserves" within the applicable rules of the Securities and Exchange Commission (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.

In view of the inappropriate overstatement of unaudited proved reserves information, it has been decided to restate the Financial Statements of the Group, and each of the Parent Companies, for prior periods (the Financial Restatement) to reflect the impact of the Reserves Restatement on those Financial Statements (as announced on April 19, 2004).

In addition, the Financial Statements have been restated to reflect the correction of inappropriate accounting policies relating to the treatment of exploration costs and certain contracts for the sale and delivery of own natural gas production. The Financial Statements have also been restated to reflect a change in accounting policy relating to certain inventories in North America from the LIFO to FIFO method.

See page 40 regarding "Investigation and report to the Group Audit Committee; management changes" for additional detail regarding the Group Audit Committee's investigation arising out of the Reserves Restatement.

1 Includes oil sands.
2 Capital investment is capital expenditure, exploration expense and investments in associated companies.
3 The debt ratio is defined as short-term plus long-term debt as a percentage of capital employed. Capital employed is Group net assets before deduction of minority interests, plus short-term and long-term debt.

Exploration and Production

Malcolm Brinded
Group Managing Director, Chief Executive Exploration and Production and Gas & Power

Our Exploration and Production business searches for and recovers oil and gas around the world and is active in 34 countries. The majority of these activities are carried out in ventures with external partners.

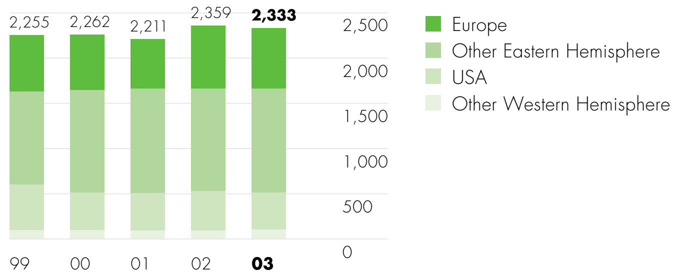
Earnings			$ million
	2003	2002 As restated	2001 As restated
Net proceeds (including inter-segment sales)	**32,725**	26,581	25,847
Purchases (including change in inventories)	**(1,536)**	(1,050)	(1,444)
Exploration	**(1,476)**	(1,073)	(910)
Depreciation	**(7,087)**	(5,492)	(3,875)
Operating expenses	**(7,252)**	(6,751)	(5,474)
Operating profit of Group companies	**15,374**	12,215	14,144
Group share of operating profit of associated companies	**1,876**	1,322	1,550
Operating profit	**17,250**	13,537	15,694
Other income/(expense)	**72**	72	48
Taxation	**(8,472)**	(6,813)	(7,779)
Cumulative effect of a change in accounting principle	**255**	–	–
Segment earnings	**9,105**	6,796	7,963

Earnings

Segment earnings for the year were $9,105 million, 34% higher than in 2002. This reflected higher hydrocarbon prices and divestment gains of $420 million, mainly in the USA. These were partially offset by a 1% decrease in hydrocarbon production[1], asset impairments, exploration property write-offs and higher costs.

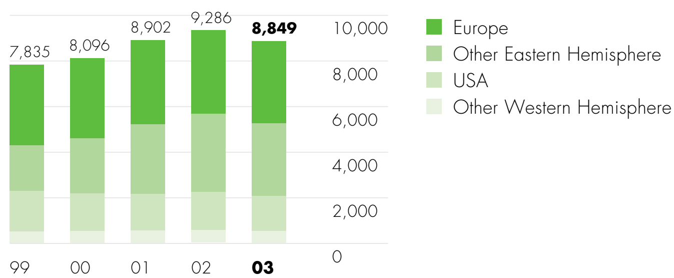
Hydrocarbon prices were generally higher in 2003 compared with 2002, as a result of the conflict in Iraq, OPEC behaviour, lower inventories worldwide and cold weather in Europe and North America. In 2003, the Group's realised oil prices for the world outside the USA averaged $27.43 a barrel compared with $23.54 in 2002, while US realised oil prices averaged $27.24 a barrel compared with $22.72 in 2002. US realised gas prices averaged $5.61 per thousand standard cubic feet in 2003 compared with $3.31 in 2002. Outside the USA, realised gas prices averaged $2.71 per thousand standard cubic feet in 2003, representing a 26% increase from the 2002 price of $2.15 per thousand standard cubic feet. Overall, levels of realised crude oil and gas prices in 2003 increased segment earnings (after taxes) by approximately $3.5 billion compared to 2002.

Oil production including natural gas liquids
thousand barrels daily



1999-2002 oil production has been restated to eliminate certain cash paid royalties and excludes oil sands volumes.

Natural gas production available for sale
million standard cubic feet daily



1999-2002 natural gas production has been restated to eliminate certain cash paid royalties.

Partially offsetting the favourable impact of hydrocarbon prices on earnings was a decline of 1% in hydrocarbon production to 3.9 million barrels of oil equivalent per day (boe/d)[2].

Oil production, (excluding oil sands production) decreased by 1% to 2.3 million boe/d, mainly as a result of field declines in the USA and North Sea, operational performance problems in the UK, various divestments, lower entitlements in production sharing contract (PSC) countries relating to higher oil prices and the shutdown of operations in Nigeria's northern swamps. The shutdown in Nigeria was during disturbances between rival groups which lasted most of the year and operations were able to resume in late 2003. Operational performance problems in the UK were at the Shearwater platform and the Brent Field. Shearwater was shut down between March and June as a result of a well failure. Production ceased from the whole of the Brent Field in September following an accident on Brent Bravo. The Brent Delta restart was a few days after. Brent Bravo recommenced production on November 11 followed by Brent Alpha two days later. Brent Charlie remained shut for further repair and maintenance work into the first part of 2004. The decrease in oil production was partly offset by production from several new fields, mainly in Nigeria (EA), Brazil (Bijupirá-Salema), the UK and the USA; higher OPEC quotas (Nigeria and Abu Dhabi); and an additional quarter of production from ex-Enterprise Oil assets.

1 Includes oil sands.
2 For this purpose, the Group has converted natural gas to crude oil equivalent using a factor of 5,800 standard cubic feet per barrel.

Na Kika
The Na Kika semi-submersible production facility under construction in Ingleside, Texas.

Gas production decreased by 5% to 1.5 million boe/d as a result of field declines in the USA, various divestments and lower entitlements due to the effect of higher gas prices in PSC countries. In addition there was a reduction in economic entitlement to gas production from certain properties in the Middle East. These were partly offset by higher production for liquefied natural gas (LNG), higher demand due to colder weather in north-west Europe and new fields in Pakistan and the USA.

During 2003, production of synthetic crude oil commenced from the Athabasca Oil Sands Project, which added 46,000 boe/d to overall hydrocarbon production, with 78,000 boe/d in the fourth quarter.

We expect total hydrocarbon production for 2004 to remain broadly flat with a dip in 2005. Factors impacting production include divestment and the effect of oil and gas prices on economic entitlements. We expect production to increase again from 2006 onwards, as the development of new growth positions in offshore Nigeria, Russia, Qatar and Kazakhstan gain momentum.

The cost of production start-up in new growth areas, mainly the oil sands in Canada, and restructuring costs related to the implementation of a new global business operating model adopted at the end of the year, led to higher operating expenses in 2003. Costs were also negatively impacted by the decline of the dollar against the euro, sterling and other currencies.

Results in 2003 reflected asset impairments of $508 million, mainly in the UK and South America (primarily as a result of lower production outlooks for these areas) and the write-off of various exploration properties of some $300 million, primarily in Ireland and Brazil. In both of these countries, new information from 2003 exploratory work confirmed lower than expected volume projections.

Capital investment and portfolio actions

Capital investment of $9.2 billion was $4.9 billion lower than in 2002. Investment in 2002 was higher mainly due to the acquisition of Enterprise Oil, amounting to $5.3 billion. Excluding that acquisition, capital investment in 2003 was 5% higher than in 2002.

The largest proportion of investment in 2003 was made in maintaining and developing the heartlands. These are areas where we already have a strong presence and where we see ongoing opportunities for growth. They include North America, north-west Europe, Nigeria, Oman, Malaysia, Brunei and Australia. Developments included the new EA field in Nigeria, which came on stream in 2003, and two major agreements in the North Sea to bring Norwegian gas to the UK.

2003 also saw the development of a number of significant projects which are expected to deliver long-term value to the Group. The Athabasca Oil Sands Project achieved fully-integrated operations in 2003, which marked a key step in developing unconventional resources. The project continued to increase production throughout the year and when operating at full capacity, is expected to add some 4% to our global oil production. Agreement was reached to create the first world-scale Gas to Liquids plant in Qatar, establishing a presence in an exciting new market (see page 24). The Group's leading position in LNG is being maintained through a range of investments in Nigeria, Oman, Malaysia and Australia, as well as a commitment with Shell Gas & Power to the Sakhalin II project in the far east of Russia (see page 25). Investment in deepwater projects continued, with key projects in the Na Kika field in the Gulf of Mexico, Bonga in Nigeria and Bijupirá-Salema in Brazil. An additional commitment was made in Russia with the $1 billion project (Group interest 50%) to develop the Salym field in western Siberia.

Licence extensions were secured in Denmark, Brunei and Malaysia during the year, confirming our long-term commitment to these areas. In Saudi Arabia we signed an agreement to lead a group of companies to explore for natural gas in the South Rub Al Khali (Empty Quarter). The exploration work programme will start in the short term, and if successful, will be followed by investments that take into account the size of the commercial discovery.

We continued to achieve exploration and appraisal successes in the Gulf of Mexico, although the overall track record there continues to be mixed. Further significant new discoveries were made in Nigeria, Malaysia and Angola. A final investment decision was taken for the Kashagan project in Kazakhstan in the first quarter of 2004.

Deepwater success in Brazil

Ocean Yorktown drilling rig
The Bijupirá-Salema fields are the latest development in the Group's 90-year history in Brazil.

The Bijupirá-Salema fields began production during 2003. A joint venture with Petrobras, the national oil company, it is the first project of its kind carried out by an international oil company in Brazil since the opening up of the sector in 1997. The fields are located in the Campos Basin, 300km off Rio de Janeiro, in water depths ranging from 400 to 870 metres.

The subsea development consists of 14 wells which feed into a floating production, storage and offloading unit. This floating platform is a converted crude oil tanker which, at 364,000 tonnes, is one of the largest such vessels in the world. Production from the fields at the end of 2003 was 50,000 barrels of oil and 17 million cubic feet of gas a day and is expected to rise to peak production of 70,000 barrels of oil and 35 million cubic feet of gas a day.

During 2003 we sold mature Exploration and Production assets in the USA (Michigan and the Gulf of Mexico shallow water). In the UK, a number of assets from the former Enterprise Oil portfolio were sold. In 2003, the total production impact of these divestments was about 21,000 boe/d on an annual basis. Overall proceeds (after-tax) of total divestments amounted to some $1 billion. During the first quarter of 2004 the divestments of the upstream assets in Thailand and various UK upstream assets were completed. In April 2004 Shell reached an agreement for the sale of its 50% interest in offshore Block 18 in Angola. Divestments of non-strategic assets are expected to continue as a means of improving returns on the portfolio.

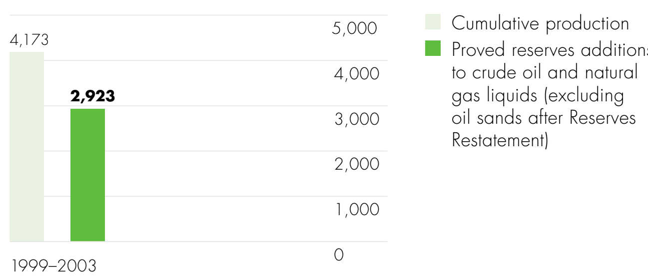
Reserves

The Group announced on January 9, 2004 that, following internal reviews, a portion of its proved oil and gas reserves would be recategorised to remove volumes from the proved reserves category. This was also the subject of further announcements made on March 18, 2004 and April 19, 2004. The total Reserves Restatement, relative to the proved reserves originally stated as at December 31, 2002, represents 4.47 billion boe of proved reserves at that date. Furthermore, additions to proved reserves during 2003 have been reduced by approximately 400 million boe relative to the figures announced on February 5, 2004.

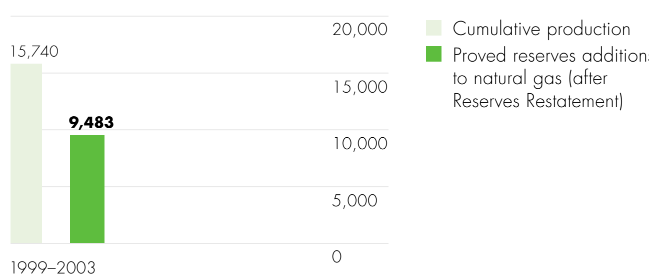
The impact of the Reserves Restatement, when taken together with production in 2003 (1.408 billion boe) and net additions to reserves in 2003 (some 0.885 billion boe) leads to proved reserves of 14.35 billion boe at December 31, 2003. The Reserves Restatement was based on a review of the Group's proved reserves inventory conducted between late 2003 and April 2004, the latter part with the assistance of external consultants.

As at December 31, 2002, 88% of the recategorised proved reserves volumes had originally been disclosed in the "proved undeveloped" reserves category; the balance was a reduction in the "proved developed" reserves category. Approximately two-thirds of the recategorised volumes relate to crude oil and natural gas liquids with the remaining one-third relating to natural gas. As at December 31, 2002, proved reserves, excluding the impact of the Reserves Restatement, had been equivalent to 13.3 years of production. Including the impact of the Reserves Restatement, the figure was 10.3 years. At December 31, 2003, following the Reserves Restatement, proved reserves were equivalent to 10.2 years of production.

Hydrocarbon liquids
million barrels



Natural gas
billion standard cubic feet



Reserves replacement

Including all effects of the Reserves Restatement, the net reserves addition in 2003 was 63% of 2003 production. This figure includes the effects of acquisitions and divestments. On an organic basis (not including acquisitions and divestments), the reserves addition was 82% of 2003 production. Changes to minority interests account for 16% of the total. Oil sands, which have not been included in this calculation, would account for an additional net 4%.

The 885 million boe addition in 2003 comprises revisions (-211 million boe, or approximately 190 million boe before the restatement reductions), improved recovery (153 million boe), extensions and discoveries (1,211 million boe) and acquisitions and divestments (-268 million boe). Increases in minority interests represent approximately 220 million boe of the total additions.

The overall proved reserves replacement ratio for the five years from 1999 to 2003 amounts to 66% taking into account all effects of the Reserves Restatement. This is clearly a concern and reflects the exploration strategy in the 1990s, and our relatively low investment in the post 1998 period. Exploration has since been refocused and investment levels increased. It is vital that our reserves replacement ratio improves significantly in the coming years.

Outlook and strategy

We will retain our focus on maintaining and developing existing heartland areas while building new positions. Increased attention will also be given to the development of unconventional resources while building on our strong positions in LNG and deep water. This work will take place in the context of increasing global hydrocarbon demand, driven by economic growth.

The concerns noted above on recent reserves replacement performance highlight the importance of replenishing the portfolio through successful and increased exploration efforts and through business development opening up new opportunities such as LNG, unconventional resources such as oil sands, and deep water. Such organic business revitalisation is essential and will be sustained by significant capital investment (some $12 billion in the "upstream" Exploration and Production and Gas & Power businesses in 2004). The scale and reach of the Exploration and Production business provides significant scope for improved global resource allocation, best practice application of processes, standardisation and contracting leverage. A key step in unlocking value was the introduction of a new "global operating model" in 2003, which will allow us to realise efficiencies by operating from regional hubs, to strengthen our technical and operational excellence and further enhance our global growth capability.

Over the past 20 years the Brent crude oil price has averaged around $20 a barrel and over the past three years the price averaged almost $26 a barrel. We expect that crude oil prices in 2004 will be influenced by developments in the key oil producing countries, the pace of Iraqi crude export recovery, and by the rate of the global economic recovery, particularly in the USA and China. Natural gas prices in the USA are expected to remain well above pre-2000 levels, due to higher demand resulting from a more general recovery of the global economy, while prices in other major markets are expected to retain an oil-price linkage.

Developing new oil resources

Scotford Upgrader
The first synthetic crude oil from the Athabasca Oil Sands Project was produced at the Scotford Upgrader in 2003.

The Athabasca Oil Sands Project in Canada, with a total investment of $4.2 billion, is one of our most significant new energy projects. This joint venture will produce 155,000 barrels of bitumen (tar-like oil) per day for the next 30 years and has the potential to supply 10% of Canada's crude oil.

This project is very different from traditional oil production in that it involves surface mining and extracting the oil from sands. Giant trucks and shovels scoop up the oil sand and transport it to an extraction plant. This material is mixed with warm water to separate the bitumen which is then transported by pipeline to the Scotford Upgrader 493km away. The bitumen is converted into a wide range of high-quality, low-sulphur, synthetic crude oils which are used as feedstock at refineries across Canada and the USA. This project will provide a solid foundation for long-term growth by tapping into the potential of the huge oil sands resources in northern Alberta.

Crude oil reference price conditions are determined after careful assessment of short, medium and long-term drivers of oil prices under different sets of assumptions. Exploration and Production investments are economically screened at a range of oil and gas price outlooks. In general, such screening values are relatively long-term and intended to be conservatively set. These screening values are determined after careful analysis of historical trends and statistical volatility, together with forward outlooks of global and regional economic conditions, geopolitics, and supply and demand, including, for example, cost of new long-term supply, strength of non-OPEC growth and OPEC behaviour. Short-term events, such as relatively warm winters or cool summers, due to their impact on demand and changes in stock levels, contribute to volatility. The Group uses a range of prices to test robustness of its opportunities against price volatility. In 2003 crude oil prices were significantly higher than the conservative expectations of our reference price conditions.

Gas & Power

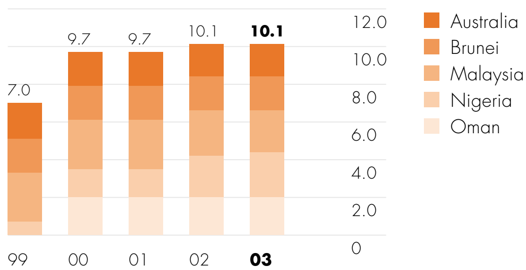
Our Gas & Power business liquefies and transports natural gas, and develops gas markets and infrastructure, including gas-fired power plants. It also markets and trades gas and electricity and converts natural gas to liquids to provide clean fuels. The majority of activities, in particular liquefied natural gas (LNG), are carried out by associated companies.

Earnings $ million

	2003	2002	2001
Net proceeds (including inter-segment sales)[a]	**8,248**	4,898	6,656
Purchases (including change in inventories)[a]	**(6,437)**	(3,730)	(5,191)
Depreciation	**(128)**	(128)	(106)
Operating expenses	**(1,163)**	(933)	(821)
Operating profit of Group companies	**520**	107	538
Group share of operating profit of associated companies	**889**	751	941
Operating profit	**1,409**	858	1,479
Other income/(expense)	**1,343**	124	132
Taxation	**(463)**	(208)	(385)
Segment earnings	**2,289**	774	1,226

a Certain prior period amounts have been reclassified, resulting in a reduction in sales proceeds and a corresponding reduction in cost of sales, following the implementation of US accounting guidance EITF Issue No. 02–03, see Note 3 on page 57.

LNG capacity, Group share (year-end)
million tonnes per annum



Earnings

Segment earnings were $2,289 million compared with $774 million in 2002. The earnings included a gain of $1,036 million from the divestment of the Group's minority shareholding in Ruhrgas in Germany and related tax credits of $114 million. The increase in earnings reflected an 11% rise in LNG prices, as a result of the time-lagged effect of higher crude prices, and the delivery of record Group share LNG sales of 9.3 million tonnes. The increase in volumes of 3% versus last year was mainly a result of strong market demand and the build up of the third production train (liquefaction plant) in Nigeria LNG (Group interest 26%), offset by exit from the Malaysia LNG Satu company (Group interest 15%).

Marketing and trading results in North America improved due to a stronger trading performance than in 2002. Additionally, gains from a number of other asset sales and an accounting adjustment (to reverse mark to market accounting due to bringing tolling agreements on to the balance sheet) were partially offset by impairments of $315 million. These impairments related to the carrying value of InterGen (an associated company, Group interest 68%) due to poor power market conditions, mainly in the US merchant power segment, and to the Cuiaba power assets in South America (Group interest 50%) in light of a reappraisal of the commercial outlook. Net proceeds and purchases were higher in 2003 compared with 2002 due to higher trading volumes and gas prices.

Capital investment and portfolio actions

Capital investment for the year was $1,483 million. This included $968 million on LNG projects in Russia, India, Australia, Mexico and the construction of LNG ships. Other main investments of $458 million were in US offshore pipelines and in InterGen associated with the completion of new plants.

The agreement to develop the Sakhalin II project in Russia (see page 25), and the commercial agreement for the Gas to Liquids (GTL) project in Qatar (see page 24), were the key developments in the Gas & Power business during 2003. Both are planned to be important strategic assets, delivering many years of sustained cashflow.

Aniva Bay, Sakhalin
Jetty construction has started at the ice-free Aniva Bay in the south of Sakhalin Island.

Gas will be transported along 800km of pipeline to the Sakhalin II LNG plant from the production facilities in the north of the island.

160 LNG ships a year will dock at Aniva Bay when the project is fully operational.

A range of other developments during the year supported the continued growth in our LNG business. In North America, where industry-wide indigenous gas supplies are struggling to meet demand, there is a growing market for imported LNG. Access has been gained to the East Coast gas market as a result of the reopening of the Cove Point LNG regasification terminal in Maryland, USA, where we have one-third of the capacity. In addition we won a tender to deliver gas through a receiving terminal at Altamira (now under construction) for the power market in Mexico; the Group interest in this project was reduced to 75% in the first quarter of 2004. We also announced a joint project (Group interest 50%) which plans to construct an LNG receiving terminal at Baja California, Mexico to supply Mexico and the USA. We aim to supply this terminal with LNG from associate projects in Asia Pacific, including the Sakhalin II project and Gorgon (Group interest 29%) in Western Australia. We also announced plans to build a new offshore LNG import terminal in the Gulf of Mexico, which will have the capacity to deliver one billion cubic feet of natural gas per day into the US pipeline network. In the growing Asian market, construction is underway on a new LNG terminal in Hazira providing access to markets in north-west India; in 2004 we announced the sale of a 26% interest, subject to approvals.

We further strengthened our leadership position in LNG through expanding associate LNG facilities in Nigeria (Group interest 26%) and Malaysia (Group interest 15%). LNG sales contracts were signed by Malaysian LNG Tiga (Group interest 15%) to supply up to two million tonnes per year to Korea, and by Nigeria LNG to supply 3.6 million tonnes per year to the USA and Europe from trains 4 and 5. In support of growing LNG supply and trading activities, we took delivery of a further new LNG vessel, bringing the total number to five at the end of 2003 with a sixth vessel delivered in the first quarter of 2004. Following the end of the original 20-year joint venture agreement, Shell exited the Malaysia LNG Satu company. Shell continues to hold a 15% stake in each of Malaysia LNG Dua and Malaysia LNG Tiga. In Oman, Shell committed to participation in the new Qalhat LNG train under construction at the Oman LNG plant.

InterGen (an associated company, Group interest 68%) completed six further power plants in Australia, Mexico, Turkey and the USA and also announced dilution of its interests in projects in Australia, Turkey and the USA. Overall the total generating capacity at the end of the year was 10.5GW (InterGen net equity interest).

In Europe, restructuring of our operations continued with the establishment of Shell Energy Europe, which is designed to grow our pan-European transport, marketing and trading gas business. We also sold our indirect interests in Ruhrgas, our direct interest in Thyssengas and interests in other gas transport companies in Germany. In early 2004 the sale of an indirect interest in VNG, a German gas transport and marketing company, was also completed.

Outlook and strategy

Demand for natural gas is expected to grow at a faster rate than for oil over the next decade, driven by its economic and environmental advantages, particularly in power generation. LNG is expected to expand at double the rate of overall gas growth due to its delivery flexibility and increasingly competitive costs. Demand for LNG in southern Europe is expected to grow rapidly to meet rising power demand. In North America, LNG is expected to play an increasingly important role as indigenous gas supply struggles to meet demand.

Leading the way in Gas to Liquids

Bintulu GTL
Technology proven at the Bintulu GTL site in Malaysia will now be applied on a much larger scale in Qatar.

The Gulf state of Qatar has the world's third largest gas reserves and these resources have the potential to play an important role in meeting the world's future energy needs. The Group's planned major investment to build a Gas to Liquids (GTL) plant at Ras Laffan will provide an innovative and exciting new option to supply Qatar's gas to distant markets and help meet Qatar's aspiration to be the "GTL capital of the world".

The GTL process uses Shell technology to convert natural gas into ultra-clean liquid fuels and other products which bring environmental and performance benefits. The first phase of the plant is expected to be completed in 2009, and when phase two is complete the plant will supply 140,000 barrels per day of GTL products.

The fuels that the plant will supply generate lower local emissions than traditional fuels and can be used without the need to adapt vehicle engines and delivery infrastructure. Trials in Berlin have shown that GTL can significantly reduce vehicle emissions, this is particularly valuable in urban areas with pollution problems.

This project confirms our leadership position in developing new fuels that make full use of the flexibility and environmental advantages of natural gas.

Developing LNG in Russia

Sakhalin pipeline
Construction began on a pipeline connecting the production facilities in the north of Sakhalin Island with the planned LNG terminal in the south.

The Sakhalin II project in the far east of Russia is a vital long-term project for the Group and provides a significant entry point into Russia's energy supplies. With a total Group interest of 55%, it consolidates our leading position in LNG marketing and technology. A number of complex commercial and political agreements were required for this integrated project.

The gas will be transported 800km by pipeline to the two train LNG plant in the south of Sakhalin Island which will be able to produce 9.6 million tonnes of LNG per year. Resources from Sakhalin will help to meet the growing demand for LNG across Asia and North America. Already 3.1 million tonnes of LNG per year have been committed to Japanese customers, with the first cargo expected to be delivered in 2007.

As with all our projects, Sakhalin II will be developed according to international environmental and social standards. The project will also bring real economic benefits to the region. We have made a commitment to source at least 70% of the materials, equipment and labour from Russian companies and up to 2,400 permanent jobs will be created. In addition a total of $250 million will be spent upgrading the island's local infrastructure.

In Asia Pacific strong long-term LNG growth in emerging gas markets like China and India is expected to complement renewed growth in the world's largest LNG market, Japan, especially if nuclear power generation does not materialise. In the short term, economic weakness and uncertainty may continue to constrain gas growth in some markets and success in emerging markets may at times be slow and not without economic risk. However, over the longer term, the abundance and flexibility of gas is expected to make it the preferred fuel for power generation, heating, and in the production of ultra-clean liquid fuels.

In close alignment with Exploration and Production, Gas & Power will develop opportunities provided by the growing penetration of natural gas in world energy markets. The Gas & Power business focuses on accessing gas markets in order to accelerate the monetisation of existing fields and secure new upstream resources. We will continue to strengthen and develop our leading role in LNG mainly through associated companies, building on our strong commercial relationships and cost leadership. Over the next four years, five new LNG trains in associated companies will increase the Group share of worldwide LNG capacity. New technologies such as Gas to Liquids will be developed to provide additional income streams. As a number of power markets continue to face near-term oversupply, parts of our portfolio may see depressed returns. Over the long term, selective power investments and midstream opportunities (pipeline and gas storage) that enable or add value to gas monetisation remain an appropriate part of our strategy. Our marketing and trading businesses will be used to secure customers for short, medium and long-term sales agreements and to increase the return from our gas and power sales.

Oil Products

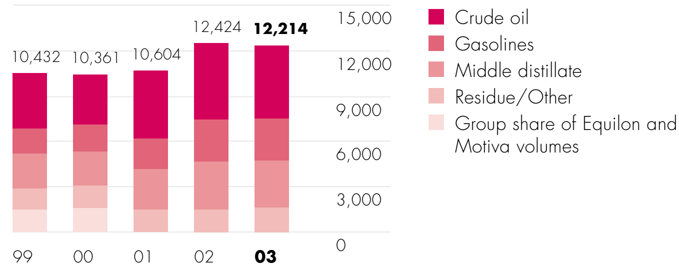
Rob Routs
Group Managing Director, Chief Executive Oil Products and Chemicals

Our Oil Products business markets fuels and lubricants for domestic and industrial use and for the range of transport modes from road to shipping and aviation. It also refines, supplies, trades and ships crude oil and petroleum products around the world and provides technical consultancy and research services.

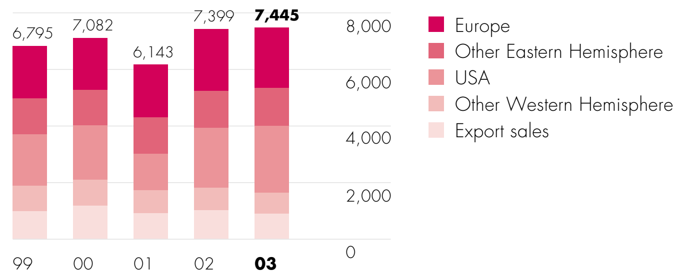
Earnings $ million

	2003	2002 As restated	2001 As restated
Net proceeds (including inter-segment sales)	**165,577**	138,624	95,625
Purchases (including change in inventories)	**(144,639)**	(120,493)	(83,037)
Gross margin	**20,938**	18,131	12,588
Depreciation	**(2,863)**	(2,406)	(1,617)
Operating expenses	**(14,870)**	(12,537)	(8,490)
Operating profit of Group companies	**3,205**	3,188	2,481
Group share of operating profit of associated companies	**911**	556	241
Operating profit	**4,116**	3,744	2,722
Other income/(expense)	**(4)**	(50)	(62)
Taxation	**(1,252)**	(1,067)	(690)
Segment earnings	**2,860**	2,627	1,970

Oil sales
thousand barrels daily

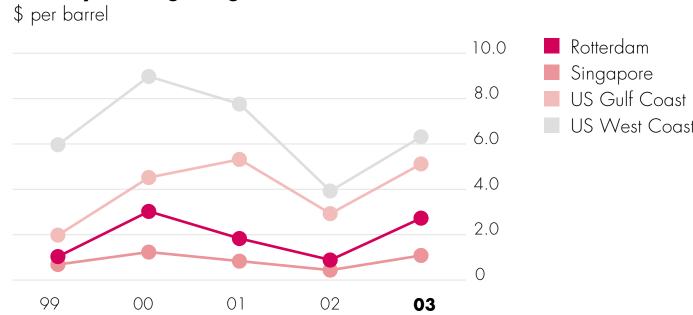


Oil product sales excluding crude oil
thousand barrels daily



For 1999 and 2000 the sales volumes include the Group share of Equilon (now Shell Oil Products US) and Motiva volumes. From 2001 the basis of reporting reflects only those activities which relate to the Oil Products business; previously some volumes handled by other businesses were included. Reported volumes from 2001 in the USA include Shell Oil Products US and Motiva sales to third parties and are in accordance with the ownership interests prevailing at the time.

Industry refining margins
$ per barrel



Earnings

Segment earnings for the year were $2,860 million compared with $2,627 million in 2002, an increase of 9%. This reflected an improvement in the business environment over 2002 with net sales proceeds increasing by $26,953 million. Of this increase, 58% was in the USA, 26% in South America and Africa, and 16% in Europe and Asia Pacific.

Gross margin (calculated as net proceeds minus purchases) increased by $2,807 million, driven primarily by increasing refining and marketing margins in all regions. Higher refining margins resulted from a number of exceptional and non-sustainable events with global impact. These included disruptions to supply from Venezuela, an extended Japanese nuclear power generator shutdown and widespread refinery disruptions in the USA resulting from the August power blackout. This contrasts with an environment in 2002 when industry refining margins were at 10-year lows. Marketing margins in 2003 benefited early in the year from the decline in crude prices following the conflict in Iraq and throughout the year from the weakening of the US dollar. Oil products' specification changes in the USA may impact overall supply and demand balances, resulting in an uncertain margin outlook for 2004.

Increased operating expenses of $2,333 million negatively impacted 2003 earnings. Approximately 75% of this increase was related to businesses outside the USA. This represents an increase in operating expenses as a percentage of gross margin from 69% in 2002, to 71% in 2003. The weakening dollar contributed almost 50% of this increase as a large percentage of Oil Products' operating expenses is incurred outside the USA. The remainder of the increase reflects higher costs associated with refinery maintenance activity, portfolio restructuring, pension funding and provisions for environmental and legal settlements. Within the USA, operating expenses declined one percentage point of gross margin in 2003. This reflected continued progress

Shell in China
Retail service at Foshan City, Guangdong.

Delivering service excellence to our customers underpins our global retail strategy.

Shell is investing for growth in new markets. China is one of the world's largest and fastest growing economies, offering huge potential.

in reducing personnel levels and marketing costs, both of which are associated with the 2002 acquisition of the Texaco downstream assets. Offsetting these reductions however, were higher provisions for anticipated environmental and legal settlements associated primarily with prior year MTBE (an additive used in gasoline) use. Future developments may require additional provisions.

There was increased income from associated companies of $355 million predominantly in the USA from the Group's share of Motiva Enterprises. A 75% increase in US Gulf Coast refining margins and a 2% improvement in refining reliability in the USA contributed to the increase in earnings.

Depreciation in 2003 increased over 2002 by $457 million, due primarily to portfolio actions taken during the year. Charges were higher due to the decision taken to close the Bakersfield refinery in the USA as a result of declining local crude supply ($213 million) and to impair assets in certain Latin American countries due to local economic conditions ($66 million). The impairment decisions were taken as part of an ongoing effort to address underlying portfolio performance issues. Continued focus on divesting non-performing or non-strategic assets may lead to future charges of a similar magnitude to 2003. Additionally, depreciation charges increased due to the full-year consolidation of Pennzoil-Quaker State (acquired in the fourth quarter, 2002).

Potential risks to future earnings centre around refinery reliability, particularly in the USA. Continued improvement in this key area of operational performance will have a significant effect on our ability to deliver sustained future earnings. In other areas, the January 2004 launch of Global Lubricants and the 2003 alliance with Coles Myer in Australia (both described overleaf) will be important factors to continued earnings growth, as will the continued economic recovery in Argentina and Brazil.

Developing retail in the USA

A former Texaco site in Houston
More than 4,200 sites had been rebranded from Texaco to Shell by the end of 2003.

Over recent years we have made a number of key acquisitions in the USA designed to strengthen our position in the world's largest downstream market. One result of that activity has been the largest retail rebranding project ever undertaken in the USA. That work, which involves the transformation of between 14,000 and 15,000 service stations to our distinctive retail visual identity, will be mostly completed by the end of 2004.

Just as significant as the changes to the appearance of these sites has been the way best practice from Shell's successful global retail operations is now being applied to further improve the service to US motorists.

The Group's development of differentiated fuels has been very successful in increasing the profitability of Shell businesses in a range of markets across the world. This is now being extended to the US market where, following successful trials in New Orleans and Cincinnati, high-performance Shell V-Power gasoline will be rolled out more widely in 2004.

Capital investment and portfolio actions

Capital investment in 2003 was $2,398 million compared with $7,945 million in 2002. Investment levels in 2002 included $5.1 billion relating to the acquisitions of Pennzoil-Quaker State Company, the Texaco downstream assets in the USA and DEA in Germany. Excluding these acquisitions, investment fell by some $400 million from 2002 to 2003. This reflected completion of the Scotford Refinery modifications in Canada in 2002, lower investment levels in Europe (as a result of reduced information technology and commercial spend) and lower transportation spend in the USA. This was slightly offset by increased investment at the Geelong refinery in Australia to meet fuel sulphur specifications.

In 2003 further progress was made on integrating assets from the 2002 Pennzoil-Quaker State acquisition with savings delivered through the closure of seven lube-oil-blend plants and two base oil plants, and the reduction in personnel of over 900 by the end of 2003. Similar progress has been made in connection with the Texaco downstream assets in the USA. At the end of 2003, over 4,200 sites had been rebranded from Texaco to Shell and personnel levels have been reduced by over 2,000 as business structures have been simplified. Progress on integrating the US acquisitions is going according to plan and is expected to be concluded by the end of 2004. In Germany, assets from the 2002 acquisition of DEA were fully integrated into the Group's business in this key market, with over 600 retail sites rebranded to Shell by the end of 2003.

Also in 2003, and providing further support to the strength of our marketing businesses, we announced an expansion of our relationship with Sainsbury's in the UK to provide joint fuel and convenience retailing at 100 Shell sites. In Australia, we reached an agreement with retailer Coles Myer to operate Shell retail sites across the country providing improved service and choice for customers. Under our differentiated fuels strategy, premium fuels continued to be launched in key markets, including V-Power in Germany. In January 2004, we launched our new Global Lubricants business. Operating in more than 120 countries with an extensive network of base oils and blending plants, the business produces a large range of high-quality lubricants. These initiatives will help to improve our retail efficiency and grow higher value product sales.

We continued to actively manage our portfolio resulting in the sale of a range of assets, including several non-strategic onshore crude pipelines in the USA and the liquefied petroleum gas (LPG) business in Brazil. In 2003, we completed the sale of our interest in the Excel Paralubes base oil plant, sold a number of retail sites in Germany in order to meet the regulatory requirements for the DEA acquisition and announced the 2004 closure of the Bakersfield refinery in California. Shell Gas Italia announced the planned sale of its non-automotive LPG interests to Liquigas. We also announced our intention to sell AB Svenska Shell in Sweden. In May 2004 Motiva Enterprises LLC (Group interest 50%) completed the sale of its Delaware City refinery. In 2004 we also announced plans to restructure operations in Venezuela which will include transferring our role as wholesaler to local entrepreneurs during 2004.

Outlook and strategy

Over the past 10 years, the average annual oil demand growth has been just over one million barrels per day. We expect general global economic expansion to increase demand growth in 2004 above that level. However, much will depend on the strength of the US economic expansion and the continuation of the strong Asian economic growth, particularly China.

The high refining margins in 2003 resulted from a number of exceptional factors. We expect the level of refining margins in 2004 will ultimately depend on the pace of global economic expansion, the severity of the northern hemisphere winter, OPEC supply policy, and potential product supply disruptions as specification changes in the USA are introduced. Marketing margins will continue to be influenced by oil price volatility and exchange rates and will be subject to intense competition in the mature markets.

We will retain our focus on improving and developing products and services for our customers, including the continued development of new products such as differentiated retail fuels. Improvements to supply chain management will be one of our main priorities. We will continue to upgrade our portfolio and to strive for operational excellence across all our business assets.

Shell and Ferrari – a winning team

A successful partnership
Shell's fuel engineers work closely with Ferrari to adapt our specially developed fuels and lubricants to their constantly evolving engine specifications and the demands of the circuit.

The relationship between Shell and Ferrari goes back to the 1930s, and the current alliance with the Formula One team has been in place since 1996. This link is much more than a simple sponsorship deal; it has developed into a close technological collaboration which brings very real benefits to our customers.

Ferrari acknowledges that the high-performance advanced fuels and lubricants supplied by Shell have played a key part in its success in winning both the Drivers' and Constructors' World Championships in the past four years. The need for maximum power and performance from Ferrari's racing engines has proved a strong impetus for leading-edge technical developments.

Shell's customers then see the benefit, as the knowledge and expertise gained in the highly demanding environment of Formula One is transferred into improving the fuels that motorists can buy at the pump. These fuels offer both improved performance and lower emissions.

Both Shell Optimax and Shell V-Power were produced as a direct result of the development of fuels technology for Ferrari's Formula One team. Customer research shows that this link with Ferrari is reinforcing the strength of the Shell brand by demonstrating to drivers, in a very powerful way, that Shell products deliver both quality and superior performance.

Chemicals

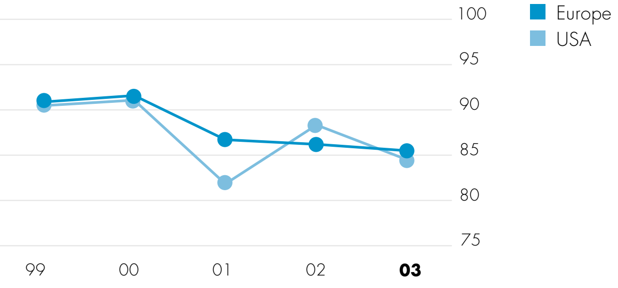
Our Chemicals business produces and sells petrochemicals including polyolefins to industrial customers globally. Chemicals' products are widely used in plastics, coatings and detergents, which in turn are used in products such as fibres and textiles, thermal and electrical insulation, medical equipment and sterile supplies, computers, lighter and more efficient vehicles, paints and biodegradable detergents.

Earnings			$ million
	2003	2002 As restated	2001 As restated
Net proceeds (including inter-segment sales)	**20,817**	15,207	14,250
Purchases (including change in inventories)	**(16,952)**	(12,035)	(11,041)
Depreciation	**(678)**	(401)	(404)
Other cost of sales	**(2,234)**	(1,518)	(1,866)
Operating expenses	**(1,065)**	(815)	(973)
Operating profit of Group companies	**(112)**	438	(34)
Group share of operating profit of associated companies	**(165)**	213	(27)
Operating profit	**(277)**	651	(61)
Other income/(expense)	**(43)**	(13)	(4)
Taxation	**111**	(73)	192
Segment earnings	**(209)**	565	127

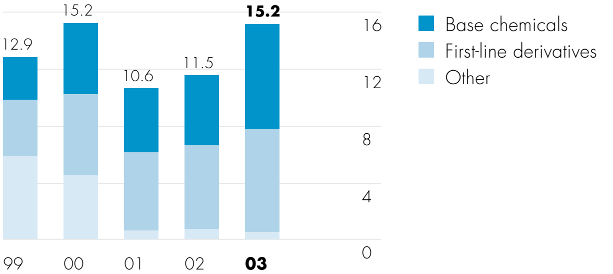
Earnings

Segment earnings showed a loss of $209 million compared with a profit of $565 million in 2002. These results include charges for asset impairments and restructuring in Polyolefins (Basell $286 million), recorded within Group share of operating profit of associated companies, and in Catalysts ($128 million) and other asset impairment charges ($64 million). There was also a net charge of $71 million relating to environmental and litigation provisions and a loss on the sale of a minority interest in a divested business, which was partly offset by various tax credits.

Industry operating rates
%

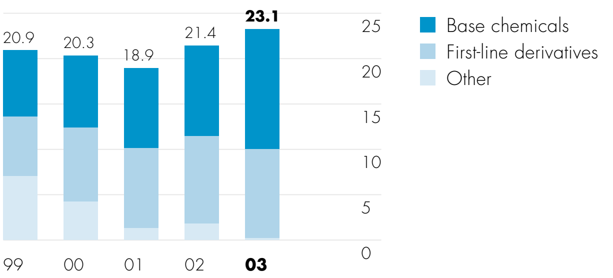


Chemical sales net proceeds[a]
$ billion



a Excluding proceeds from chemical feedstock trading.

Chemical sales volumes[b]
million tonnes



b Excluding volumes from chemical feedstock trading and non-chemical by-products.

Nanhai construction
Construction has begun at the Nanhai petrochemicals complex in Guangdong, China.

At its peak around 20,000 people will be working on the plant's construction.

Nanhai will produce 2.3 million tonnes of petrochemicals per annum.

The impairments reflect changes in the assessment of future returns relative to the value of our assets. The impairment of our equity investment in the Basell joint venture reflected a reassessment of the outlook for the business. The factors contributing to this reassessment were the continued vulnerability of the business to weak economic conditions and anticipated changes in the industry and competitive landscape. In Catalysts, we streamlined the business portfolio to focus on high-performance catalysts and took an asset impairment in CS Metals, as anticipated benefits from a prototype technology did not meet performance expectations.

Earnings for 2002 included $62 million of charges for asset rationalisation, mainly related to plant closures. Earnings benefited from a tax credit of $102 million associated with the reassessment of the Group's ability to utilise prior year tax losses upon the formation of Shell Chemicals Europe B.V.

Setting aside the effects of the factors described above, earnings in 2003 were $185 million lower. Sales volumes, including traded products, increased by 19% from a year ago benefiting from capacity additions and volumes from new units. However, there was a decline in overall Chemicals unit margins (defined as proceeds less cost of feedstock energy and distribution per tonne of product sold). This was due to high and volatile feedstock and energy costs and surplus capacity, particularly in the USA. Fixed costs were higher, reflecting planned increases in capacity and higher than normal asset maintenance activity, project expenses, increased costs for benefits including pensions, as well as the adverse impact of the weaker US dollar.

Meeting petrochemicals demand in China

Nanhai construction
A goal of maximising Chinese involvement in the construction of the complex means that, where appropriate, purchase orders are placed with Chinese contractors and suppliers.

In 2003 construction began at the Nanhai petrochemicals plant in Daya Bay, Guangdong, China, with first production expected at the end of 2005. The $4.3 billion project, in which we have a 50% shareholding, represents the biggest ever single investment made by Chemicals.

Nanhai will be an integrated chemicals complex producing a range of products including ethylene, propylene and styrene which will be sold mainly in the growing Chinese market. These products will then be used in the manufacture of plastics and textiles for which demand is growing rapidly.

The Nanhai project has been developed in accordance with the Group's sustainable development principles to ensure that it has a positive impact on the local economy and that the interests of local communities are protected. Equally, the advanced technology used in the project will ensure that international environmental standards are met.

Capital investment and portfolio actions

Capital investment in 2003 was $587 million compared with $839 million in 2002. In 2003 we further strengthened our portfolio through new investments, upgrading existing facilities and the restructuring and closure of a number of assets.

Investment was primarily in ongoing projects, including those related to regulatory compliance, maintenance and upgrading of existing facilities. There was also investment to finance the ongoing construction of the Nanhai petrochemicals complex in China. Initial milestones were met with the completion of project financing and the start of construction of the Nanhai plant. The new polymer polyols plant at Pernis in the Netherlands marked the latest step in a long-term strategy to strengthen our position as a supplier to manufacturers of polyurethane foams. In the Gulf Coast region of the USA, we completed a project to improve the quality of heavy olefin feed. The joint venture butadiene extraction plant in Texas started production in the first quarter of 2004.

We invested to upgrade and improve existing plants to ensure their ongoing efficiency and competitiveness. We made significant progress in improving and expanding cracker capacity in Texas, which became operational at the end of the first quarter of 2004. Improvements include upgrading existing equipment with new control systems and nitrogen oxide reduction technology. We also began work to upgrade the Aubette steam cracker at the Berre complex in the south of France. This upgrade will improve integration with the adjacent refinery as well as make it possible to reduce sulphur dioxide emissions by 25% versus the 2000 level.

New polymer polyols plant at Pernis

The new polymer polyols plant
The new 50,000 tonnes per year plant marks the latest step in a 10-year global growth strategy for propylene oxide and its derivatives.

The opening of the new polymer polyols plant at Pernis in the Netherlands further strengthens our position as a leading global supplier of polyols. The addition of this capacity at Pernis increases our polyols production to 400,000 tonnes per year. Polymer polyols are an important component of polyurethane foams which are used in furniture, bedding and the automotive industry.

New technology in the plant means that the polyols can be produced to specific customer requirements and meet the growing demand for firmer, lightweight, and more durable flexible foams, which enable our customers to make more comfortable car seats, sofas or mattresses.

The highly-automated plant is very energy efficient and will reduce greenhouse gas emissions by nearly two-thirds compared with the previous facility. The use of an inline blending system means that the blended product can be loaded directly into tankers for delivery to customers. This improves the consistency and performance of the final products.

We continued to actively manage our portfolio with ongoing reviews of plant viability and the closure or mothballing of under-performing assets. Operations ceased at the Bayer-Shell Isocyanates joint venture. The charges associated with closures and the asset restructurings and impairments described above adversely impacted our current year earnings but the overall effect on returns over time is expected to be positive.

Outlook and strategy

The short-term outlook for the chemicals industry is uncertain, with continued high and volatile feedstock costs and unpredictable recovery in demand in key markets. Sustained profitability will depend on an improvement in industry operating rates as a result of demand growth reducing surplus capacity. Asia Pacific remains the main source of expected growth. The principal medium-term risks facing the Chemicals business are associated with industrial production growth in relation to capacity levels and operating rates, as well as the volatility of feedstock costs.

Over the medium term we aim to be among the best performers in petrochemicals, in line with the industry's top quartile performers. We will focus on crackers and first-line derivatives, delivering bulk petrochemicals to large industrial customers. The key strategic actions that we believe will help us to achieve those aims and partially mitigate medium-term risks are to focus on upgrading our portfolio and further streamlining global processes. Capital investment will be centred on our US crackers and on the successful start up of the Nanhai petrochemicals complex. Further standardisation of our business processes is expected to bring improvements in cost-effectiveness and in the way we respond to our customers.

Other industry segments

Karen de Segundo
Chief Executive Renewables

Other industry segments include Renewables, Shell Consumer and Shell Hydrogen. Renewables works to develop significant commercially viable businesses based on renewable sources of energy, including wind and solar power. Shell Consumer has a mandate to build a new income stream in a way that supports the Group's established businesses, delivering a range of products and services to individual consumers. Shell Hydrogen works to develop business opportunities in hydrogen and fuel cell technology.

Earnings			$ million
	2003	2002	2001
Segment earnings	**(267)**	(110)	(287)

Segment earnings for 2003 showed a loss of $267 million compared with a $110 million loss in 2002. These results include the effect of a Shell Solar goodwill impairment of $127 million, taken following an extensive review to assess the value of the business. While Shell maintains its view on the long-term potential of solar energy as one of the more promising technologies in the field of renewable energy, in 2003 the industry faced persistent production overcapacity, strong competition and uncertain market circumstances. The remaining losses were realised across all business lines in the segment and reflected the current year operating results of developing future business opportunities.

The sale of the main forestry operations was completed in 2003. Certain support services were transferred from Other industry segments to Corporate with effect from 2003.

With increased political and consumer support, growth in wind energy and solar power is expected to continue at more than 20% a year.

Expanding wind power in the USA

Turbine assembly
Commercial operations began at Brazos at the end of December.

The Brazos wind park in Texas represents a significant development in the successful growth of the Group's WindEnergy business. This joint venture will provide 160MW of power, enough to supply electricity to 30,000 homes. The park consists of 160 turbines, each of which is almost 70 metres tall and weighs more than 170 tonnes.

A key feature of this project has been the speed with which it has been developed. The time taken from the announcement of its construction to operation was just over five months. This was achieved through the combination of effective project management and a supportive regulatory and planning process.

Renewables

CEO: Karen de Segundo

The year saw a number of important technological developments in our solar business. At Gelsenkirchen in Germany, we opened a second photovoltaic cell manufacturing line with a capacity to produce six million cells a year. New technology has brought improvements in the efficiency of these cells helping to drive down costs and increase the competitiveness of solar energy. We made further progress in developing and supplying thin film technology which provides improved efficiency under cloudy conditions and will ultimately be more cost-effective. We also continued to develop our rural solar operations. This included a contract agreed to supply solar powered electricity to 26 remote villages in China and the installation of the 20,000th solar system in Sri Lanka.

Our WindEnergy business continued to grow with the construction of two new wind parks in Colorado and Texas. The park at Colorado Green will supply power to 52,000 households and is our largest wind installation so far. When combined with the Brazos wind park, Texas, this more than doubles our wind capacity in the USA to 550MW.

Shell Consumer

CEO: Charles Harrison

From its start in 2001, Shell Consumer has built a portfolio of products and services ranging from gas and electricity to credit cards. The business has nearly one and a half million customers in markets across the world. In the home energy sector 70,000 gas customers were acquired in Ohio at the end of 2003, meaning the business now provides gas and electricity to more than 500,000 customers in Norway, the Netherlands and the USA. During the year the car servicing business continued to grow and now has 300 sites in six countries.

The launch of Shell Drive in Düsseldorf in Germany is an example of an entry into an exciting and innovative new business. Shell Drive offers urban residents, who are occasional car drivers, easy and convenient access to a vehicle. Cars are booked over the telephone or internet and are rented by the hour, day or week. They can then be picked up at a convenient location using a card access. The response so far from customers has been very positive with take-up ahead of target.

Colorado Green wind park
The project consists of 108 turbines, each of which is 80 metres tall, with rotor blades of 70.5 metres in diameter.

Corporate

Shell Hydrogen

CEO: Jeremy Bentham

In 2003 Shell Hydrogen participated in a number of government supported refuelling projects for hydrogen-powered vehicles that have been demonstrating their attractive performance characteristics in everyday traffic conditions. This included refuelling stations at bus depots in Amsterdam and Luxembourg and a liquid hydrogen refuelling station in Tokyo.

The first fully Shell-branded hydrogen station was opened in Iceland. This currently supplies a small fleet of public buses, but if the trial proves successful, private hydrogen vehicles could be introduced to meet the Icelandic Government's aim of eventually replacing all fossil fuels with hydrogen.

We continue to work with governments and a range of leading business partners to develop hydrogen as an attractive and commercially viable fuel. We are building a distinctive portfolio of operational, technical and commercial knowledge to grow significant shareholder value as the markets for hydrogen fuel develop over the coming years.

Corporate is a non-operating segment consisting primarily of interest expense on Group debt and certain other non-allocated costs of the Group.

Earnings			$ million
	2003	2002	2001
Segment earnings	**(917)**	(751)	(320)

The loss of $917 million in 2003 compares with a loss of $751 million in 2002. This increase was due to higher net difference in exchange effects on financing arrangements and increased interest charges due to higher average debt, partly offset by net tax credits.

Moving to a hydrogen economy

Hydrogen bus in Reykjavik, Iceland
Refuelling at the first Shell-branded hydrogen station.

The Icelandic Government has set out an aim of moving to a hydrogen-based economy by 2050 and has embarked on a project to research and develop the steps which will be needed to achieve this end. At the heart of this project is the first Shell-branded hydrogen station in Reykjavik which will supply three DaimlerChrysler fuel cell buses. If the bus trial is successful, it will be extended across the city's bus fleet and could lead to the eventual introduction of hydrogen-powered private vehicles.

One of the key features of the Icelandic project is that the hydrogen is produced by electrolysing water using electricity generated from renewable energy, producing almost zero carbon dioxide. This environmental advantage, alongside the active support of the government and the public, makes Iceland an ideal location to test and develop the feasibility of a move to a hydrogen economy and to provide lessons for hydrogen development in the rest of the world.

Liquidity and capital resources

Statement of Cash Flows

Cash flow provided by operating activities reached a record level of $21.7 billion in 2003 compared with $16.3 billion in 2002. Net income increased to $12.5 billion in 2003 from $9.7 billion in 2002, reflecting higher realised prices in Exploration and Production. Additionally, $4.5 billion of cash flows were realised in 2003 through sales of assets (2002: $1.6 billion). Cash flow in 2003 has mainly been deployed for capital expenditures ($12.3 billion), debt repayment ($4.7 billion) and dividends paid to Parent Companies ($6.2 billion). In preference to paying additional dividends to the Parent Companies to fund share buybacks, the Group strengthened its balance sheet by repaying debt and buying out certain minority interests. Royal Dutch and Shell Transport paid dividends to their shareholders totalling $6.4 billion (2002: $5.5 billion; 2001: $5.1 billion).

Within cash flow used in investing activities ($8.3 billion), capital expenditure, acquisitions and new investments in associated companies decreased from $22.3 billion to $13.2 billion. The purchases in 2002 of Enterprise Oil, Pennzoil-Quaker State and Equilon increased the 2002 figure by $8.9 billion. The lower total cash used in investing activities also reflects an increase of $2.9 billion in proceeds from sales of assets, including the Group's interest in Ruhrgas, to $4.5 billion.

Outlook

Key drivers for cash flow provided by operating activities are crude oil and gas prices, production levels, global refining and marketing margins and, in the longer-term, reserve replacement. The combination of acquisitions and divestments as part of strengthening the total portfolio also drive changes in cash flow provided by operating activities.

The impact of crude oil and natural gas production on cash flow provided by operating activities is highly dependent on crude oil and natural gas prices.

The Group will need to find and develop new fields, and continue to develop and apply new technologies and recovery processes to existing fields, in order to maintain or increase production and, as a result, cash flow provided by operating activities in future periods. Field decline rates vary by individual field and the overall decline rate for a geographical area depends on the type of reservoir and age of the fields in a region. The Group strives to offset the effects of field decline through these measures and anticipates similar results in the future. Projects are in place or under way to increase reserve replacements. However, these volume increases are subject to a variety of risks including project execution, operational outages, reservoir performance and regulatory changes.

The Group has a diverse portfolio of development projects and exploration opportunities which helps mitigate the overall political and technical risks of Exploration and Production and the associated cash flow provided by operating activities. As a result of its financial strength and debt capacity, the risk associated with failure or delay of any single project would not have a significant impact on the Group's liquidity or ability to generate sufficient cash flows for operations and fixed commitments.

As a result of the Reserves Restatement announced in 2004, the reserves replacement ratio has been negatively affected. The impact of potentially reduced production on future cash flows from operations will depend on crude oil prices and costs of future production.

Earnings and cash flows remain subject to the effects of volatility in crude oil and gas prices that could result in reported levels of production, sales and cash flows not being indicative of expected cash flow for the next two years. However, there is no indication that this is the case presently.

The Group manages its portfolio of businesses to balance cash flows over time at conservative price conditions. Over the past 20 years the Brent oil price has averaged over $20 a barrel, and over the last three years has averaged almost $26 a barrel. The Group's policy is to take investment and portfolio decisions based on a conservative assessment of future prices over the long term.

It is the Group's intention to continue to divest assets as part of active portfolio management. Divestments are anticipated to be in excess of $2 billion in 2004. This will depend on market opportunities and therefore, not all of the related assets have yet been recorded as held for sale as of December 31, 2003.

Financial condition and liquidity

Cash and cash equivalents amounted to $2.0 billion at the end of 2003 (2002: $1.6 billion). Total short and long-term debt was little changed between 2002 and 2003, but this reflected a net repayment of $4.7 billion, offset by the recognition of certain long-term obligations (including tolling agreements) as on-balance sheet debt in 2003 and the $1.8 billion impact of exchange rate fluctuations on non-US dollar-denominated debt. Long-term debt maturing during 2004 is $1.8 billion, while commercial paper borrowings totalled $6.3 billion at the end of 2003.

The Group maintains $2.5 billion of committed bank facilities, as well as internally-available liquidity (some $1 billion), to provide back-up coverage of commercial paper maturing within 30 days. The maturity profile of the Group's outstanding commercial paper is actively managed to ensure that the amount of commercial paper maturing within 30 days remains consistent with the level of supporting liquidity. The committed facilities, which are with a number of international banks, are renewed on an annual basis. The Group expects to be able to renew these facilities on commercially acceptable terms. The Group expects that commercial paper borrowings in 2004 could range up to $8.0 billion.

A debt covenant (interest cover ratio) on $1.3 billion of non-recourse debt owed by a Group company (interest 64%) was breached in 2001. This breach is continuing and the company is in default on the full principal balance of $1.3 billion. As this debt is non-recourse, the breach has had no impact on the Group's other borrowing arrangements.

Total debt at the end of 2003 amounted to $20.1 billion and the Group's total debt ratio decreased from 23.5% in 2002 to 20.9% in 2003. The level of the debt ratio remains in accordance with the medium-term gearing philosophy of the Group, which establishes a target gearing of between 20% and 30% inclusive of certain off-balance sheet obligations of a financing nature. The total debt outstanding (excluding capital leases) at December 31, 2003 will mature as follows: 56% in 2004, 6% in 2005, 8% in 2006, 11% in 2007 and 19% in 2008 and beyond.

Credit ratings

On April 19, 2004, Standard & Poor's Ratings Services (S&P) downgraded to "AA+" from "AAA" its long-term ratings on the Royal Dutch/Shell Group of Companies (through a downgrade of the Group Holding Companies, Shell Petroleum N.V. and The Shell Petroleum Co. Ltd and their subsidiary Shell Oil Co.). On April 21, 2004 Moody's Investors Services (Moody's) downgraded the long-term debt ratings of Shell Finance (Netherlands) B.V. and Shell Finance (U.K.) PLC, the guaranteed subsidiaries of the Group Holding Companies to "Aa1" from "Aaa". These new ratings remain under review for possible further downgrade. The credit ratings given to the commercial paper programmes of the guaranteed subsidiaries have been confirmed by S&P and Moody's at their original levels of "A-1+" and "Prime-1", respectively.

The Group, having locked in long-term debt for periods of up to five years, will notice an increase in its funding cost only as the debt matures and is replaced with new issues. The average maturity profile is approximately two and a half years. If the $5 billion long-term debt borrowed under the borrowing programmes to which the ratings apply is fully refinanced, our annual pre-tax borrowing cost is expected to increase by approximately $5 million. In light of the unchanged short-term credit ratings, it is expected that there will be no impact on the cost of commercial paper borrowing.

Capital investment and dividends

Group companies' capital expenditure, exploration expense, new investments in associated companies and other investments decreased by $10.3 billion to $14.3 billion in 2003, mainly reflecting the high level of acquisition expenditures in 2002. Exploration and Production expenditures of $9.2 billion (2002: $14.1 billion) accounted for more than half this total. Gas & Power accounted for $1.5 billion (2002: $0.7 billion). Oil Products investment amounted to $2.4 billion (2002: $7.9 billion). Chemicals investment was $0.6 billion (2002: $0.8 billion). Investment in Other industry segments was $0.2 billion (2002: $0.4 billion).

A Group share of capital investment of around $13 billion is required on average each year to grow the capital base, taking into account an expected $2 billion of divestments each year. After dividends and capital investment, the priority for use of cash generated is the maintenance of a prudent balance sheet, most likely through debt reduction. Both the medium and long-term focus will remain on improvement of underlying operational performance in order to continue to deliver consistently strong cash flows.

Group share of capital investment in 2004 is estimated to be in the range of $14.5 billion to $15 billion, with Exploration and Production continuing to account for the majority of this amount. The Parent Companies have decided to implement a share buyback programme of approximately $2 billion for the year 2004, including the purchase of shares for hedging of employee stock options. It is expected that the Group companies' investment programme will be financed largely from internally generated funds.

The aim of the Royal Dutch/Shell Group of Companies is to provide per share increase in dividends at least in line with inflation of the currencies of the Parent Companies' base countries over a period of years. The US dollar dividend amount is based on exchange rates between the euro, sterling and the dollar.

Contractual obligations

The table below summarises Group companies' principal contractual obligations at December 31, 2003, by expected settlement period. The amounts presented have not been offset by any committed third party revenues in relation to these obligations.

					$ billion
	Total	Within 1 year (2004)	2–3 years (2005/ 2006)	4–5 years (2007/ 2008)	After 5 years (beyond 2008)
Long-term debt	**10.3**	1.8	2.7	2.6	3.2
Capital leases	**1.1**	0.1	0.2	0.1	0.7
Operating leases	**10.0**	1.8	2.1	1.4	4.7
Purchase obligations[a]	**131.1**	46.3	26.1	18.5	40.2
Other long-term contractual liabilities	**0.8**	0.2	0.3	0.1	0.2
Total	**153.3**	50.2	31.4	22.7	49.0

a Raw material and finished products account for 86% of total purchase obligations.

In addition to the amounts presented in the above table, contributions to defined benefit pension plans during 2004 are estimated to be $1.3 billion.

Guarantees

Guarantees at December 31, 2003 were $3.4 billion (2002: $4.1 billion). At December 31, 2003, $1.8 billion were guarantees of debt of associated companies, $0.7 billion were guarantees for customs duties and other tax liabilities and $0.9 billion were other guarantees. Guarantees of debt of associated companies mainly related to InterGen ($1.2 billion) and Nanhai ($0.4 billion).

Other matters

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

The Group's approach to internal control 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 established 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.

Examples of specific risk management mechanisms include:
– regular review of significant risks by the Committee of Managing Directors and the Conference (meetings between the members of the Supervisory Board and the Board of Management of Royal Dutch and the Directors of Shell Transport);
– a common health, safety and environment (HSE) policy, a common requirement for HSE management systems, and external certification of the environmental component of such systems for major installations;
– a financial control handbook that establishes standards for the application of internal financial controls;
– arrangements for the management of property, liability and treasury risks (described on page 43); and
– a business control incident reporting process that enables monitoring and appropriate follow-up actions for incidents arising as a result of control breakdowns. Lessons learned from these incidents are used to improve the Group's overall control framework.

A formalised self-appraisal and assurance letter process is in place. Annually the management of every business unit provides assurance as to the adequacy of governance arrangements, risk and internal control management, HSE management, financial controls and reporting, treasury management, brand management and information management. Country Chairs also provide assurance regarding compliance with the Statement of General Business Principles and other important topics; as part of this process business integrity concerns or instances of bribery or illegal payments are to be reported. Assurance letter results including any material qualifications are reviewed by the Group Audit Committee and support representations made to the external auditors.

In addition to these structured self-appraisals, the assurance framework relies upon objective appraisals by internal audit. The results of internal audit's risk-based reviews of Group operations provide the Group Audit Committee with an independent view regarding the effectiveness of risk and control management systems.

These established review, reporting and assurance processes enable the Conference to regularly consider the overall effectiveness of the system of internal control and to perform a full annual review of the system's effectiveness.

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.

Evaluation of controls and procedures over reserves bookings
This section describes the results of investigations and evaluations in relation to controls and procedures undertaken in 2004 following the announcement of the reserves recategorisation as well as remedial actions being undertaken or proposed to be undertaken to address identified issues.

Investigation and report to the Group Audit Committee; management changes

Following the January 9, 2004 announcement of the reserves recategorisation, the Group Audit Committee (GAC) appointed Davis Polk & Wardwell to lead an independent review of the facts and circumstances surrounding the recategorisation, and to report its findings and any proposed remedial actions to the GAC for its consideration. That report, dated March 31, 2004, was presented to the GAC and subsequently to the Supervisory Board of Royal Dutch and non-executive Directors of Shell Transport. The 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.

Following an interim report to the GAC dated March 1, 2004, which was presented to the Parent Company Boards on March 2, 2004, Sir Philip Watts, Chairman of the Committee of Managing Directors and Walter van de Vijver, Chief Executive of Exploration and Production, submitted their resignations on March 3, 2004 from all director and officer positions within the Group and the Parent Companies. Following acceptance of the final report to the GAC by the members of the Supervisory Board of Royal Dutch and the non-executive Directors of Shell Transport, Judith Boynton resigned from her position as Group Chief Financial Officer, Group Managing Director and Executive Director of Shell Transport on April 18, 2004.

Jeroen van der Veer, President and Managing Director of Royal Dutch, succeeded Sir Philip Watts as Chairman of the Group's Committee of Managing Directors; Lord Oxburgh has been appointed non-Executive Chairman of Shell Transport and Chairman of Conference; and Malcolm Brinded has been appointed Chief Executive of Exploration and Production, a Managing Director of Shell Transport and Vice-Chairman of the Committee of Managing Directors. Malcolm Brinded resigned from his position as a Managing Director of Royal Dutch and has been appointed as a Managing Director of Shell Transport; he remains Chief Executive of Gas & Power. Tim Morrison, currently Group Controller, has also been appointed Acting Chief Financial Officer.

Deficiencies relating to reserves reporting

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. To eliminate the effects on the Financial Statements of the inappropriate reserves bookings, Royal Dutch and Shell Transport elected to restate the Financial Statements for the years covered by the 2002 Annual Report on Form 20-F. The identified deficiencies and material weaknesses relating to the booking of proved reserves consist of the following:

– the Group's guidelines for booking proved reserves were inadequate in several respects, including (i) containing inconsistencies with the SEC's rules and published guidance relating to proved reserves and (ii) failing to clearly and sufficiently impart these requirements and guidance to users of the guidelines;
– there was a lack of appropriate resources and a confusion of roles and responsibilities with respect to the Group Reserves Co-ordinator and the Group Reserves Auditor;
– the Group's Committee of Managing Directors and the Parent Company Boards were not provided with appropriate information to form disclosure judgments;
– there were weaknesses in the finance function as the Chief Financial Officers of the businesses did not have direct reporting responsibility to the Group Chief Financial Officer;
– there were unclear lines of responsibility for booking proved reserves;
– there was a lack of understanding at various levels of the Group of the meaning and importance of disclosure obligations under the SEC's rules and published guidance relating to proved reserves; and
– there was a control environment that did not emphasise the paramount importance of the compliance element of proved reserves decisions.

Remedial actions

To address the weaknesses in the controls relating to reserves bookings identified above, the Parent Companies and the Group have implemented a number of remedial actions. Beginning in March 2004, the Group conducted an extensive special review of the global reserves portfolio with the assistance of external reserve consultants, Ryder Scott Company (see Supplementary information – Oil and Gas (unaudited) on pages 85 to 95). The Parent Companies and the Group have also effected the management changes described above under "Investigation and report to Group Audit Committee; management changes". In addition, as discussed in the report to the GAC, the following remedial actions have also been taken or are proposed to be taken:

- **Global Reserves Committee.** In 2003, the Group established the Global Exploration and Production Reserves Committee (the Reserves Committee) in order to improve consistency of standards and their application across the Group's operations globally and strengthen the oversight of the process for approving the booking of proved reserves.
- **Group reserves guidelines.** The Group's guidelines for booking proved reserves are being revised with the assistance of independent petroleum engineers and counsel to ensure that these guidelines conform fully with the applicable SEC rules and guidance, to clarify the criteria for booking and debooking of proved reserves (and the distinctions between regulatory requirements and the Group's internal reserves classifications) and to improve their utility for all users. It is expected that future revisions of the guidelines will occur only as necessary and as early as possible in the year to allow engineers to understand the implications well in advance of the submission of reserves volumes at year-end.
- **Overhaul of the office of Group Reserves Co-ordinator.** Given the technical and compliance elements of reserves determinations, the Group Reserves Co-ordinator will no longer report to business planning or strategy executives in Exploration and Production but rather to the Director of Technology. More staff will be employed to resource the vital function of the Office of the Group Reserves Co-ordinator, who will also regularly use independent external petroleum engineers to complement in-house expertise, including for the training of engineers in the field. The Group Reserves Co-ordinator will be responsible for the revision and ongoing maintenance and application of the Group's guidelines, and as such will be responsible for identifying and resolving difficult areas of interpretation with the Reserves Committee and the Group Reserves Auditor as well as for identifying training needs and facilitating training sessions from both a technical and regulatory perspective. The Group Reserves Co-ordinator will also have an obligation to liaise with internal legal staff on disclosure judgments on the basis of technical compliance and/or materiality.
- **Overhaul of the office of Group Reserves Auditor.** More staff will also be dedicated to the Group Reserves Auditor function so that the audit cycle of the Group's reserves can be made more frequent and each audit can be made more rigorous. The Group Reserves Auditor and his or her staff will now report to the Group Chief Internal Auditor to increase the independence of the Group Reserves Auditor function. The Group Reserves Auditor will also regularly use independent external petroleum engineers to complement and develop in-house expertise.
- **Clarification of roles and responsibilities of the Group Reserves Auditor and the Group Reserves Co-ordinator.** The roles of the Group Reserves Auditor and Group Reserves Co-ordinator have been redefined to make clear that they must retain a respectful separation and independence so as to allow the Group Reserves Auditor to challenge the Group Reserves Co-ordinator and Exploration and Production reserve booking decisions more effectively as part of the Group internal audit function.
- **Removal of Reserves from scorecards.** Reserves bookings have been removed from performance scorecards (used internally to gauge the performance of the Group's businesses against identified goals for purposes of management evaluation and for calculating management bonuses) of individuals associated with the reserves assurance process, including senior executives.
- **Improved visibility and accounting of reserves issues by Managing Directors and members of the Supervisory Board/non-executive Directors.** The Group's Committee of Managing Directors will collectively approve the reserve bookings and debookings taken by Exploration and Production. Following this approval, a review of the overall outcome will be considered by the Group Audit Committee.

- **Enhanced accountability of Business CFOs to the Group CFO.** The Chief Financial Officers of the businesses now report directly to the Group Chief Financial Officer. This reorganisation is designed to improve the ability of the Group Chief Financial Officer to have effective oversight of financial issues relating to the business units. It will also enable the Group Chief Financial Officer, in turn, to inform colleagues and Directors of important disclosure issues, as required.
- **Strengthening of line responsibilities for reserve reporting.** The line authorities and accountabilities for reserve reporting are being reinforced as follows:
  - clarifying that the local Chief Reservoir Engineer is responsible for ensuring that reserves bookings and debookings are compliant with SEC rules and requiring that any booking and debooking decisions are only made with appropriate, auditable documentation and after completion of the appropriate challenge processes;
  - placing business and financial responsibility on the local Chief Executive Officer and Chief Financial Officer, respectively, for the decisions of their Chief Reservoir Engineer;
  - clarifying that ultimate responsibility for booking and debooking decisions rests with the Chief Financial Officer of Exploration and Production and the Director of Technology of Exploration and Production, working together with the Group Reserves Co-ordinator;
  - providing for the endorsement of these decisions by the Group's Committee of Managing Directors; and
  - finally, providing for review by the Group Audit Committee.
- **Enhancement of the legal function.** To improve the ability of the senior management to benefit from appropriate legal advice, provision has been made for the Group Legal Director to have the ability to attend meetings of the Group's Committee of Managing Directors, the Conference and the Parent Company Boards. Similarly, the General Counsel of the various businesses, who attend the executive committee meetings of those businesses, have been expressly given the task of identifying disclosure issues for consideration at a higher level. All lawyers at the Group level and the Parent Companies, including the Corporate Secretaries of the Parent Companies, now report to the Group Legal Director, except to the extent inappropriate under applicable legal and fiduciary requirements. The legal function has been given responsibility for actively identifying training needs in areas of disclosure, reporting obligations and corporate governance and devising training programmes to address those needs.
- **Enhancement of the Disclosure Committee.** The Group's existing Disclosure Committee has been enhanced to require that the Group Legal Director be a member. The Disclosure Committee has also been given quarterly access to the Group's Committee of Managing Directors to assess the adequacy of disclosures and ensure the awareness and approval of the Group's Committee of Managing Directors of those disclosures. In carrying out its responsibility to ensure accuracy, completeness and consistency with other disclosures, the Disclosure Committee will be asked to provide a second level of control over the substantive content of disclosures.
- **Reduction of job rotation.** The Group will examine the tenure of individuals in key functions. While it is important for numerous reasons to expose people to different experiences within the Group, it is accepted that the period of rotation of certain positions should be extended and, upon rotation, complete and detailed handover notes should form the basis for a formal transfer.
- **Document retention policy.** A consistent policy is being prepared to be put into place. Following completion, this policy will be widely disseminated and implemented.
- **Promoting communication and compliance.** Group-wide communications programmes are being planned in which the Group's senior management will emphasise to all employees that integrity and compliance concerns must be raised with the internal audit or legal functions, and must be investigated thoroughly and openly, regardless of who is involved. This policy will be communicated forcefully and frequently. Moreover, a working group of senior executives has been formed to evaluate ways to enhance the effectiveness of the Group's compliance efforts and to promote consistent communication of compliance requirements throughout the Group.

2004 Disclosure controls review

Subsequent to the January 9, 2004 announcement of the reserves recategorisation, and under the sponsorship of the Group Disclosure Committee, a review of the control framework in relation to corporate disclosure processes was conducted by Group internal audit. The preliminary results of this review identified areas for improvement, including with respect to strengthening and increasing the formalisation of the existing framework, consistent with a number of the remedial actions arising out of the independent review described above. The outcome of this internal review will be considered by both the Group Disclosure Committee and the Group Audit Committee, to ensure integrated implementation of agreed actions.

Property and liability risks

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

Treasury and trading risks

As further discussed in Note 28 to the Financial Statements on page 77, Group companies, in the normal course of their business, use financial instruments of various kinds for the purposes of managing exposure to currency, commodity price and interest rate movements.

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

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

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

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

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

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

Pension funds

It is expected that the actuarial valuations of the Group's four main pension funds in aggregate at the end of 2003 will show an increased surplus of assets over liabilities compared with the end of 2002, mainly resulting from the improved investment performance during 2003. These actuarial valuations, rather than the Group accounting policy FAS 87 measure (Note 20 to the Financial Statements on pages 66 to 68), are the basis on which the funds' trustees steer the funds and define the required contributions from the member companies.

Environmental and decommissioning costs

Group companies are present in over 145 countries and territories throughout the world and are subject to a number of different environmental laws, regulations and reporting requirements. It is the responsibility of each Group company to implement a health, safety and environmental management system that is suited to its particular circumstances.

The costs of prevention, control, abatement or elimination of releases into the air and water, as well as the disposal and handling of waste at operating facilities, are considered to be an ordinary part of business. As such, these amounts are included within operating expenses. An estimate of the order of magnitude of amounts incurred in 2003 for Group companies, based on allocations and managerial judgment, is $1.3 billion (2002: $1.1 billion).

Expenditures of a capital nature to limit or monitor hazardous substances or releases, include both remedial measures on existing plants and integral features of new plants. Whilst some environmental expenditures are discrete and readily identifiable, others must be reasonably estimated or allocated based on technical and financial judgments which develop over time. Consistent with the preceding, estimated environmental capital expenditures made by companies with major capital programmes during 2003 were $0.7 billion (2002: $0.8 billion). Those Group companies are expected to incur environmental capital costs of at least $0.7 billion during 2004 and $0.5 billion during 2005.

It is not possible to predict with certainty the magnitude of the effect of required investments in existing facilities on Group companies' future earnings, since this will depend amongst other things on the ability to recover the higher costs from consumers and through fiscal incentives offered by governments.

Nevertheless, it is anticipated that over time there will be no material impact on the total of Group companies' earnings. These risks are comparable to those faced by other companies in similar businesses.

At the end of 2003, the total liabilities being carried for environmental clean-up were $972 million (2002: $797 million). In 2003, there were payments of $175 million and increases in provisions of $252 million. The Group has introduced US accounting standard FAS 143 (Asset Retirement Obligations) with effect from January 1, 2003 (see Note 3 to the Group Financial Statements on page 57). The fair value of the obligations being carried for expenditures on decommissioning and site restoration, including oil and gas platforms, at December 31, 2003 amounted to $4,044 million (2002: $3,599 million using a cost-accumulation measurement approach).

Employees

There has been an overall increase in the number of employees in the Group during 2003. Increases from new operations and business expansion were partly offset by reductions arising from restructuring and the sale of businesses.

Research and development costs

The Group's research and development (R&D) programmes are designed to enable the Group to reduce costs and improve operations. Total R&D expenses for 2003 were $584 million, (2002: $472 million).

International Financial Reporting Standards

Under a 2002 EU Regulation, publicly-listed companies will be required to prepare consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) from 2005. The Group's IFRS implementation project is on target to meet this requirement. At this stage the impact cannot be determined, as there are a number of decisions and choices still to be made as a first time adopter of IFRS.

The Group expects to follow the Committee of European Securities Regulators' recommendations regarding disclosures during the period leading up to publication of the 2005 financial statements, including impact analysis in the 2004 financial statements and quarterly information in accordance with IFRS during 2005.

Cautionary statement

The Operational and Financial Review and other sections of this report contain forward-looking statements that are subject to risk factors associated with the oil, gas, power, chemicals and renewables businesses. It is believed that the expectations reflected in these statements are reasonable, but may be affected by a variety of variables which could cause actual results or trends to differ materially, including, but not limited to: price fluctuations, actual demand, currency fluctuations, drilling and production results, reserve estimates, loss of market, industry competition, environmental risks, physical risks, the risks of doing business in developing countries, legislative, fiscal and regulatory developments including potential litigation and regulatory effects arising from recategorisation of reserves, economic and financial market conditions in various countries and regions, political risks, project delay or advancement, approvals and cost estimates.

Cautionary note to US investors

The United States Securities and Exchange Commission (SEC) permits oil and gas companies, in their filings with the SEC, to disclose only proved reserves that a company has demonstrated by actual production or conclusive formation tests to be economically and legally producible under existing economic and operating conditions.

Critical accounting policies

In order to prepare Financial Statements in conformity with generally accepted accounting principles, management has to make estimates and judgments. 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 3 to the Group Financial Statements on pages 54 to 57 and in respect of Netherlands GAAP on page 80.

Estimation of oil and gas reserves

Oil and gas reserves are key elements in the Group's investment decision-making process. Oil and gas reserves are also used in determining unit-of-production depreciation charges to income and in testing for impairment.

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, ie, prices and costs as of the date the estimate is made. Proved developed reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Estimates of oil and gas reserves are inherently imprecise, require the application of judgment and are subject to future revision. Accordingly, financial measures (such as depreciation, depletion and amortisation charges and decommissioning provisions) that are based on proved reserves are also subject to change.

Proved reserves are estimated by reference to available reservoir and well information, including production and pressure trends for producing reservoirs and, in some cases, subject to definitional limits, to similar data from other producing reservoirs. Some of our Deepwater Gulf of Mexico reserves may not have had a production flow test to surface. In such situations, we have used other technologies that we believe are reliable to establish economic producibility. In general, estimates of reserves for undeveloped or partially developed fields are subject to greater uncertainty than estimates of reserves for fields that are substantially developed and depleted. Consequently, estimates of proved undeveloped reserves are more likely than estimates of proved developed reserves to be subject to future revisions once additional information becomes available through, for example, the drilling of additional wells or the observation of long-term reservoir performance under producing conditions. As at December 31, 2003, the proportion of the Group's total proved reserves that was categorised as proved developed reserves was 56%, the remaining 44% being proved undeveloped reserves. In accordance with the SEC's definition of proved reserves, revisions are more likely to be upward than downward. Proved reserves estimates are also subject to revision, both upward and downward, due to other factors such as changes in product price, costs, fiscal terms or revisions to development plans.

Proved reserves estimates are attributed only to future development projects for which there is a significant commitment to project funding and execution and for which applicable governmental and regulatory approvals have been secured or are reasonably certain to be secured. Furthermore, estimates of proved reserves only include volumes for which access to markets is assured with reasonable certainty.

As announced on January 9, 2004, March 18, 2004, and April 19, 2004, the Group has reviewed its proved reserves (with the assistance of external consultants) during the period from late 2003 to April 2004 (collectively, the Reserves Review). For additional detail, please refer to "Supplementary information – Oil and Gas (unaudited)" on pages 85 to 95 of this report.

Depreciation, depletion and amortisation

Estimates of proved reserves (as described above) are used when calculating the unit-of-production rates used in determining the depreciation, depletion and amortisation charge for fixed assets related to hydrocarbon production activities. Changes in reserve estimates or in the rate of production will therefore impact the depreciation, depletion and amortisation charge used in determining net income.

Other fixed assets with finite lives are generally depreciated on a straight-line basis over their estimated useful lives. The estimate of useful lives is based on industry practice, taking into account any specific factors relating to the asset or local conditions, such as the nature of the asset, the location of the asset, the likelihood of technological obsolescence and other environmental factors. A change in the estimated useful life of an asset would result in a change to future depreciation expense related to that asset, which would impact the determination of net income.

Exploration costs

Exploration drilling costs more than 12 months old are expensed under Group accounting policy unless (i) they are in an area requiring major capital expenditure before production can begin and (ii) they have found commercially producible quantities of reserves and (iii) they are subject to further exploration or appraisal activity in that either drilling of additional exploratory wells is under way or firmly planned for the near future. In making decisions about whether to continue to capitalise exploration costs for a period longer than 12 months, it is necessary to make judgments about the satisfaction of each of these conditions. If there is a change in one of these judgments in a subsequent period, then the related capitalised exploration costs would be expensed in that period, resulting in a charge to net income. As at December 31, 2003, the Group has $771 million of capitalised exploration costs. Write-offs of previously capitalised exploration costs in 2003 amounted to $551 million pre-tax (2002: $445 million; 2001: $404 million), including the impact of the change in treatment of exploration costs discussed in Note 2 on page 53.

Recoverability of assets

For properties with no proved reserves, the capitalisation of exploration costs and the basis for carrying those costs on the balance sheet are explained in Note 3 to the Group Financial Statements. For properties with proved reserves, the carrying amounts of major fixed assets are reviewed for possible impairment annually, while all assets are reviewed whenever events or changes in circumstances indicate that the carrying amounts for those assets may not be recoverable. If assets are determined to be impaired, the carrying amounts of those assets are written-down to fair value, usually determined as the amount of estimated discounted future cash flows. For this purpose, assets are grouped based on separately identifiable and largely independent cash flows.

Estimates of future cash flows of assets related to hydrocarbon production activities are based on management's assessment of the expected cash flows to be realised from the assets. Expectation volumes, which include both proved reserves as well as volumes that are expected to constitute proved reserves in the future, are used for testing asset recoverability because the Group believes this to be the most appropriate measure of expected future cash flows, used as a measure of fair value. These are estimated using risk assessments on field and reservoir performance and include outlooks on proved reserves and unproved volumes, utilising the results from projections of geological, production, recovery and economic factors. These estimates can be revised as a result of changes in assessments and outlook, arising perhaps from further appraisal work, additional reservoir experience or infrastructure developments.

Estimates of future cash flows are consistent with those used in Group companies' business plans. In developing their business plans, Group companies make estimates concerning future commodity prices and market supply and demand, which are subject to uncertainty. Other factors that can lead to changes in estimates include restructuring plans and variations in regulatory environments. A discount rate based on the Group's risk-free rate is used in impairment testing, adapted where required to specific local circumstances. The Group's risk-free rate has generally been stable in recent years. Changes in the discount rate can result from inflation rates, individual country risks and currency risks. The Group reviews the discount rate to be applied on an annual basis.

A downward revision in estimated future cash flows, and/or a change in the discount factor, for assets requiring an impairment calculation can result in a charge to net income and a reduction in the carrying amount of the assets. In recent years there have been significant impairment charges in 2000 ($1,785 million pre-tax) and in 2003 ($1,375 million pre-tax).

In 2000, 80% of the charges related to assets held for use. The Group's outlook for refinery margins in Asia Pacific changed, with the expectation that they would remain under pressure in the longer-term due to regional over-capacity. Refinery assets in the region were tested for recoverability as a result of this triggering event, and Rayong refinery in Thailand was found to be impaired as a result of the reduction in expected future cash flows. This accounted for most of the impairment charge of $824 million recorded in Oil Products. There were charges of $697 million in Gas & Power, mainly relating to a restructuring of the business in the USA, with certain Group assets being contributed to an associated company in exchange for an additional interest in the expanded entity. The impairment was triggered by the external valuation of these assets.

In 2003, 85% of the charges related to assets held for use. The impairments were incurred in Exploration and Production ($697 million, mainly due to lower production outlooks in the UK and South America), in Oil Products ($331 million, mainly due to the closure of the Bakersfield refinery and the impact of local economic conditions in Latin America), in Chemicals ($220 million, mainly in CS metals, as anticipated benefits from a prototype technology did not meet performance expectations) and in Renewables ($127 million for Shell Solar following an extensive review to assess the value of the business).

As described above, the Group has a portfolio of assets across a number of business lines and geographic regions. The factors that influence estimated future cash flows from assets also vary depending on the nature of the business activity in which those assets are used and the geographical market conditions impacting the businesses in which assets are used.

Provisions and liabilities

Provisions are recognised for the future decommissioning and restoration of oil and gas production facilities and pipelines at the end of their economic lives. The estimated cost is provided over the life of the proved developed reserves on a unit-of-production basis. Changes in the estimates of costs to be incurred, proved developed reserves or in the rate of production will therefore impact net income, over the economic life of oil and gas assets.

Other provisions and liabilities are recognised in the period when it becomes probable that there will be a future outflow of funds resulting from past operations or events which can be reasonably estimated. The timing of recognition requires the application of judgment to existing facts and circumstances, which can be subject to change.

Estimates of the amounts of provisions and liabilities recognised are based on current legal and constructive requirements, technology and price levels. Because actual outflows can differ from estimates due to changes in laws, regulations, public expectations, technology, prices and conditions, and can take place many years in the future, the carrying amounts of provisions and liabilities are regularly reviewed and adjusted to take account of such changes.

In general, the further in the future that a cash outflow for a liability is expected to occur, the greater the degree of uncertainty around the amount and timing of that cash outflow. Examples of cash outflows that are expected to occur a number of years in the future and, as a result, about which there is uncertainty about the amounts involved, include asset retirement obligations and employee pension obligations, as discussed below. Other examples of such items which can be very long-term in nature are provisions for environmental expenditure and for litigation.

A change in estimate of a recognised provision or liability would result in a charge or credit to net income, in the period in which the change occurs (with the exception of decommissioning and restoration costs as described above).

Employee retirement plans

Retirement plans are provided for permanent employees of all major Group companies and generally provide defined benefits based on employees' years of service and average final remuneration. The plans are typically structured as separate legal entities managed by trustees.

The amounts reported for the Group's employee retirement plans are disclosed in Note 20 to the Financial Statements on pages 66 to 68, and are calculated in line with Statement of Financial Accounting Standards No. 87 (FAS 87). These calculations require assumptions to be made of future outcomes, the principal ones being in respect of increases in remuneration and pension benefit levels, the expected long-term return on plan assets and the discount rate used to convert future cash flows to current values. The assumptions used vary for the different plans as they are determined in consultation with independent actuaries in the light of local conditions. The assumptions are reviewed annually. Expected rates of return on plan assets are calculated based on a projection of real long-term bond yields and an equity risk premium which are combined with local inflation assumptions and applied to the actual asset mix of each plan. The amount of the expected return on plan assets is calculated using the expected rate of return for the year and the market-related value at the beginning of the year. Discount rates used to calculate year-end liabilities are based on prevailing AA long-term corporate bond rates at year end. Weighted average values for the assumptions used are contained in Note 20 to the Financial Statements on pages 66 to 68, and have remained relatively constant over the last three years, with the main change being a 0.3% reduction in the discount rate in 2003 reflecting lower long-term interest rates.

Pension cost under FAS 87 primarily represents the increase in actuarial present value of the obligation for benefits based on employee service during the year and the interest on the obligation in respect of employee service in previous years, net of the expected return on plan assets. The FAS 87 calculations are sensitive to changes in the underlying assumptions. A change of one percentage point in the expected rate of return on plan assets would result in a change in pension cost charged to income of approximately $450 million (pre-tax) per annum. FAS 87 generally reduces income volatility because unexpected changes in the amounts of plan assets and liabilities (actuarial gains and losses) are amortised over the average remaining employee work life.

The trustees manage the pension funds and set the required contributions from Group companies based on independent actuarial valuation rather than the FAS 87 measures.

Report of the Independent Auditors

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

We have audited the Financial Statements appearing on pages 49 to 77 of the Royal Dutch/Shell Group of Companies for the years 2003, 2002, and 2001. The preparation of the Financial Statements is the responsibility 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 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, 2003 and 2002 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2003 in accordance with generally accepted accounting principles in the United States of America.

As discussed in Note 2 "Restatement of previously issued Financial Statements," the Group has restated its Financial Statements for the years 2002 and 2001 to correct for inappropriate departures from US GAAP.

As discussed in Note 2, the Group has restated its Financial Statements for the years 2002 and 2001 due to a change in its method of accounting for certain inventories in North America from the last-in first-out method to the first-in first-out method.

As discussed in Note 3: the Group adopted the provisions of Statement of Financial Accounting Standards No. 143 "Accounting for Asset Retirement Obligations" as of January 1, 2003; the Group adopted the provisions of Financial Accounting Standards Board Interpretation No. 46 "Consolidation of Variable Interest Entities – an interpretation of ARB 51" as of September 30, 2003.

KPMG Accountants N.V
The Hague

PricewaterhouseCoopers LLP
London
May 22, 2004

Financial Statements

Statement of Income				$ million
	Note	**2003**	2002 As restated	2001 As restated
Sales proceeds[a]		**268,892**	222,768	167,431
Sales taxes, excise duties and similar levies		**67,164**	56,167	42,070
Net proceeds[a]		**201,728**	166,601	125,361
Cost of sales[a]		**167,500**	137,997	98,381
Gross profit		**34,228**	28,604	26,980
Selling and distribution expenses		**11,941**	9,954	7,898
Administrative expenses		**1,903**	1,601	1,244
Exploration		**1,476**	1,073	910
Research and development		**584**	472	387
Operating profit of Group companies		**18,324**	15,504	16,541
Share of operating profit of associated companies	6	**3,484**	2,822	2,646
Operating profit		**21,808**	18,326	19,187
Interest and other income	7	**1,973**	758	1,059
Interest expense	8	**1,381**	1,364	1,133
Currency exchange gains/(losses)		**(222)**	(23)	(30)
Income before taxation		**22,178**	17,697	19,083
Taxation	9	**9,572**	7,796	8,404
Income after taxation		**12,606**	9,901	10,679
Income applicable to minority interests		**365**	179	329
Income before cumulative effect of a change in accounting principle		**12,241**	9,722	10,350
Cumulative effect of a change in accounting principle, net of tax	3	**255**	–	–
Net income		**12,496**	9,722	10,350

Statement of Comprehensive Income and Parent Companies' interest in Group net assets				$ million
	Note	**2003**	2002 As restated	2001 As restated
Net income		**12,496**	9,722	10,350
Other comprehensive income, net of tax:	5			
currency translation differences	19	**5,102**	2,432	(1,686)
unrealised gains/(losses) on securities		**689**	25	(143)
unrealised gains/(losses) on cash flow hedges		**51**	(225)	(14)
minimum pension liability adjustments		**358**	(1,475)	(127)
Comprehensive income		**18,696**	10,479	8,380
Distributions to Parent Companies		**(5,660)**	(5,435)	(9,163)
Increase in Parent Companies' shares held, net of dividends received	22	**(631)**	(844)	(642)
Loss on sale of Parent Companies' shares		**(1)**	–	–
Parent Companies' interest in Group net assets at January 1		**60,444**	56,244	57,669
Parent Companies' interest in Group net assets at December 31	4	**72,848**	60,444	56,244

a Certain prior period amounts have been reclassified, resulting in a reduction in sales proceeds and a corresponding reduction in cost of sales, following the implementation of US accounting guidance EITF Issue No. 02–03, see Note 3.

The Notes on pages 52 to 77 are an integral part of these statements.

Statement of Assets and Liabilities

	Note	Dec 31, 2003	Dec 31, 2002 As restated
			$ million
Fixed assets			
Tangible assets	10	**87,701**	78,687
Intangible assets	10	**4,735**	4,696
Investments:			
associated companies	6	**19,384**	17,948
securities	14	**2,317**	1,719
other		**1,086**	1,420
Total fixed assets		**115,223**	104,470
Other long-term assets	11	**9,257**	7,333
Current assets			
Inventories	12	**12,690**	11,338
Accounts receivable	13	**28,969**	28,761
Cash and cash equivalents	14	**1,952**	1,556
Total current assets		**43,611**	41,655
Current liabilities: amounts due within one year			
Short-term debt	15	**11,027**	12,874
Accounts payable and accrued liabilities	17	**32,347**	32,189
Taxes payable	9	**5,927**	4,985
Dividends payable to Parent Companies		**5,123**	5,153
Total current liabilities		**54,424**	55,201
Net current assets/(liabilities)		**(10,813)**	(13,546)
Total assets less current liabilities		**113,667**	98,257
Long-term liabilities: amounts due after more than one year			
Long-term debt	15	**9,100**	6,817
Other	18	**6,054**	6,174
		15,154	12,991
Provisions			
Deferred taxation	9	**13,355**	12,696
Pensions and similar obligations	20	**4,927**	5,016
Decommissioning and restoration costs	23	**3,955**	3,528
		22,237	21,240
Group net assets before minority interests		**76,276**	64,026
Minority interests		**3,428**	3,582
Net assets		**72,848**	60,444

The Notes on pages 52 to 77 are an integral part of these statements.

Statement of Cash Flows (see Note 19)

	Note	2003	2002 As restated	2001 As restated
				$ million
Cash flow provided by operating activities				
Net income		**12,496**	9,722	10,350
Adjustments to reconcile net income to cash flow provided by operating activities				
Depreciation, depletion and amortisation	10	**11,422**	8,621	6,201
Profit on sale of assets		**(2,141)**	(367)	(133)
Movements in:				
inventories		**(236)**	(2,079)	1,375
accounts receivable		**1,834**	(5,830)	8,518
accounts payable and accrued liabilities		**(212)**	6,989	(7,785)
taxes payable		**(218)**	(735)	(1,443)
Associated companies: dividends more/(less) than net income	6	**501**	115	666
Deferred taxation and other provisions		**(504)**	473	(165)
Long-term liabilities and other		**(1,588)**	(805)	(1,008)
Income applicable to minority interests		**365**	179	329
Cash flow provided by operating activities		**21,719**	16,283	16,905
Cash flow used in investing activities				
Capital expenditure (including capitalised leases)	10	**(12,252)**	(12,102)	(9,598)
Acquisitions (Enterprise Oil, Pennzoil-Quaker State and additional shares in Equilon)	10		(8,925)	
Proceeds from sale of assets		**2,286**	1,099	1,265
New investments in associated companies	6	**(983)**	(1,289)	(1,074)
Disposals of investments in associated companies		**708**	501	507
Proceeds from sale and other movements in investments		**1,989**	83	(180)
Cash flow used in investing activities		**(8,252)**	(20,633)	(9,080)
Cash flow used in financing activities				
Long-term debt (including short-term part):				
new borrowings		**572**	5,267	180
repayments		**(2,740)**	(5,610)	(1,115)
		(2,168)	(343)	(935)
Net increase/(decrease) in short-term debt		**(2,507)**	7,058	(794)
Change in minority interests		**(1,363)**	421	(206)
Dividends paid to:				
Parent Companies		**(6,248)**	(6,961)	(9,406)
minority interests		**(300)**	(228)	(221)
Cash flow used in financing activities		**(12,586)**	(53)	(11,562)
Parent Companies' shares: net sales/(purchases) and dividends received		**(633)**	(864)	(773)
Currency translation differences relating to cash and cash equivalents		**148**	153	(251)
Increase/(decrease) in cash and cash equivalents		**396**	(5,114)	(4,761)
Cash and cash equivalents at January 1		**1,556**	6,670	11,431
Cash and cash equivalents at December 31		**1,952**	1,556	6,670

The Notes on pages 52 to 77 are an integral part of these statements.

Notes to the Financial Statements

1 The Royal Dutch/Shell Group of Companies

The Parent Companies, Royal Dutch Petroleum Company (Royal Dutch) and The "Shell" Transport and Trading Company, p.l.c. (Shell Transport) are holding companies which together own, directly or indirectly, investments in numerous companies known collectively as the Royal Dutch/Shell Group. Group companies are engaged in all principal aspects of the oil and natural gas industry. They also have interests in chemicals and additional interests in power generation, renewable energy (chiefly in wind and solar energy) and other businesses. The Group conducts its business through five principal segments, Exploration and Production, Gas & Power, Oil Products, Chemicals and Other businesses. These activities are conducted in more than 145 countries and territories and are subject to changing economic, regulatory and political conditions.

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

2 Restatement of previously issued Financial Statements

Reserves Restatement

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.

Please refer to "Supplementary information – Oil and Gas (unaudited)" on pages 85 to 95 for additional information regarding the Reserves Restatement.

Following the January 9, 2004 announcement of the reserves recategorisation described above, the Group Audit Committee (GAC) appointed Davis Polk & Wardwell to lead an independent review of the facts and circumstances surrounding the recategorisation, and to report its findings and any proposed remedial actions to the GAC for its consideration. Based largely on the Davis Polk & Wardwell report, the Parent Companies, Royal Dutch and Shell Transport, have determined that the principal causes that permitted the initial booking and maintenance of the volumes impacted by the Reserves Restatement as proved reserves are as follows:

– the Group's guidelines for booking proved reserves were inadequate in several respects, including (i) containing inconsistencies with the SEC's rules and published guidance relating to proved reserves and (ii) failing to clearly and sufficiently impart these requirements and guidance to users of the guidelines. In addition, users of the guidelines in certain cases misapplied or disregarded SEC rules and published guidance and in some cases only applied changes in the guidelines prospectively rather than retrospectively. There was also insufficient knowledge and training among users of the guidelines of the SEC requirements relating to proved reserves;
– executives and employees encouraged the booking of proved reserves, while discouraging the debooking of previously booked reserves. This fostered an atmosphere that failed to emphasise the paramount importance of the compliance element of proved reserves decisions; and
– there were other material weaknesses in the Group's controls relating to the booking of proved reserves, including insufficient resources allocated to the Group Reserves Auditor and Group Reserves Co-ordinator functions, a lack of clarity in the allocation of responsibilities between the Group Reserves Auditor and the Group Reserves Co-ordinator and a lack of direct reporting responsibility of the Group Reserves Auditor to the Group internal audit function and of the business chief financial officers to the Group Chief Financial Officer.

These issues are described in more detail under "Risk management and internal control" on pages 39 to 42 and "Supplementary information – Oil and Gas (unaudited)" on pages 85 to 95.

Financial Restatement

Reserves related adjustments

In view of the inappropriate overstatement of unaudited proved reserves information, it was determined to restate the Financial Statements of the Group, and each of the Parent Companies, for prior periods (the Financial Restatement) to reflect the impact of the Reserves Restatement on those Financial Statements (as announced on April 19, 2004). This overstatement of unaudited proved reserves information had the effect of understating the depreciation, depletion and amortisation charges related to Exploration and Production in each of the years covered by the Financial Restatement. The majority of the impact on the Financial

Statements relates to proved developed reserves that were debooked, with the remaining amount relating to well cost write-offs. As capitalised costs relating to the Group's Exploration and Production operations were amortised across fewer proved reserves (following the Reserves Restatement), depreciation, depletion and amortisation associated with annual production volumes increased proportionally. The effect of the restatement was to reduce net income in 2002 by $108 million (2001: $42 million), of which additional depreciation in 2002 was $166 million (2001: $84 million), and to reduce the previously reported net assets as at December 31, 2002 by $276 million.

Change in accounting policy for inventories

The restatement of the Financial Statements also gives effect to a change in accounting principle in 2003 relating to inventories. Previously, the cost of certain North American inventories had been determined on the last-in first-out (LIFO) method. As a result of this change in accounting principle, the cost of these inventories will be determined on the first-in first-out (FIFO) method. This change from the LIFO method for these North American inventories to the FIFO method is being made to achieve a consistent method of determining inventory cost across the Group and harmonises the US GAAP inventory costing method with the method employed by the Group under Netherlands GAAP. Additionally, the Group will be adopting International Financial Reporting Standards (IFRS) in 2005. Under IFRS, LIFO is not a permitted method for valuing inventory. The effect of this change in accounting principle is an increase in previously reported net income for 2002 of $511 million (2001: decrease of $446 million), and to increase previously reported net assets as at December 31, 2002 by $850 million. The impact on investments at December 31, 2002 relates to Motiva.

Treatment of exploration costs

The treatment of exploration costs has been changed, with restatement of prior period information, to correct an inappropriate departure from US GAAP relating to certain exploratory drilling costs in an area requiring major capital expenditure before production can begin and where commercially producible quantities of reserves have been found. Previously these costs remained capitalised for longer than 12 months following the completion of exploratory drilling provided that the project was being actively progressed towards the development phase. The cost of drilling such exploration wells are now expensed unless either (a) drilling of additional exploratory wells is under way or firmly planned for the near future or (b) proved reserves are booked within 12 months following the completion of exploratory drilling. The effect of this change is a reduction in previously reported net income for 2002 of $61 million (2001: $14 million), and a reduction in previously reported net assets at December 31, 2002 of $155 million.

Treatment of certain gas contracts

The treatment of certain gas contracts has been changed, with restatement of prior period information to correct an inappropriate departure from US GAAP relating to the failure to mark to market in 2002 certain contracts for the sale and delivery of own natural gas production from the UK North Sea. The effect of this change is a reduction in previously reported net income for 2002 and net assets at December 31, 2002 of $39 million.

The impact on the information included as comparative data in these Financial Statements is summarised in the tables below:

Statement of Income $ million

	2002					2001				
	As previously reported	Reserves restatement	Change in policy	Other adjustments	**As restated**	As previously reported	Reserves restatement	Change in policy	Other adjustments	**As restated**
Net proceeds	166,717[a]	(52)	–	(64)	**166,601**	125,441[a]	(80)	–	–	**125,361**
Cost of sales	138,500[a]	114	(617)	–	**137,997**	98,069[a]	4	308	–	**98,381**
Exploration	991	–	–	82	**1,073**	882	7	–	21	**910**
Other operating expenses	12,027	–	–	–	**12,027**	9,529	–	–	–	**9,529**
Share of operating profit of associates	2,624	–	198	–	**2,822**	3,041	18	(413)	–	**2,646**
Operating profit	17,823	(166)	815	(146)	**18,326**	20,002	(73)	(721)	(21)	**19,187**
Net interest expense and currency exchange (gains)/losses	629	–	–	–	**629**	104	–	–	–	**104**
Income before taxation	17,194	(166)	815	(146)	**17,697**	19,898	(73)	(721)	(21)	**19,083**
Taxation	7,617	(65)	290	(46)	**7,796**	8,694	(27)	(256)	(7)	**8,404**
Minority interests	158	7	14	–	**179**	352	(4)	(19)	–	**329**
Net income	9,419	(108)	511	(100)	**9,722**	10,852	(42)	(446)	(14)	**10,350**

Earnings by industry segment $ million

	2002					2001				
	As previously reported	Reserves restatement	Change in policy	Other adjustments	**As restated**	As previously reported	Reserves restatement	Change in policy	Other adjustments	**As restated**
Exploration and Production	6,997	(101)	–	(100)	**6,796**	8,023	(46)	–	(14)	**7,963**
Gas & Power	774	–	–	–	**774**	1,226	–	–	–	**1,226**
Oil Products	2,178	–	449	–	**2,627**	2,332	–	(362)	–	**1,970**
Chemicals	489	–	76	–	**565**	230	–	(103)	–	**127**
Corporate and Other	(861)	–	–	–	**(861)**	(607)	–	–	–	**(607)**
Minority interests	(158)	(7)	(14)	–	**(179)**	(352)	4	19	–	**(329)**
Net income	9,419	(108)	511	(100)	**9,722**	10,852	(42)	(446)	(14)	**10,350**

a Including the effect of reclassification of certain amounts following implementation of US accounting guidance Issue No. EITF 02–03 (see Note 3), which had no impact on net income.

2 Financial Restatement continued

Statement of Assets and Liabilities $ million

					December 31, 2002
	As previously reported	Reserves restatement	Change in policy	Other adjustments	**As restated**
Fixed assets					
Tangible assets	79,390	(467)	–	(236)	**78,687**
Intangible assets	4,696	–	–	–	**4,696**
Investments	20,760	2	325	–	**21,087**
Other long-term assets	7,299	–	–	34	**7,333**
Inventories	10,298	–	1,040	–	**11,338**
Other current assets	30,248	–	–	69	**30,317**
Current liabilities	55,115	–	–	86	**55,201**
Long-term liabilities	12,935	–	–	56	**12,991**
Provisions					
Deferred taxation	12,471	(186)	492	(81)	**12,696**
Pensions and decommissioning	8,544	–	–	–	**8,544**
Minority interests	3,562	(3)	23	–	**3,582**
Net assets	60,064	(276)	850	(194)	**60,444**

Parent Companies' interest in Group net assets $ million

	2002	2001
As previously reported at December 31	60,064	56,160
Effect of the adjustments:		
Interest at the beginning of the year		
Cumulative effect of reserves restatement	(164)	(122)[a]
Cumulative effect of change in policy	339	783[a]
Cumulative effect of other adjustments	(91)	(78)[a]
	84	583
Net income for the year		
Reserves Restatement	(108)	(42)
Change in policy	511	(446)
Other adjustments	(100)	(14)
	303	(502)
Currency translation differences for the year	(7)	3
	380	84
As restated at December 31	**60,444**	**56,244**

a Cumulative effect as at January 1, 2001.

Amounts relating to prior periods have been restated in the following notes where applicable.

3 Accounting policies

Nature of the Financial Statements

The accounts of the Parent Companies are not included in the Financial Statements, the objective of which is to demonstrate the financial position, results of operations and cash flows of a group of undertakings in which each Parent Company has an interest in common whilst maintaining its separate identity. The Financial Statements reflect an aggregation in US dollars of the accounts of companies in which Royal Dutch and Shell Transport together, either directly or indirectly, have control either through a majority of the voting rights or the right to exercise a controlling influence or to obtain the majority of the benefits and be exposed to the majority of the risks.

Investments in companies over which Group companies have significant influence but not control are classified as associated companies and are accounted for on the equity basis. Investments in companies over which the Group has no significant influence are stated at cost and dividends received from these companies are accounted for when received. Certain joint ventures in oil and gas production activities are taken up in the Financial Statements in proportion to the relevant Group interest.

Previously published Financial Statements were presented based on accounting policies which were in accordance with Netherlands and US GAAP in all material respects. With effect from 2003, the Financial Statements are presented in accordance with US GAAP, with separate Financial Statements presented under Netherlands GAAP beginning on page 78.

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

The Financial Statements have been prepared under the historical cost convention.

Currency translation

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

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

Revenue recognition

Sales of oil, gas, chemicals and all other products are recorded when title passes to the customer. Revenue from the production of oil and natural gas properties in which the Group has an interest with other producers are recognised on the basis of the Group's working interest (entitlement method). The difference between actual production and net working interest volumes is not significant. Gains and losses on derivatives contracts and contracts involved in energy trading and risk management are shown net in the Statement of Income if these contracts are held for trading purposes. Sales between Group companies, as disclosed in the segment information, are based on prices generally equivalent to commercially available prices.

In Exploration and Production and Gas & Power title typically passes (and revenues are recognised) when a product is physically transferred into a vessel, pipe or other delivery mechanism. For sales by refining companies, title typically passes (and revenues are recognised) either when product is placed onboard a vessel or offloaded from the vessel, depending on the contractually agreed terms. Revenues on wholesale sales of oil products and chemicals are recognised when transfer of ownership occurs and title is passed, either at the point of delivery or the point of receipt, depending on contractual conditions.

Depreciation, depletion and amortisation

Tangible fixed assets related to oil and gas production activities are depreciated on a unit-of-production basis over the proved developed reserves of the field concerned, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case the straight-line method is applied. Rights and concessions are depleted on the unit-of-production basis over the total proved reserves of the relevant area. Unproved properties are amortised as required by particular circumstances. Other tangible fixed assets are generally depreciated on a straight-line basis over their estimated useful lives which is generally 20 years for refineries and chemicals plants, and 15 years for retail service station facilities. From the beginning of 2002, goodwill, and other intangible fixed assets with an indefinite life, are no longer amortised but instead tested for impairment annually. Other intangible fixed assets are amortised on a straight-line basis over their estimated useful lives (with a maximum of forty years).

Recoverability of assets

Other than properties with no proved reserves (where the basis for carrying costs on the balance sheet is explained under “Exploration costs”), the carrying amounts of major Exploration and Production fixed assets are reviewed for possible impairment annually, while all assets are reviewed whenever events or changes in circumstances indicate that the carrying amounts for those assets may not be recoverable. If assets are determined to be impaired, the carrying amounts of those assets are written down to fair value, usually determined as the amount of estimated discounted future cash flows. For this purpose, assets are grouped based on separately identifiable and largely independent cash flows. Assets held for sale are written down to the amount of estimated net realisable value.

Estimates of future cash flows used in the evaluation for impairment for assets related to hydrocarbon production are estimated using risk assessments on field and reservoir performance and include outlooks on proved reserves and unproved volumes, which are then discounted or risk-weighted utilising the results from projections of geological, production, recovery and economic factors.

Administrative expenses

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

Exploration costs

Group companies follow the successful efforts method of accounting for oil and gas exploration costs. Exploration costs are charged to income when incurred, except that exploratory drilling costs are included in tangible fixed assets, pending determination of proved reserves. Exploration wells that are more than 12 months old are expensed unless (a) (i) they are in an area requiring major capital expenditure before production can begin and (ii) they have found commercially producible quantities of reserves and (iii) they are subject to further exploration or appraisal activity in that either drilling of additional exploratory wells is under way or firmly planned for the near future, or (b) proved reserves are booked within 12 months following the completion of exploratory drilling.

See Note 2 regarding a change in treatment of exploration costs.

Research and development

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

Deferred taxation

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

3 Accounting policies continued

Leasing

Agreements under which Group companies make payments to owners in return for the right to use an asset for a period are accounted for as leases. Leases that transfer substantially all the risks and benefits of ownership are recorded at inception as capital leases within tangible fixed assets and debt. All other leases are recorded as operating leases and the costs are charged to income as incurred.

Interest capitalisation

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

Securities

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

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

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

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

Inventories

Inventories are stated at cost to the Group or net realisable value, whichever is lower. Such cost is determined by the FIFO method and comprises direct purchase costs, cost of production, transportation and manufacturing expenses and taxes. See "Changes in accounting policy" opposite for a description of a change in the method of accounting for certain inventories in North America from the LIFO to the FIFO method, which was made in 2003.

Derivative instruments

Group companies use derivatives in the management of interest rate risk, foreign currency risk and commodity price risk. The carrying amount of all derivatives, other than those meeting the normal purchases and sales exception, is measured using market prices. Those derivatives qualifying and designated as hedges are either: (1) a hedge of the fair value of a recognised asset or liability or of an unrecognised firm commitment ("fair value" hedge), or (2) a hedge of the variability of cash flows to be received or paid related to a recognised asset or liability or a forecasted transaction ("cash flow" hedge), or (3) a hedge of the foreign currency exposure of an unrecognised firm commitment or an available for sale security ("foreign currency fair value" hedge) or the foreign currency exposure of a foreign currency denominated forecasted transaction ("foreign currency cash flow" hedge).

A change in the carrying amount of a fair value hedge is taken to income, together with the consequential adjustment to the carrying amount of the hedged item. The effective portion of a change in the carrying amount of a cash flow hedge is recorded in other comprehensive income, until income reflects the variability of underlying cash flows; any ineffective portion is taken to income. A change in the carrying amount of a foreign currency hedge is recorded on the basis of whether the hedge is a fair value hedge or a cash flow hedge. A change in the carrying amount of other derivatives is taken to income.

Group companies formally document all relationships between hedging instruments and hedged items, as well as risk management objectives and strategies for undertaking various hedge transactions. The effectiveness of a hedge is also continually assessed. When effectiveness ceases, hedge accounting is discontinued.

See Note 2 regarding a change in treatment for certain gas contracts.

Environmental expenditures

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

Employee retirement plans

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

For plans which define the amount of pension benefit to be provided, pension cost primarily represents the increase in actuarial present value of the obligation for pension benefits based on employee service during the year and the interest on this obligation in respect of employee service in previous years, net of the expected return on plan assets.

For plans where benefits depend solely on the amount contributed to the employee's account and the returns earned on investments of those contributions, pension cost is the amount contributed by Group companies for the period.

Postretirement benefits other than pensions

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

Stock-based compensation plans

Group companies account for stock-based compensation plans in accordance with the intrinsic value method. This method requires no recognition of compensation expense for plans where the exercise price is not at a discount to the market value at the date of the grant, and the number of options is fixed on the date of grant. However, recognition of compensation expense is required for variable award (performance-related) plans over the vesting periods of such plans, based on the then current market values of the underlying stock.

Decommissioning and restoration costs

Estimated decommissioning and restoration costs are based on current requirements, technology and price levels and are stated at fair value, and the associated asset retirement costs are capitalised as part of the carrying amount of the related tangible fixed assets. In respect of oil and gas production activities, the fair value calculation of the liability is based on the economic life of the production assets and discounted using the credit-adjusted risk-free rate for the Group. For tangible fixed assets not directly associated with mineral reserves, the liability, once an obligation, whether legal or constructive, crystallises, is recognised in the period when a reasonable estimate of the fair value can be made. The obligation is reflected under provisions in the Statement of Assets and Liabilities. The effects of changes resulting from revisions to the timing or the amount of the original estimate of the liability are incorporated on a prospective basis.

Acquisitions

Acquisitions are accounted for using the purchase method. Assets acquired and liabilities assumed are recognised at their fair value at the date of acquisition; the amount of the purchase consideration above this value is reflected as goodwill.

Reclassifications

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

Changes in accounting policy

US accounting pronouncement FIN 46 (Consolidation of Variable Interest Entities) was implemented on September 30, 2003 with a consequential increase in the Group's tangible fixed assets and debt of $3.4 billion. This increase mainly relates to power generation contracts ("tolling agreements") which were previously accounted for as executory contracts and marked to market. The issuance of an amendment, FIN 46-R, in December 2003 did not have an additional impact on the Group.

US accounting standard FAS 143 (Asset Retirement Obligations) requires that the fair value of a liability for an asset retirement obligation be recognised in the period in which it is incurred if a reasonable estimate of the fair value can be made. The associated asset retirement costs are capitalised as part of the carrying amount of the fixed asset. This standard was effective for the Group from the beginning of 2003 and resulted in a credit to income of $255 million after tax, which was reported as a cumulative effect of a change in accounting principle. The main impacts on net assets were an increase in tangible fixed assets ($0.5 billion) and an increase in deferred tax liabilities ($0.3 billion).

On January 1, 2003 the Group completed implementation of US accounting guidance EITF Issue No. 02-03 (Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities). This requires that gains and losses on all derivative instruments within the scope of US accounting standard FAS 133 be shown net in the Statement of Income if the derivative instruments are held for trading purposes. The effect of this reclassification was a reduction in both sales proceeds and cost of sales of $12.7 billion in 2002 and $9.8 billion in 2001.

The Group has changed its accounting policy for those inventories in North America for which cost was previously determined on the basis of the LIFO method. With effect from 2003, in order to implement a globally consistent accounting policy, the cost is determined by the FIFO method and prior periods have been restated. The rationale and the effect of this change are described in Note 2 on page 53.

4 Parent Companies' interest in Group net assets

			$ million
	2003	2002 As restated	2001 As restated
Invested by Parent Companies	**741**	741	741
Retained earnings of Group companies	**75,257**	68,422	64,135
Parent Companies' shares held, net of dividends received (Note 22)	**(3,428)**	(2,797)	(1,953)
Cumulative currency translation differences	**1,208**	(3,894)	(6,326)
Unrealised gains/(losses) on:			
securities (Note 14)	**700**	11	(14)
cash flow hedges	**(188)**	(239)	(14)
Minimum pension liability adjustments	**(1,442)**	(1,800)	(325)
Balance at December 31	**72,848**	60,444	56,244

Earnings retained by the subsidiary and associated companies of the Group Holding Companies (namely Shell Petroleum N.V. and The Shell Petroleum Company Limited) and Shell Petroleum Inc. amounted to $25,561 million at December 31, 2003 (2002: $18,227 million; 2001: $21,699 million). Provision has not been made for taxes on possible future distribution of these undistributed earnings as these earnings have been, or will be, substantially reinvested by the companies concerned. It is not, therefore, meaningful to provide for these taxes nor is it practicable to estimate their full amount or the withholding tax element.

5 Other comprehensive income

2003			$ million
		Net credit/(charge)	
	Pre-tax	Tax	After tax
Currency translation differences	**5,418**	**(360)**	**5,058**
Reclassifications	**44**	**–**	**44**
Currency translation differences net of reclassifications	**5,462**	**(360)**	**5,102**
Unrealised gains/(losses) on securities	**746**	**(16)**	**730**
Reclassifications	**(41)**	**–**	**(41)**
Unrealised gains/(losses) on securities net of reclassifications	**705**	**(16)**	**689**
Unrealised gains/(losses) on cash flow hedges	**51**	**(3)**	**48**
Reclassifications	**3**	**–**	**3**
Unrealised gains/(losses) on cash flow hedges net of reclassifications	**54**	**(3)**	**51**
Minimum pension liability adjustments	**669**	**(311)**	**358**
Other comprehensive income	**6,890**	**(690)**	**6,200**

2002 (as restated)			$ million
		Net credit/(charge)	
	Pre-tax	Tax	After tax
Currency translation differences	2,773	(303)	2,470
Reclassifications	(38)	–	(38)
Currency translation differences net of reclassifications	2,735	(303)	2,432
Unrealised gains/(losses) on securities	26	10	36
Reclassifications	(12)	1	(11)
Unrealised gains/(losses) on securities net of reclassifications	14	11	25
Unrealised gains/(losses) on cash flow hedges	(209)	(7)	(216)
Reclassifications	(9)	–	(9)
Unrealised gains/(losses) on cash flow hedges net of reclassifications	(218)	(7)	(225)
Minimum pension liability adjustments	(2,446)	971	(1,475)
Other comprehensive income	85	672	757

2001 (as restated)			$ million
		Net credit/(charge)	
	Pre-tax	Tax	After tax
Currency translation differences	(1,654)	95	(1,559)
Reclassifications	(127)	–	(127)
Currency translation differences net of reclassifications	(1,781)	95	(1,686)
Unrealised gains/(losses) on securities	(114)	(9)	(123)
Reclassifications	(32)	12	(20)
Unrealised gains/(losses) on securities net of reclassifications	(146)	3	(143)
Unrealised gains/(losses) on cash flow hedges	(1)	(13)	(14)
Reclassifications	–	–	–
Unrealised gains/(losses) on cash flow hedges net of reclassifications	(1)	(13)	(14)
Minimum pension liability adjustments	(209)	82	(127)
Other comprehensive income	(2,137)	167	(1,970)

		2003	2002
Rates of exchange at December 31 were:	€/$	0.79	0.96
	£/$	0.56	0.62

6 Associated companies

(a) Income

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

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

			$ million
	2003	2002 As restated	2001 As restated
Net proceeds	**44,470**	33,522	55,767
Cost of sales	**37,065**	26,738	47,538
Gross profit	**7,405**	6,784	8,229
Other operating expenses	**3,921**	3,962	5,583
Operating profit	**3,484**	2,822	2,646
Interest and other income	**228**	102	98
Interest expense	**540**	451	503
Currency exchange gains/(losses)	**(3)**	(15)	(20)
Income before taxation	**3,169**	2,458	2,221
Taxation	**1,478**	1,002	1,087
Net income	**1,691**	1,456	1,134

As stated in Note 3, the Group changed its accounting for certain North American inventories from LIFO to FIFO. This change has been reflected in the restated 2002 and 2001 comparative information.

Income by segment			$ million
	2003	2002 As restated	2001 As restated
Exploration and Production	**810**	543	757
Gas & Power	**650**	589	746
Oil Products	**632**	448	43
Chemicals	**(169)**	153	(26)
Corporate and Other	**(232)**	(277)	(386)
	1,691	1,456	1,134

(b) Investments

				$ million
			2003	2002 As restated
	Shares	Loans	**Total**	Total
At January 1	**15,320**	**2,628**	**17,948**	18,332
New investments	**758**	**225**	**983**	1,289
Net asset transfers to/(from) associates, disposals and other movements	**206**	**(379)**	**(173)**	(2,409)
Net income	**1,691**	**–**	**1,691**	1,456
Dividends	**(2,192)**	**–**	**(2,192)**	(1,571)
Currency translation differences	**1,029**	**98**	**1,127**	851
At December 31	**16,812**	**2,572**	**19,384**	17,948

Net income for 2003 includes a $286 million write-down in the carrying value of Basell (Chemicals) reflecting a reassessment of the outlook for the business, a $200 million write-down in the carrying value of InterGen (Gas & Power) due to poor power market conditions, mainly in the US merchant power segment, and a $115 million write-down in the carrying value of the Cuiaba power assets in South America (Gas & Power) in light of a reappraisal of the commercial outlook. Net income for 2002 includes a $150 million write-down in the carrying amount of InterGen (Gas & Power).

In 2002, the net asset transfers to/from associates, disposals and other movements mainly relates to the effects of the reclassification of Equilon from an associate to a Group company upon the acquisition of the outstanding 44% interest.

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

		$ million
	2003	2002 As restated
Fixed assets	**30,921**	27,613
Current assets	**8,248**	7,029
Total assets	**39,169**	34,642
Current liabilities	**8,745**	7,107
Long-term liabilities	**11,040**	9,587
Net assets	**19,384**	17,948

An analysis by segment is shown in Note 24.

6 Associated companies continued

The Group's major investments in associated companies at December 31, 2003 comprised:

Segment Name	Group interest	Country of incorporation
Exploration and Production		
Aera	52%	USA
Brunei Shell	50%	Brunei
Woodside	34%	Australia
Gas & Power		
InterGen	68%	The Netherlands
Nigeria LNG	26%	Nigeria
Oman LNG	30%	Oman
Oil Products		
Motiva	50%	USA
Showa Shell	50%	Japan
Chemicals		
Basell	50%	The Netherlands
Saudi Petrochemical	50%	Saudi Arabia

Although the Group has a 52% investment in Aera and a 68% investment in InterGen, the governing agreements and constitutive documents for these entities do not allow the Group to control these entities, as voting control is either split 50:50 between the shareholders or requires unanimous approval of the shareholders or their representatives and, therefore, these entities have not been consolidated.

(c) Transactions between Group companies and associated companies

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

			$ million
	2003	2002	2001
Charges to associated companies	**18,155**	10,573	13,415
Charges from associated companies	**8,608**	5,623	5,053

Balances outstanding at December 31, 2003 and 2002 in respect of the above transactions are shown in Notes 13 and 17.

7 Interest and other income

			$ million
	2003	2002	2001
Group companies			
Interest income	**326**	491	784
Other income	**1,419**	165	177
	1,745	656	961
Associated companies	**228**	102	98
	1,973	758	1,059

Other income in 2003 includes a $1.3 billion gain from the disposal of the Group's interest in Ruhrgas.

8 Interest expense

			$ million
	2003	2002	2001
Group companies			
Interest incurred	**885**	956	662
less interest capitalised	**44**	43	32
	841	913	630
Associated companies	**540**	451	503
	1,381	1,364	1,133

9 Taxation

(a) Taxation charge for the year

			$ million
	2003	2002 As restated	2001 As restated
Group companies			
Current tax charge	**8,290**	6,727	7,722
Deferred tax charge/(credit)	**(196)**	67	(405)
	8,094	6,794	7,317
Associated companies	**1,478**	1,002	1,087
	9,572	7,796	8,404

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

			$ million
	2003	2002 As restated	2001 As restated
Expected tax charge at statutory rates	**9,125**	6,646	7,439
Adjustments in respect of prior years	**173**	(251)	(258)
Other reconciling items	**(1,204)**	399	136
Taxation charge of Group companies	**8,094**	6,794	7,317

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

Tax adjustments in respect of prior years relate to events in the current period and reflect the effects of changes in rules, facts or other factors compared to those used in establishing the tax position or deferred tax balance.

Other reconciling items in 2003 include the effects of disposals during the year that were taxed below the statutory rate (including $534 million from the disposal of the Group's interest in Ruhrgas), in addition to $442 million relating to the effects on deferred tax accounts of legislative changes to certain ring-fencing arrangements.

Other reconciling items in 2002 include $415 million due to the increase in UK upstream corporate tax rate during the year. From 2003, this increase is reflected in a higher statutory rate.

(b) Taxes payable

		$ million
	2003	2002 As restated
Taxes on activities of Group companies	**2,148**	1,988
Sales taxes, excise duties and similar levies and social law taxes	**3,779**	2,997
	5,927	4,985

(c) Provision for deferred taxation

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

		$ million
	2003	2002 As restated
Tangible and intangible fixed assets	**17,627**	16,837
Pensions	**2,118**	1,379
Other items	**2,649**	2,125
Total deferred tax liabilities	**22,394**	20,341
Tax losses carried forward	**(3,876)**	(2,171)
Foreign tax credits[a]	**(1,633)**	(1,089)
US trademark[b]	**(309)**	(375)
Provisions		
Pensions and similar obligations	**(1,329)**	(1,293)
Decommissioning and restoration costs	**(1,934)**	(1,700)
Environmental and other provisions	**(334)**	(445)
Other items	**(3,421)**	(3,046)
Total deferred tax assets	**(12,836)**	(10,119)
Asset valuation allowance	**3,797**	2,474
Deferred tax assets net of valuation allowance	**(9,039)**	(7,645)
Net deferred tax liability	**13,355**	12,696

a Foreign tax credits represent surplus credits arising in holding and sub-holding Group companies on income from other jurisdictions. A valuation allowance has been recorded against the substantial part of these balances in both 2003 and 2002.
b Deferred tax asset created upon transfer of US trademark rights from a US wholly-owned Group company to a Netherlands wholly-owned Group company.

The Group has tax losses carried forward amounting to $11,137 million at December 31, 2003. Of these, $8,399 million can be carried forward indefinitely. The remaining $2,738 million expires in the following years:

	$ million
2004	225
2005	314
2006	191
2007	637
2008–2012	740
2013–2018	631

10 Tangible and intangible fixed assets

						$ million
					2003	2002 As restated
	Tangible	Goodwill	Other intangibles	Total intangibles	**Total Group**	Total Group
Cost						
At January 1	**157,499**	3,500	2,958	**6,458**	**163,957**	119,956
Capital expenditure	**12,005**	33	214	**247**	**12,252**	12,102
Assets assumed on acquisitions (Enterprise Oil, Pennzoil-Quaker State and DEA and additional shares in Equilon)	**(28)**	418	(266)	**152**	**124**	23,285
Sales, retirements and other movements[a]	**(1,805)**	(51)	(38)	**(89)**	**(1,894)**	(1,306)
Currency translation differences	**14,014**	111	130	**241**	**14,255**	9,920
At December 31	**181,685**	4,011	2,998	**7,009**	**188,694**	163,957
Depreciation						
At January 1	**78,812**	1,176	586	**1,762**	**80,574**	68,090
Depreciation, depletion and amortisation charge	**11,000**	129	293	**422**	**11,422**	8,621
Sales, retirements and other movements	**(3,680)**	(29)	(2)	**(31)**	**(3,711)**	(1,524)
Currency translation differences	**7,852**	60	61	**121**	**7,973**	5,387
At December 31	**93,984**	1,336	938	**2,274**	**96,258**	80,574
Net 2003	**87,701**[b]	2,675	2,060	**4,735**	**92,436**	
2002	78,687[b]	2,324	2,372	4,696		83,383

a Sales, retirements and other movements in 2003 include the effect of a change in accounting policy for certain long-term agreements (see Note 3).
b Tangible fixed assets at December 31, 2003 include rights and concessions of $12.0 billion (2002: $13.1 billion). A new accounting pronouncement is pending that may in the future consider these to be intangible fixed assets. A reclassification of these items from tangible to intangible fixed assets would not impact the Group's Statements of Income and Cash Flows.

10 Tangible and intangible fixed assets continued

Other intangible fixed assets at December 31, 2003 include $0.8 billion (2002: $1.1 billion) in respect of Pennzoil-Quaker State trademarks acquired in 2002. The trademarks are being amortised over an estimated useful life of forty years. Continued brand maintenance in addition to the established long-term leadership of these brands in automotive lubricants and vehicle care markets support this estimate.

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

The net balances at December 31 include:

		$ million
	2003	2002 As restated
Capitalised costs in respect of assets not yet used in operations		
Unproved properties	**4,576**	4,443
Proved properties under development and other assets in the course of construction	**12,680**	6,814
	17,256	11,257

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

			$ million
	2003	2002 As restated	2001 As restated
Cost of sales	**9,574**	7,351	5,071
Selling and distribution expenses	**1,288**	1,095	1,007
Administrative expenses	**121**	62	53
Exploration	**411**	80	42
Research and development	**28**	33	28
	11,422	8,621	6,201

Depreciation, depletion and amortisation charges for 2003 include $1,248 million (2002: $191 million; 2001: $88 million) relating to the impairment of tangible fixed assets, and $127 million (2002: $6 million; 2001: nil) relating to the impairment of intangible fixed assets. Such charges are recorded within cost of sales. The impairment charges relate to assets held for use (2003: $1,168 million; 2002: $105 million; 2001: nil) and to assets held for sale (2003: $207 million; 2002: $92 million; 2001: $88 million).

For 2003, the impairments were incurred in Exploration and Production ($697 million, mainly due to lower production outlooks in the UK and South America), in Oil Products ($331 million, mainly due to the closure of the Bakersfield refinery and the impact of local economic conditions in Latin America), in Chemicals ($220 million, mainly in CS Metals, as anticipated benefits from a prototype technology did not meet performance expectations) and in Renewables ($127 million for Shell Solar following an extensive review to assess the value of the business).

For 2002, the majority of the impairment charges (in total $197 million) were in Oil Products, reflecting plans in the USA to close surplus base oil production facilities, the closure of the Pililla base oil and bitumen refinery in the Philippines and a change in outlook for liquefied petroleum gas assets in Argentina coupled with the country's economic downturn. For 2001, the impairment charges (in total $88 million) were mainly in Chemicals, reflecting plans to close the Taft polymer plant and close a catalyst production line in the USA, and in Renewables based on bids received for their South American forestry assets.

Depreciation, depletion and amortisation charges for 2003 also included $366 million relating to the write-off of various exploration properties, mainly in Brazil and Ireland. In both these countries, new information from 2003 exploratory work confirmed lower than expected volume projections.

2002 acquisitions

Exploration and Production

The Group acquired all the outstanding shares of Enterprise Oil in the second quarter of 2002 for aggregate cash consideration of $5.3 billion and assumed debt of $2.4 billion to strengthen the Group's upstream portfolio, adding new developments and exploration acreage in several countries.

Oil Products

Following the merger of Chevron and Texaco, the Group acquired the outstanding shares (44%) in Equilon in the first quarter 2002 for aggregate cash consideration of $1.8 billion and assumed debt of $2.3 billion. Prior to the acquisition of the remaining shares in Equilon, the Group accounted for its investment in Equilon as an associated company since the governing agreements and constitutive documents for Equilon did not permit the Group to control it. This acquisition provides the Group with the opportunity to gain further presence in the US market, which is key to the Oil Products business.

The Group formed DEA, a joint venture with RWE AG, in the first quarter of 2002 to provide the Group with an enhanced position in Germany, the largest oil products market in Europe. Under the relevant governing agreements and constitutive documents, the Group has controlled DEA since its formation and as a result has included DEA in the Group's consolidated results throughout 2002. The Group acquired the remaining shares in DEA in the third quarter of 2002 for an aggregate cash consideration of $1.3 billion, payable in July 2003.

The Group acquired all the outstanding shares of Pennzoil-Quaker State Company (PQS) in the fourth quarter of 2002 for aggregate cash consideration of $1.9 billion and assumed debt of $1.3 billion, aligned with the Group's strategy to become a leader in the global lubricants market by strengthening its position in the USA.

The following table sets forth the fair values of assets acquired and liabilities assumed in these acquisitions, including for Enterprise Oil $6.6 billion of rights and concessions and for PQS $1.1 billion of trademarks and $1.7 billion of goodwill (of which $0.3 billion is tax-deductible) recognised as a reflection of the value of growth opportunities.

2002 (as restated)			$ million
	Exploration and Production	Oil Products	Total
Tangible and intangible fixed assets	11,286	11,999	23,285
including:			
PQS goodwill		*1,743*	*1,743*
PQS trademarks		*1,101*	*1,101*
Other assets	736	5,772	6,508
Total assets acquired	12,022	17,771	29,793
Current liabilities (excluding debt)	252	3,609	3,861
Debt	2,359	3,608	5,967
Deferred taxation	3,771	638	4,409
Other long-term liabilities and provisions	346	2,220	2,566
Total liabilities assumed	6,728	10,075	16,803
Less: Existing equity in Equilon		2,730	2,730
Purchase consideration[a]	5,294	4,966	10,260

a Includes $1.3 billion relating to DEA, paid during 2003.

The acquisition of PQS took place in the fourth quarter, 2002 and the purchase price allocation was not finalised until 2003 due in particular to completion of the valuation of the trademarks; the main effect in 2003 was a decrease in trademarks of $0.3 billion with a corresponding increase in goodwill.

Pro forma information (unaudited)

Pro forma information for the Group, as if the four companies had been purchased (and paid for) on January 1, 2001, is presented below:

				$ million
	Net proceeds		Net income	
	2002	2001	2002	2001
As restated (see Note 2)	166,601	125,361	9,722	10,350
Results before financing costs:				
Enterprise Oil	403	2,002	(32)	94
Equilon	–	44,463	–	45
DEA	–	6,422	(27)	153
PQS	1,691	2,315	81	117
Financing costs (after tax)			(165)	(461)
Pro forma	168,695	180,563	9,579	10,298

				$
	2002		2001	
	As restated (see Note 2)	Pro forma	As restated (see Note 2)	Pro forma
Basic earnings per share attributable to Royal Dutch	2.83	2.79	2.96	2.95
Diluted earnings per share attributable to Royal Dutch	2.83	2.79	2.96	2.95
Basic earnings per ADR attributable to Shell Transport	2.43	2.39	2.55	2.53
Diluted earnings per ADR attributable to Shell Transport	2.43	2.39	2.54	2.53

The pro forma information above is based on the following:

– the preparation of this information has required use of certain estimates, utilising both pre- and post-acquisition data, in particular for fully-integrated businesses;

– where applicable, pro forma amounts have been calculated taking into account additional depreciation, depletion or amortisation resulting from fair value accounting, and have been adjusted on to the basis of Group accounting policies. Group accounting policies as in effect for 2002 have been applied, adjusted to reflect changes in 2003 which have resulted in restatement of prior period information;

– financing costs comprise additional interest charges on the purchase considerations, plus the acquired companies' interest charges on their existing debt up to the date of acquisition;

– taxes have been calculated using the relevant statutory rate for each of the jurisdictions involved. A tax rate of 35% has been applied to calculate the tax relief on the interest charge on Group debt incurred to finance the acquisitions;

– for 2001, pro forma data is provided for all acquisitions for the entire year. Both Equilon and DEA were included in Group results for all of 2002. For Enterprise Oil, the first quarter of 2002 is on a pro forma basis and for PQS the first three quarters of 2002 are reported on a pro forma basis;

– PQS trademarks are being amortised over 40 years, with no residual value expected; and

– restructuring costs incurred have remained in the period originally recorded. The Equilon acquisition resulted in a restructuring expense of approximately $300 million (pre-tax) in 2001.

11 Other long-term assets

Reflecting their non-current nature, deferred charges and prepayments due after one year and other non-current assets are presented separately as "Other long-term assets". At December 31, 2003 these include $8,505 million (2002: $6,766 million million as restated) of deferred charges and prepayments (including amounts in respect of risk management activities), of which $6,516 million (2002: $4,506 million) relates to prepaid pension costs.

12 Inventories

		$ million
	2003	2002 As restated
Inventories of oil and chemicals	**11,742**	10,423
Inventories of materials	**948**	915
	12,690	11,338

Prior period information has been restated for a change in inventory costing (see Note 2).

13 Accounts receivable

		$ million
	2003	2002 As restated
Trade receivables	**17,523**	15,475
Amounts owed by associated companies	**2,094**	4,834
Other receivables	**3,602**	3,458
Deferred charges and prepayments	**5,750**	4,994
	28,969	28,761

Provisions for doubtful items deducted from accounts receivable amounted to $557 million at December 31, 2003 (2002: $415 million). Deferred charges and prepayments include amounts in respect of risk management activities.

14 Securities

Investments – securities mainly comprises a portfolio of equity and debt securities required to be held long term by the Group insurance companies as security for their insurance activities, for which the fair value of $1,259 million at December 31, 2003 includes an unrealised gain of $253 million, together with an equity investment held by a Group company for which the fair value of $828 million at December 31, 2003 includes an unrealised gain of $442 million.

$125 million of these total securities are debt securities classified as held-to-maturity, with maturity falling between one and five years. The remainder are classified as available for sale, of which $638 million at December 31, 2003 (2002: $689 million) are debt securities. Of the available for sale securities, the maturities of $7 million fall within one year, $365 million fall between one year and five years, and $266 million exceed five years.

The carrying amount of securities classified as cash equivalents, is $107 million at December 31, 2003 (2002: $44 million), all of which are debt securities classified as available for sale.

Total securities at December 31, 2003 amounting to $1,557 million (2002: $1,033 million) are listed on recognised stock exchanges.

15 Debt

(a) Short-term debt

		$ million
	2003	2002
Debentures and other loans	**8,181**	9,963
Amounts due to banks and other credit institutions (including long-term debt due within one year)	**2,737**	2,846
	10,918	12,809
Capitalised lease obligations	**109**	65
Short-term debt	**11,027**	12,874
less long-term debt due within one year	**1,874**	2,253
Short-term debt excluding long-term debt due within one year	**9,153**	10,621

Short-term debt at December 31, 2003 includes $1.3 billion (2002: $1.3 billion) of non-recourse debt owed by a Group company (interest 64%) for which a debt covenant (the interest cover ratio) was breached in 2001. The covenant breach is continuing and the company is in default on the full outstanding balance of $1.3 billion.

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

		$ million
	2003	2002
Maximum amount outstanding at the end of any quarter	**9,159**	13,098
Average amount outstanding	**8,554**	8,153
Amounts due to banks and other credit institutions	**2,657**	2,378
Unused lines of short-term credit	**3,916**	3,625
Approximate average interest rate on:		
average amount outstanding	**3%**	3%
amount outstanding at December 31	**2%**	3%

The amount outstanding at December 31, 2003 includes $5,754 million of fixed rate and $1,543 million of variable rate dollar debt at an average interest rate of 1% and 4% respectively.

(b) Long-term debt

		$ million
	2003	2002
Debentures and other loans	**4,868**	5,523
Amounts due to banks and other credit institutions	**3,724**	794
	8,592	6,317
Capitalised lease obligations	**508**	500
Long-term debt	**9,100**	6,817
add long-term debt due within one year	**1,874**	2,253
Long-term debt including long-term debt due within one year	**10,974**	9,070

The increase in long-term debt during 2003 mainly reflects a change in accounting for certain power generation contracts ("tolling agreements") which were previously accounted for as executory contracts and marked to market.

The following relates to long-term debt including the short-term part but excluding capitalised lease obligations.

The amount at December 31, 2003 of $10,357 million (2002: $8,505 million) comprises:

	$ million	Average interest rate
Dollar denominated debt		
Fixed rate	5,369	6%
Variable rate	766	4%
Non-dollar denominated debt		
Fixed rate	2,213	4%
Variable rate	2,009	3%
	10,357	

The approximate weighted average interest rate in 2003 was 3% for dollar debt and 4% for total debt.

The aggregate maturities of long-term debts are:

	$ million
2004	1,765
2005	1,212
2006	1,526
2007	2,067
2008	561
2009 and after	3,226
	10,357

During 2003, the Medium Term Note and Commercial Paper Facilities have been increased to a total level of $28.0 billion. As at December 31, 2003, debt outstanding under central borrowing programmes, which includes these facilities, totalled $11.9 billion with the remaining indebtedness raised by Group companies with no recourse beyond the immediate borrower and/or the local assets.

In accordance with the risk management policy, Group companies have entered into interest rate swap agreements against most of the fixed rate debt. The use of interest rate swaps is further discussed in Note 28.

16 Commitments

(a) Leasing arrangements

The future minimum lease payments under operating leases and capital leases and the present value of net minimum capital lease payments at December 31, 2003 are as follows:

		$ million
	Operating leases	Capital leases
2004	1,760	76
2005	1,190	85
2006	915	66
2007	766	62
2008	666	58
2009 and after	4,684	707
Total minimum payments	9,981	1,054
less executory costs and interest		437
Present value of net minimum capital lease payments		617

The figures above for operating lease payments represent minimum commitments existing at December 31, 2003 and are not a forecast of future total rental expense.

Total rental expense for all operating leases was as follows:

			$ million
	2003	2002	2001
Minimum rentals	**2,135**	1,557	1,377
Contingent rentals	**60**	104	105
Sub-lease rentals	**(198)**	(300)	(174)
	1,997	1,361	1,308

(b) Long-term purchase obligations

Group companies have unconditional long-term purchase obligations associated with financing arrangements. The aggregate amount of payments required under such obligations at December 31, 2003 is as follows:

	$ million
2004	405
2005	255
2006	243
2007	225
2008	219
2009 and after	1,914
	3,261

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

Payments under these agreements, which include additional sums depending upon actual quantities of supplies, amounted to $252 million in 2003 (2002: $441 million).

17 Accounts payable and accrued liabilities

		$ million
	2003	2002 As restated
Trade payables	**14,110**	13,049
Amounts due to associated companies	**1,829**	2,075
Pensions and similar obligations	**261**	250
Other payables	**8,832**	10,699
Accruals and deferred income	**7,315**	6,116
	32,347	32,189

Other payables include amounts in respect of risk management activities and, at December 31, 2002, $1.3 billion for the acquisition of DEA, paid during 2003.

18 Long-term liabilities – Other

This includes amounts in respect of risk management activities, advance payments received under long-term supply contracts, deposits, liabilities under staff benefit programmes, deferred income and environmental liabilities. The amount includes $1,305 million at December 31, 2003 (2002: $926 million) which does not fall due until more than five years after the respective balance sheet dates.

19 Statement of cash flows

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

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

2003				$ million
	Movements derived from Statement of Cash Flows	Movements arising from currency translation	Non-cash movements	Movements derived from Statement of Assets and Liabilities
Tangible and intangible fixed assets	**(533)**	**6,282**	**3,304**	**9,053**
Investments	**(792)**	**1,238**	**1,254**	**1,700**
Other long-term assets	**601**	**804**	**519**	**1,924**
Inventories	**236**	**1,158**	**(42)**	**1,352**
Accounts receivable	**(1,834)**	**2,120**	**(78)**	**208**
Cash and cash equivalents	**248**	**148**	**–**	**396**
Short-term debt	**2,507**	**(913)**	**(126)**	**1,468**
Short-term part of long-term debt	**612**	**(233)**	**–**	**379**
Accounts payable and accrued liabilities	**212**	**(221)**	**(149)**	**(158)**
Taxes payable	**218**	**(687)**	**(473)**	**(942)**
Long-term debt	**1,961**	**(676)**	**(3,568)**	**(2,283)**
Other long-term liabilities	**467**	**(376)**	**29**	**120**
Deferred taxation	**388**	**(1,066)**	**19**	**(659)**
Other provisions	**116**	**(740)**	**286**	**(338)**
Minority interests	**1,298**	**(171)**	**(973)**	**154**
Other items	**(91)**	**91**	**–**	**–**
Distributions to Parent Companies	**588**	**(558)**	**–**	**30**
Adjustment for Parent Companies' shares and Other comprehensive income excluding currency translation differences	**633**	**(1,098)**	**(2)**	**–**
			–	
Movement in retained earnings of Group companies (Note 4)	**6,835**			
Movement in cumulative currency translation differences (Note 5)		**5,102**		
Movement in net assets (Note 4)				**12,404**

Income taxes paid by Group companies totalled $8.6 billion in 2003 (2002: $6.7 billion; 2001: $9.3 billion). Interest paid by Group companies was $0.9 billion in 2003 (2002: $1.0 billion; 2001: $0.7 billion).

The main non-cash movements reflect a change in accounting policy for certain power generation contracts ("tolling agreements", see Note 3) and acquisition of minority interests in DEA.

20 Employee retirement plans and other postretirement benefits

Retirement plans are provided for permanent employees of all major Group companies. The nature of such plans varies according to the legal and fiscal requirements and economic conditions of the country in which the employees are engaged. Generally, the plans provide defined benefits based on employees' years of service and average final remuneration. The principal plans in the Group use a December 31 measurement date.

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

In accordance with US accounting pronouncement FAS 106-1, the Group has elected to defer accounting for the impact of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). Measures of the impact of the Act are not reflected in the following disclosures of Other Benefits Obligations and Net Periodic Benefit Cost of Other Benefits in the USA. Specific authoritative guidance on the accounting for the federal subsidy under the Act is pending, and that guidance, when issued, could require the Group to change previously disclosed information.

								$ million
								Other benefits
	Pension benefits				2003			2002
	2003	2002	USA	Other	**Total**	USA	Other	**Total**
Change in benefit obligation								
Obligations for benefits based on employee service to date at January 1	**39,109**	32,239	**2,068**	**377**	**2,445**	906	344	1,250
Increase in present value of the obligation for benefits based on employee service during the year	**991**	899	**37**	**15**	**52**	32	7	39
Interest on the obligation for benefits in respect of employee service in previous years	**2,333**	2,001	**141**	**24**	**165**	111	21	132
Benefit payments made	**(2,034)**	(1,780)	**(95)**	**(25)**	**(120)**	(72)	(21)	(93)
Currency translation effects	**5,333**	3,938	**–**	**78**	**78**	–	45	45
Other components[a]	**744**	1,812	**369**	**43**	**412**	1,091	(19)	1,072
Obligations for benefits based on employee service to date at December 31	**46,476**	39,109	**2,520**	**512**	**3,032**	2,068	377	2,445
Change in plan assets								
Plan assets held in trust at fair value at January 1	**33,035**	36,420						
Actual return on plan assets	**6,598**	(5,943)						
Employer contributions	**1,275**	227						
Plan participants' contributions	**40**	17						
Benefit payments made	**(2,034)**	(1,780)						
Currency translation effects	**4,911**	3,709						
Other components[a]	**135**	385						
Plan assets held in trust at fair value at December 31	**43,960**	33,035						
Plan assets in excess of/(less than) the present value of obligations for benefits at December 31	**(2,516)**	(6,074)	**(2,520)**	**(512)**	**(3,032)**	(2,068)	(377)	(2,445)
Unrecognised net (gains)/losses remaining from the adoption of current method of determining pension costs	**5**	9						
Unrecognised net (gains)/losses since adoption	**7,295**	9,125	**876**	**149**	**1,025**	692	93	785
Unrecognised prior service cost/(credit)	**1,258**	1,254	**(82)**	**–**	**(82)**	(26)	–	(26)
Net amount recognised	**6,042**	4,314	**(1,726)**	**(363)**	**(2,089)**	(1,402)	(284)	(1,686)
Amounts recognised in the Statement of Assets and Liabilities:								
Intangible assets	**326**	420						
Prepaid benefit costs	**6,516**	4,506						
Accrued benefit liabilities:								
Short-term	**(182)**	(177)	**(51)**	**(28)**	**(79)**	(51)	(22)	(73)
Long-term	**(2,917)**	(3,403)	**(1,675)**	**(335)**	**(2,010)**	(1,351)	(262)	(1,613)
	3,743	1,346	**(1,726)**	**(363)**	**(2,089)**	(1,402)	(284)	(1,686)
Amount recognised in Parent Companies' interest in Group net assets:								
Accumulated other comprehensive income	**2,299**	2,968						
Net amount recognised	**6,042**	4,314	**(1,726)**	**(363)**	**(2,089)**	(1,402)	(284)	(1,686)

a Other components comprise mainly the effect of acquisitions and changes in actuarial assumptions.

Additional information on pension benefits

		$ million
	2003	2002
Obligation for pension benefits in respect of unfunded plans	**2,155**	1,964
Accumulated benefit obligation	**41,865**	34,766
For employee retirement plans with projected benefit obligation in excess of plan assets, the respective amounts are:		
Projected benefit obligation	**30,291**	25,698
Plan assets	**28,176**	21,072
For employee retirement plans with accumulated benefit obligation in excess of plan assets, the respective amounts are:		
Accumulated benefit obligation	**10,452**	10,907
Plan assets	**9,356**	9,330

Employer contributions to defined benefit pension plans during 2004 are estimated to be $1.3 billion.

20 Employee retirement plans and other postretirement benefits continued

Benefit costs for the year comprise:

$ million

	Pension benefits			Other benefits								
				2003			2002			2001		
	2003	2002	2001	USA	Other	**Total**	USA	Other	**Total**	USA	Other	**Total**
Service cost	**991**	899	681	**37**	**15**	**52**	32	7	39	10	3	13
Interest cost	**2,333**	2,001	1,784	**141**	**24**	**165**	111	21	132	61	15	76
Expected return on plan assets	**(3,547)**	(3,339)	(3,005)									
Other components	**303**	(100)	(216)	**66**	**4**	**70**	76	7	83	(2)	2	–
Cost of defined benefit plans	**80**	(539)	(756)	**244**	**43**	**287**	219	35	254	69	20	89
Payments to defined contribution plans	**171**	84	87									
	251	(455)	(669)	**244**	**43**	**287**	219	35	254	69	20	89

Discount rates, projected rates of remuneration growth and expected rates of return on plan assets vary for the different plans as they are determined in the light of local conditions. Expected rates of return on plan assets are calculated using a common assumption setting process based on a projection of real long-term bond yields and an equity risk premium which are combined with local inflation assumptions and applied to each plan's actual asset mix. The weighted averages applicable for the principal plans in the Group are:

	Pension benefits			Other benefits					
				2003		2002		2001	
	2003	2002	2001	USA	Other	USA	Other	USA	Other
Assumptions used to determine benefit obligations at December 31									
Discount rate	**5.6%**	5.9%	6.0%	**6.0%**	**5.6%**	6.5%	5.6%	7.0%	6.0%
Projected rate of remuneration growth	**3.9%**	4.0%	4.0%						
Assumptions used to determine benefit costs for year ended December 31									
Discount rate	**5.9%**	6.0%	6.1%	**6.5%**	**5.6%**	7.0%	6.0%	7.5%	6.3%
Expected rate of return on plan assets	**7.9%**	8.0%	7.8%						
Projected rate of remuneration growth	**4.0%**	4.0%	4.0%						
Healthcare cost trend rates									
Healthcare cost trend rate in year after reporting year				**10.0%**	**3.9%**	7.8%	4.6%		
Ultimate healthcare cost trend rate				**5.0%**	**2.9%**	5.0%	2.9%		
Year ultimate healthcare cost trend rate is applicable				**2011**	**2006**	2010	2004		

The effect of a one percentage point increase/(decrease) in the annual rate of increase in the assumed healthcare cost trend rates would be to increase/(decrease) annual postretirement benefit cost by approximately $41 million/($30 million) and the accumulated postretirement benefit obligation by approximately $422 million/($361 million).

Weighted-average plan asset allocations by asset category and the target allocation for December 31, 2003 for the principal pension plans in the Group are:

	Target allocation	Percentage of plan assets at December 31	
	2003	**2003**	2002
Equity securities	72%	**73%**	71%
Debt securities	23%	**22%**	23%
Real estate	2%	**2%**	3%
Other	3%	**3%**	3%
Total	100%	**100%**	100%

Plan long-term investment strategies are generally determined by the responsible Pension Fund Trustees using a structured asset-liability modelling approach to determine the asset mix which best meets the objectives of optimising investment return and maintaining adequate funding levels.

21 Employee emoluments and numbers

(a) Emoluments

			$ million
	2003	2002	2001
Remuneration	**7,477**	6,096	4,651
Social law taxes	**660**	518	395
Pensions and similar obligations (Note 20)	**538**	(201)	(580)
	8,675	6,413	4,466

(b) Average numbers

			thousands
	2003	2002	2001
Exploration and Production	**17**	17	14
Gas & Power	**2**	2	2
Oil Products	**82**	75	58
Chemicals	**9**	9	9
Corporate and Other	**9**	8	7
	119	111	90

(c) Year-end numbers

			thousands
	2003	2002	2001
Exploration and Production	**17**	17	15
Gas & Power	**2**	2	2
Oil Products	**82**	80	58
Chemicals	**9**	9	9
Corporate and Other	**9**	8	7
	119	116	91

In addition to remuneration above, there were charges for redundancy of $291 million in 2003 (2002: $215 million; 2001: $110 million).

The charges relate to 2,000 employees in 2003 (mainly in the Exploration and Production and Oil Products segments), 2,600 employees in 2002 (mainly in the Exploration and Production and Oil Products segments) and 1,300 employees in 2001 (mainly in the Oil Products, Chemicals and Other industry segments). The liabilities for redundancies at December 31, 2003 and 2002, and movements during 2003 and 2002, are given in the following table. Other movements in 2002 mainly relate to liabilities assumed on acquisitions.

		$ million
	2003	2002
At January 1	**395**	222
Charges	**291**	215
Payments	**(245)**	(170)
Other movements and currency translation effects	**53**	128
At December 31	**494**	395

22 Stock-based compensation plans and Parent Companies' shares held by Group companies

Stock-based compensation plans

Certain Group companies have in place various stock-based plans for senior staff and other employees of those and other Group companies. Details of the principal plans are given below.

The Group Stock Option Plans offer eligible employees options over Royal Dutch ordinary shares (Royal Dutch shares) or Shell Transport Ordinary shares (Shell Transport shares) at a price not less than the fair market value of the shares at the date the options were granted. The options are exercisable three years from grant, except for those granted under the US plans, which vest a third per year for three years. The options lapse ten years after grant, however leaving Group employment may cause options to lapse earlier. For Group Managing Directors and the most senior executives, 100% of the options granted in 2003 (and in subsequent years) are subject to performance conditions.

Under the Restricted Stock Plan, grants are made on a highly selective basis to senior staff. A maximum of 250,000 Royal Dutch shares (or equivalent value in Shell Transport shares) can be granted under the plan in any year. Shares are granted subject to a three-year restriction period and the number of shares awarded is based on the share price at the start of the restricted period. The shares, together with additional shares equivalent to the value of the dividends payable over the restriction period, are released to the individual at the end of the three-year period.

22 Stock-based compensation plans and Parent Companies' shares held by Group companies continued

The following table shows for 2002 and 2003, in respect of option plans, the number of shares under option at the beginning of the year, the number of options granted, exercised and expired during the year and the number of shares under option at the end of the year, together with their weighted average exercise price translated at the respective year-end exchange rates:

	Royal Dutch shares		Shell Transport shares		Shell Canada common shares[a]	
	Number (thousands)	Weighted average exercise price ($)	Number (thousands)	Weighted average exercise price ($)	Number (thousands)	Weighted average exercise price ($)
Under option at January 1, 2002	20,401	54.10	65,012	7.30	3,616	17.89
Granted	13,792	59.71	39,210	8.45	1,567	28.36
Exercised	(180)	47.12	(796)	6.21	(394)	14.45
Expired	(632)	54.50	(1,979)	7.53	(12)	25.21
Under option at December 31, 2002[b]	33,381	59.86	101,447	8.26	4,777	21.71
Granted	15,643	45.13	41,893	6.74	1,674	35.65
Exercised	–	–	(192)	6.47	(505)	22.88
Expired	(1,003)	64.03	(2,813)	8.92	(73)	26.03
Under option at December 31, 2003[b]	48,021	60.09	140,335	8.44	5,873	29.43

a Unissued.
b The underlying weighted average exercise prices for Royal Dutch and Shell Transport shares under option at December 31, 2003 were €47.64 (2002: €57.21) and £4.73 (2002: £5.14) respectively.

The following tables provide further information about the options outstanding at December 31, 2003:

					Royal Dutch shares
	Options outstanding			Options exercisable	
Range of exercise prices	Number (thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price ($)	Number (thousands)	Weighted average exercise price ($)
$40 to $45	6,849	9.1	42.24	49	41.33
$45 to $50	8,791	9.2	47.24	7	47.98
$50 to $55	10,820	6.9	53.44	6,530	52.71
$55 to $60	660	6.4	56.43	647	56.45
$60 to $65	5,272	6.4	60.93	3,347	61.03
$70 to $75	149	7.8	71.18	–	–
$75 to $80	12,180	7.3	77.19	1,891	75.10
$85 to $90	3,300	7.2	88.95	79	87.06
$40 to $90	48,021	7.7	60.09	12,550	58.66

					Shell Transport shares
	Options outstanding			Options exercisable	
Range of exercise prices	Number (thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price ($)	Number (thousands)	Weighted average exercise price ($)
$6 to $7	37,324	7.3	6.51	11,279	6.47
$7 to $8	23,225	7.3	7.32	7,131	7.83
$9 to $10	67,256	7.1	9.44	11,630	9.00
$10 to $11	12,530	7.1	10.91	65	10.31
$6 to $11	140,335	7.2	8.44	30,105	7.78

In the UK, The Shell Petroleum Company Limited and Shell Petroleum N.V. each operate a savings-related stock option scheme, under which options are granted over shares of Shell Transport at prices not less than the market value on a date not more than 30 days before the date of the grant of option and are normally exercisable after completion of a three-year or five-year contractual savings period. The following table shows for 2002 and 2003, in respect of these plans, the number of Shell Transport shares under option at the beginning of the year, the number of options granted, exercised and expired during the year and the number of shares under option at the end of the year:

		thousands
	2003	2002
Under option at January 1	**18,680**	17,549
Granted	**4,975**	6,898
Exercised	**(707)**	(4,911)
Expired	**(7,859)**	(856)
Under option at December 31	**15,089**	18,680

Prior to 2000, a Group company (interest 100%) had incentive compensation plans containing stock appreciation rights linked to the value of Royal Dutch shares. During 2003 512,481 of these stock appreciation rights were exercised leaving a balance of 8,261,633 at December 31, 2003.

In 2001, the Global Employee Share Purchase Plan was implemented giving eligible employees the opportunity to buy Royal Dutch or Shell Transport shares, with 15% added after a specified holding period. At December 31, 2003, 4,754 (2002: 3,310) Royal Dutch shares and 19,742 (2002: 14,578) Shell Transport shares were held by Group companies in connection with the Global Employee Share Purchase Plan.

Effects on Group net income and Earnings per share under the fair value method

A comparison of the Group's net income and Earnings per share for both Royal Dutch and Shell Transport as reported under the intrinsic value method and on a pro forma basis calculated as if the fair value of options and share purchase rights granted would have been considered as compensation expense is as follows:

	2003		2002		2001	
	As reported	Pro forma	As restated (see Note 2)	Pro forma	As restated (see Note 2)	Pro forma
Group net income ($ million)	**12,496**	**12,219**	9,722	9,519	10,350	10,241
Basic earnings per share attributable to Royal Dutch ($)	**3.68**	**3.60**	2.83	2.78	2.96	2.93
Diluted earnings per share attributable to Royal Dutch ($)	**3.68**	**3.60**	2.83	2.78	2.96	2.93
Basic earnings per ADR attributable to Shell Transport ($)	**3.15**	**3.08**	2.43	2.38	2.55	2.52
Diluted earnings per ADR attributable to Shell Transport ($)	**3.15**	**3.08**	2.43	2.38	2.54	2.52

The fair value of the Group's 2003 option grants was estimated using a Black-Scholes option pricing model and the following assumptions for US dollar, euro and sterling denominated options respectively: risk-free interest rates of 2.9%, 3.3% and 4.1%; dividend yield of 4.0%, 4.6% and 4.0%; volatility of 31.6%, 32.2% and 34.5% and expected lives of five to seven years.

Parent Companies' shares held by Group companies

Group companies purchase shares of the Parent Companies in the open market with the purpose of covering their future obligations arising from the stock options granted to their employees and employees of other Group companies. At December 31, 2003, 41.1 million Royal Dutch shares (2002: 29.9 million) and 147.9 million Shell Transport shares (2002: 111.1 million) were held by Group companies.

In connection with other incentive compensation plans linked to the appreciation in value of Royal Dutch and of Shell Transport shares, 9.2 million Royal Dutch shares and 0.4 million Shell Transport shares were held by Group companies at December 31, 2003 and 2002. In addition, 33,600 shares of Royal Dutch were held by Group companies at December 31, 2003 and 2002.

The carrying amount of these and all Parent Company shares held in connection with the stock-based compensation plans at December 31, 2003 is $3,428 million (2002: $2,797 million).

23 Decommissioning and restoration costs

2003			$ million
	Short-term	Long-term	**Total**
At January 1	71	3,528	**3,599**
Cumulative effect of change in accounting policy (see Note 3)	108	(102)	**6**
Liabilities incurred	–	174	**174**
Liabilities settled	(106)	(37)	**(143)**
Accretion expense	–	49	**49**
Reclassifications and other movements	12	12	**24**
Currency translation differences	4	331	**335**
At December 31	89	3,955	**4,044**

For the purposes of calculating provisions for decommissioning and restoration costs, estimated total ultimate liabilities of $7.5 billion at December 31, 2003 (2002: $5.2 billion) were used. Such estimates are subject to various regulatory and technological developments.

24 Information by geographical area and by industry segment

(a) Geographical area

						$ million
	2003		2002 As restated		2001 As restated	
	Net proceeds	Fixed assets	Net proceeds	Fixed assets	Net proceeds	Fixed assets
Europe	**71,864**	**38,052**	63,761	36,668	62,259	19,223
Other Eastern Hemisphere	**38,494**	**33,651**	33,322	28,558	31,866	26,267
USA	**75,669**	**30,355**	55,411	27,268	15,924	17,849
Other Western Hemisphere	**15,701**	**13,165**	14,107	11,976	15,312	9,881
Total Group	**201,728**	**115,223**	166,601	104,470	125,361	73,220

24 Information by geographical area and by industry segment continued

(b) Industry segment

2003 — $ million

	Total Group	Exploration and Production	Gas & Power	Oil Products	Chemicals	Corporate and Other
Sales						
third parties	**201,728**	**12,481**	**7,398**	**162,161**	**18,843**	**845**
inter-segment		**20,244**	**850**	**3,416**	**1,974**	**29**
Net proceeds		**32,725**	**8,248**	**165,577**	**20,817**	**874**
Operating profit/(loss)						
Group companies	**18,324**	**15,374**	**520**	**3,205**	**(112)**	**(663)**
Group share of associated companies	**3,484**	**1,876**	**889**	**911**	**(165)**	**(27)**
	21,808	**17,250**	**1,409**	**4,116**	**(277)**	**(690)**
Interest and other income	**1,973**	**89**	**1,366**	**8**	**(29)**	**539**
Interest expense	**1,381**					**1,381**
Currency exchange gains/(losses)	**(222)**	**(17)**	**(23)**	**(12)**	**(14)**	**(156)**
Taxation	**9,572**	**8,472**	**463**	**1,252**	**(111)**	**(504)**
Income applicable to minority interests	**365**					
Cumulative effect of a change in accounting principle, net of tax	**255**	**255**				
Net income	**12,496**	**9,105**	**2,289**	**2,860**	**(209)**	**(1,184)**
Total assets at December 31	**168,091**	**62,504**	**19,084**	**65,254**	**15,420**	**5,829**
Total liabilities at December 31	**(91,815)**	**(46,365)**	**(13,149)**	**(43,078)**	**(8,009)**	**18,786**
Tangible fixed assets at December 31						
Cost	**181,685**	**105,540**	**6,934**	**53,556**	**14,028**	**1,627**
Accumulated depreciation	**(93,984)**	**(55,652)**	**(985)**	**(28,784)**	**(7,851)**	**(712)**
Goodwill at December 31	**2,675**	**–**	**184**	**2,455**	**23**	**13**
Investments in associated companies at December 31	**19,384**	**4,121**	**4,924**	**5,965**	**4,017**	**357**
Capital expenditure and new investments in associated companies	**13,235**	**8,276**	**1,511**	**2,406**	**599**	**443**
Depreciation, depletion and amortisation charge						
Impairment	**1,375**	**697**	**–**	**331**	**220**	**127**
Other	**10,047**	**6,801**	**128**	**2,532**	**458**	**128**

2002 (as restated) — $ million

	Total Group	Exploration and Production	Gas & Power	Oil Products	Chemicals	Corporate and Other
Sales						
third parties[a]	166,601	11,901	4,278	135,544	14,125	753
inter-segment		14,680	620	3,080	1,082	17
Net proceeds[a]		26,581	4,898	138,624	15,207	770
Operating profit/(loss)						
Group companies	15,504	12,215	107	3,188	438	(444)
Group share of associated companies	2,822	1,322	751	556	213	(20)
	18,326	13,537	858	3,744	651	(464)
Interest and other income	758	98	118	14	3	525
Interest expense	1,364					1,364
Currency exchange gains/(losses)	(23)	(26)	6	(64)	(16)	77
Taxation	7,796	6,813	208	1,067	73	(365)
Income applicable to minority interests	179					
Net income	9,722	6,796	774	2,627	565	(861)
Total assets at December 31	153,458	57,315	16,057	60,549	14,172	5,365
Total liabilities at December 31	(89,432)	(45,336)	(12,223)	(41,826)	(7,903)	17,856
Tangible fixed assets at December 31						
Cost	157,499	93,333	47,689	12,010	2,843	1,624
Accumulated depreciation	(78,812)	(46,752)	(23,926)	(6,711)	(763)	(660)
Goodwill at December 31	2,324	–	184	1,989	22	129
Investments in associated companies at December 31	17,948	3,594	4,679	5,344	4,154	177
Capital expenditure, acquisitions and new investments in associated companies	23,651	13,155	952	7,968	998	578
Depreciation, depletion and amortisation charge						
Impairment	197	33	4	111	29	20
Other	8,424	5,540	124	2,295	372	93

2001 (as restated)						$ million
	Total Group	Exploration and Production	Gas & Power	Oil Products	Chemicals	Corporate and Other
Sales						
third parties[a]	125,361	12,057	5,951	93,517	13,260	576
inter-segment		13,790	705	2,108	990	2
Net proceeds[a]		25,847	6,656	95,625	14,250	578
Operating profit/(loss)						
Group companies	16,541	14,144	538	2,481	(34)	(588)
Group share of associated companies	2,646	1,550	941	241	(27)	(59)
	19,187	15,694	1,479	2,722	(61)	(647)
Interest and other income	1,059	52	128	(12)	2	889
Interest expense	1,133					1,133
Currency exchange gains/(losses)	(30)	(4)	4	(50)	(6)	26
Taxation	8,404	7,779	385	690	(192)	(258)
Income applicable to minority interests	329					
Net income	10,350	7,963	1,226	1,970	127	(607)
Total assets at December 31	111,653	39,477	11,815	38,007	12,145	10,209
Total liabilities at December 31	(51,933)	(23,990)	(7,277)	(21,367)	(6,383)	7,084
Tangible fixed assets at December 31						
Cost	117,543	68,572	34,577	10,782	2,275	1,337
Accumulated depreciation	(66,616)	(38,819)	(20,449)	(6,064)	(679)	(605)
Goodwill at December 31	365	–	189	154	22	–
Investments in associated companies at December 31	18,332	3,463	4,614	6,384	3,740	131
Capital expenditure and new investments in associated companies	10,672	7,136	908	1,527	760	341
Depreciation, depletion and amortisation charge						
Impairment	88	8	(8)	(4)	40	52
Other	6,113	3,910	114	1,621	364	104

a Certain prior period amounts have been reclassified, resulting in a reduction in sales proceeds and a corresponding reduction in cost of sales following the implementation of US accounting guidance EITF Issue No. 02–03, see Note 3.

25 Oil and gas exploration and production activities

(a) Capitalised costs

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

			$ million
	2003	2002[a] As restated	2001[a] As restated
Cost			
Proved properties	**94,069[b]**	83,964	63,115
Unproved properties	**5,400**	4,768	2,430
Support equipment and facilities	**3,128**	2,352	1,718
	102,597	91,084	67,263
Depreciation			
Proved properties	**53,254[b]**	45,201	37,555
Unproved properties	**824**	325	212
Support equipment and facilities	**1,443**	1,224	1,051
	55,521	46,750	38,818
Net capitalised costs	**47,076**	44,334	28,445
Oil sands: net capitalised costs	**2,811**	2,246	1,309

a Includes the impact of reclassifications between asset classes.
b Includes capitalised asset retirement costs.

The Group share of associated companies' net capitalised costs was $3,801 million at December 31, 2003 (2002: $3,183 million; 2001: $2,928 million).

(b) Costs incurred

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

25 Oil and gas exploration and production activities continued

2003 $ million

	Eastern Hemisphere				Western Hemisphere		
	Europe	Africa	Asia Pacific	Middle East, Russia, CIS[a]	USA	Other	Total
Acquisition of properties							
Proved	**6**	**8**	**177**	**194**	**–**	**–**	**385**
Unproved	**–**	**209**	**3**	**273**	**17**	**8**	**510**
Exploration	**187**	**163**	**139**	**273**	**342**	**155**	**1,259**
Development[b]							
Excluding oil sands	**2,776**	**1,660**	**311**	**1,251**	**1,599**	**588**	**8,185**
Oil sands						**88**	**88**

2002 (as restated) $ million

	Eastern Hemisphere				Western Hemisphere		
	Europe	Africa	Asia Pacific	Middle East, Russia, CIS	USA	Other	Total
Acquisition of properties							
Proved	3,776	–	–	122	565	801	5,264
Unproved	1,693	53	–	3	368	412	2,529
Exploration	217	279	115	170	328	182	1,291
Development[c]							
Excluding oil sands	1,605	1,370	442	685	1,465	407	5,974
Oil sands						931	931

2001 (as restated) $ million

	Eastern Hemisphere				Western Hemisphere		
	Europe	Africa	Asia Pacific	Middle East, Russia, CIS	USA	Other	Total
Acquisition of properties							
Proved	5	–	839	82	290	9	1,225
Unproved	23	61	162	91	157	(19)	475
Exploration	114	163	119	203	303	203	1,105
Development[c]							
Excluding oil sands	852	992	449	289	1,214	230	4,026
Oil sands						847	847

a These amounts do not include Sakhalin II project costs of $384 million reported in the Gas & Power segment.
b Includes capitalised asset retirement costs.
c Includes the impact of reclassifications between geographical regions and cost categories.

The Group share of associated companies' costs incurred was $417 million in 2003 (2002: $551 million; 2001: $415 million).

(c) Earnings

Earnings of Group companies from exploration and production activities are given in the table below. Certain purchases of traded product are netted into sales.

2003 — $ million

			Eastern Hemisphere		Western Hemisphere		
	Europe	Africa	Asia Pacific	Middle East, Russia, CIS	USA	Other	Total
Sales:							
Third parties	**5,386**	**129**	**1,021**	**1,685**	**1,903**	**1,115**	**11,239**
Intra-group	**5,873**	**3,888**	**1,179**	**3,713**	**4,480**	**713**	**19,846**
Net proceeds	**11,259**	**4,017**	**2,200**	**5,398**	**6,383**	**1,828**	**31,085**
Production costs[a]	**1,881**	**1,104**	**484**	**1,727**	**625**	**373**	**6,194**
Exploration expense	**189**	**231**	**99**	**122**	**275**	**143**	**1,059**
Depreciation, depletion and amortisation	**3,519**	**418**	**559**	**596**	**1,634**	**653**	**7,379**
Other income/(costs)	**(557)**	**(207)**	**230**	**(131)**	**30**	**(241)**	**(876)**
Earnings before taxation	**5,113**	**2,057**	**1,288**	**2,822**	**3,879**	**418**	**15,577**
Taxation	**1,784**	**1,451**	**262**	**2,239**	**1,501**	**199**	**7,436**
Earnings from operations	**3,329**	**606**	**1,026**	**583**	**2,378**	**219**	**8,141**
Earnings from oil sands						**(101)**	**(101)**

2002 (as restated) — $ million

			Eastern Hemisphere		Western Hemisphere		
	Europe	Africa	Asia Pacific	Middle East, Russia, CIS	USA	Other	Total
Sales:							
Third parties	5,472	73	969	1,764	1,997	892	11,167
Intra-group	4,572	2,538	1,186	3,087	2,863	433	14,679
Net proceeds	10,044	2,611	2,155	4,851	4,860	1,325	25,846
Production costs[a]	1,826	754	477	1,515	589	298	5,459
Exploration expense	177	219	62	82	249	208	997
Depreciation, depletion and amortisation	2,233	374	593	794	1,351	226	5,571
Other income/(costs)	(604)	(162)	149	(358)	(330)	(227)	(1,532)
Earnings before taxation	5,204	1,102	1,172	2,102	2,341	366	12,287
Taxation	2,365	799	332	1,638	791	106	6,031
Earnings from operations	2,839	303	840	464	1,550	260	6,256
Earnings from oil sands						(3)	(3)

2001 (as restated) — $ million

			Eastern Hemisphere		Western Hemisphere		
	Europe	Africa	Asia Pacific	Middle East, Russia, CIS	USA	Other	Total
Sales:							
Third parties	4,971	98	1,013	1,322	2,771	836	11,011
Intra-group	3,723	2,759	1,171	3,201	2,306	630	13,790
Net proceeds	8,694	2,857	2,184	4,523	5,077	1,466	24,801
Production costs[a]	1,276	820	406	1,362	496	268	4,628
Exploration expense	98	109	121	125	289	143	885
Depreciation, depletion and amortisation	1,279	317	475	518	1,072	257	3,918
Other income/(costs)	(395)	(97)	(58)	(74)	(305)	(247)	(1,176)
Earnings before taxation	5,646	1,514	1,124	2,444	2,915	551	14,194
Taxation	2,476	1,034	404	1,849	1,028	196	6,987
Earnings from operations	3,170	480	720	595	1,887	355	7,207
Earnings from oil sands						–	–

a Includes certain royalties paid in cash amounting to $1,700 million in 2003 (2002: $1,449 million; 2001: $1,364 million).

The Group share of associated companies' earnings was $810 million in 2003 (2002: $543 million; 2001: $757 million) mainly in the USA $424 million (2002: $330 million; 2001: $303 million) and Asia Pacific $354 million (2002: $171 million; 2001: $428 million).

26 Auditors' remuneration

Remuneration of KPMG and PricewaterhouseCoopers LLP	2003	2002 As restated	2001
			$ million
Audit fees	**32**	27	18
Audit-related fees[a]	**11**	17	12
Tax fees[b]	**7**	6	3
Fees for all other non-audit services	**6**	12	17

a Fees for audit-related services such as employee benefit plan audits, due diligence assistance, assurance of non-financial data, operational audits, training services and special investigations.
b Fees for tax compliance, tax advice and tax planning services.

27 Contingencies and litigation

Contingent liabilities of Group companies arising from guarantees related to commitments of non-consolidated entities amounted to $3.4 billion at December 31, 2003 (2002: $4.1 billion). An analysis of the guarantees outstanding at December 31, 2003 is given in the following table:

	$ billion
In respect of debt	1.8
In respect of customs duties	0.7
Other	0.9
	3.4

The $1.8 billion of guarantees in respect of debt relate to project finance, $1.2 billion of which expires by 2005. Guarantees in respect of customs duties mainly relate to a cross guarantee, renewable annually, for amounts payable by industry participants in a western European country.

Shell Oil Company (including subsidiaries and affiliates, referred to collectively as SOC), along with other oil companies, has been sued by public and quasi-public water purveyors, as well as governmental entities, alleging responsibility for groundwater contamination caused by releases of gasoline containing oxygenate additives. Most of these suits assert among other claims, product liability theories, and seek to recover damages from SOC and others, including clean-up costs. As of December 31, 2003, there were approximately 60 pending suits by such plaintiffs that asserted claims against SOC. Management of the Group cannot currently predict the manner and timing of the resolution of pending oxygenate-related matters, is currently unable to estimate the range of possible losses or minimum losses from such matters and does not currently believe that the outcome of the oxygenate-related litigation pending as of December 31, 2003 will have a material impact on the Group's financial condition, although such resolutions could have a significant effect on periodic results for the period in which they are recognised.

A $490 million dollar judgment in favour of 466 plaintiffs was rendered in 2002 by a Nicaraguan court against SOC and others, based upon Nicaraguan Special Law 364 for claimed personal injuries resulting from alleged exposure to dibromochloropropane (DBCP) – a pesticide manufactured by SOC prior to 1978. This special law imposes strict liability (in a predetermined amount) on international manufacturers of DBCP. The statute also provides that unless a deposit (based on a predetermined formula) of an amount denominated in Nicaraguan cordobas (which in this case was in excess of $20 million) is made by each defendant for each case into the Nicaraguan courts, the claims would be submitted to the US courts. SOC chose not to make this deposit and thereafter judgment was entered without giving effect to the provision of Special Law 364 that submits the matter to the US courts. Further, SOC was not afforded the opportunity to present any defences in the Nicaraguan court, including that it was not subject to Nicaraguan jurisdiction because it had neither shipped nor sold DBCP to parties in Nicaragua.

In 2003, an attempt by the plaintiffs to enforce the Nicaraguan judgment described above in the United States was rejected by the U.S. District Court for the Central District of California, which decision is on appeal before the Ninth Circuit Court of Appeals. SOC has also filed a declaratory judgment seeking ultimate adjudication of the non-enforceability of this Nicaraguan judgment in the U.S. District Court for the Central District of California. Subsequent to the year ending December 31, 2003, an additional Nicaraguan judgment was entered in the amount of $83 million in favour of 58 plaintiffs under facts and circumstances almost identical to those relating to the judgment described above. It is the opinion of management of the Group that these judgments do not meet due process standards in the United States and are unenforceable as a matter of law. No reserves have been established for these judgments.

Since 1984, SOC has been named with others as a defendant in numerous product liability cases, including class actions, involving the failure of residential plumbing systems and municipal water distribution systems constructed with polybutylene plastic pipe. SOC fabricated the resin for this pipe while the co-defendants fabricated the raw materials for the pipe fittings. As a result of two class action settlements in 1995, SOC and the co-defendants agreed on a mechanism to fund until 2009 the settlement of most of the residential plumbing claims in the United States. Reserves have been taken by SOC for its settlement funding needs anticipated at this time. Additionally, claims that are not part of these class action settlements or that challenge these settlements continue to be filed primarily involving alleged problems with polybutylene pipe used in municipal water distribution systems. It is the opinion of management of the Group that exposure from this other polybutylene litigation pending as of December 31, 2003, is not material. Management of the Group cannot currently predict when or how all polybutylene matters will be finally resolved.

Group companies are subject to a number of other loss contingencies arising out of litigation and claims brought by governmental and private parties. While it is not feasible to predict the outcome of pending litigation and claims with certainty, the management of the Group believes that any reasonably possible additional loss related to such matters, in excess of provisions made, would have no material adverse effect on the Group's financial statements or cash flows as of December 31, 2003.

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

Subsequent to the year ended December 31, 2003, in connection with the recategorisation of certain hydrocarbon reserves announced on January 9, 2004, a number of shareholder class action complaints were filed in the United States District Court of New Jersey, the United States Securities and Exchange Commission has issued a formal order of private investigation, the United States Department of Justice has commenced a criminal investigation, the UK Financial Services Authority has served formal notice of investigation under the Financial Services and Markets Act 2000 and Euronext Amsterdam and the Dutch Authority Financial Markets are investigating the issues related to the reserves recategorisation. Management of the Group cannot currently predict the manner and timing of the resolution of these pending matters, is currently unable to estimate the range of possible losses from such matters and does not currently believe the resolution of these pending matters will have a material impact on the Group's financial condition, although such resolutions could have a significant effect on periodic results for the period in which they are recognised.

28 Financial instruments

Group companies, in the normal course of business, use various types of financial instruments which expose the Group to market or credit risk. Group companies have procedures and policies in place to limit the amount of credit exposure to any counterparty or market. These procedures and the broad geographical spread of Group companies' activities limit the Group's exposure to concentrations of credit or market risk.

Some Group companies enter into derivatives such as interest rate swaps/forward rate agreements to manage interest rate exposure. The financing of most Operating Companies is structured on a floating-rate basis and, except in special cases, further interest rate risk management is discouraged. Foreign exchange derivatives, such as forward exchange contracts and currency swaps/options, are used by some Group companies to manage foreign exchange risk. Commodity swaps, options and futures are used to manage price and timing risks mainly involving crude oil, natural gas and oil products.

The contract/notional amount, together with the estimated fair value (carrying amount) of derivatives held by Group companies at December 31 is as follows:

				$ million
		2003		2002
	Contract/ notional amount	**Estimated fair value**	Contract/ notional amount	Estimated fair value As restated
Interest rate swaps/forward rate agreements	**4,322**	**121**	5,557	169
Forward exchange contracts and currency swaps/options	**18,874**	**165**	16,922	(88)
Commodity swaps, options and futures	**65,800**	**61**	56,642	55
	88,996	**347**	79,121	136

Additional data related to derivatives and risk disclosures, required by the United States Securities and Exchange Commission, will be given in the 2003 Annual Report on Form 20-F of Royal Dutch and Shell Transport. (See back cover for details of where to obtain copies of publications.)

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

Netherlands GAAP Financial Statements

Statement of Income $ million

	Note	2003	2002 As restated	2001 As restated
Sales proceeds		**268,892**	222,768	167,431
Sales taxes, excise duties and similar levies		**67,164**	56,167	42,070
Net proceeds		**201,728**	166,601	125,361
Cost of sales		**167,667**	138,117	98,381
Gross profit		**34,061**	28,484	26,980
Selling and distribution expenses		**11,941**	9,954	7,898
Administrative expenses		**1,903**	1,601	1,244
Exploration		**1,476**	1,073	910
Research and development		**584**	472	387
Operating profit of Group companies		**18,157**	15,384	16,541
Share of operating profit of associated companies	6	**3,484**	2,822	2,646
Operating profit		**21,641**	18,206	19,187
Interest and other income	7	**1,973**	758	1,059
Interest expense	8	**1,381**	1,364	1,133
Currency exchange gains/(losses)		**(222)**	(23)	(30)
Income before taxation		**22,011**	17,577	19,083
Taxation	9	**9,572**	7,796	8,404
Income after taxation		**12,439**	9,781	10,679
Income applicable to minority interests		**365**	179	329
Net income		**12,074**	9,602	10,350

Statement of Comprehensive Income and Parent Companies' interest in Group net assets $ million

	Note	2003	2002 As restated	2001 As restated
Net income	34	**12,074**	9,602	10,350
Other comprehensive income, net of tax:	5			
currency translation differences	19	**5,102**	2,432	(1,686)
unrealised gains/(losses) on securities		**689**	25	(143)
unrealised gains/(losses) on cash flow hedges		**51**	(225)	(14)
minimum pension liability adjustments		**358**	(1,475)	(127)
Comprehensive income		**18,274**	10,359	8,380
Distributions to Parent Companies	34	**(5,660)**	(5,435)	(9,163)
Increase in Parent Companies' shares held, net of dividends received	22	**(631)**	(844)	(642)
Loss on sale of Parent Companies' shares		**(1)**	–	–
Parent Companies' interest in Group net assets:				
At January 1		**60,324**	56,244	57,669
Cumulative effect of change in accounting policy		**255**	–	–
At January 1 after cumulative effect of change		**60,579**	56,244	57,669
Parent Companies' interest in Group net assets at December 31	34	**72,561**	60,324	56,244

Statement of Assets and Liabilities

$ million	Note	Dec 31, 2003	Dec 31, 2002 As restated
Fixed assets			
Tangible assets	31	**87,701**	81,757
Intangible assets	31	**4,448**	4,576
Investments:			
associated companies	6	**19,384**	17,948
securities	14	**2,317**	1,719
other		**1,086**	1,420
Total fixed assets		**114,936**	107,420
Other long-term assets	11	**9,257**	7,333
Current assets			
Inventories	12	**12,690**	11,338
Accounts receivable	13	**28,969**	28,761
Cash and cash equivalents	14	**1,952**	1,556
Total current assets		**43,611**	41,655
Current liabilities: amounts due within one year			
Short-term debt	15	**11,027**	12,874
Accounts payable and accrued liabilities	17	**32,347**	32,189
Taxes payable	9	**5,927**	4,985
Dividends payable to Parent Companies		**5,123**	5,153
Total current liabilities		**54,424**	55,201
Net current assets/(liabilities)		**(10,813)**	(13,546)
Total assets less current liabilities		**113,380**	101,207
Long-term liabilities: amounts due after more than one year			
Long-term debt	32	**9,100**	9,887
Other	18	**6,054**	6,174
		15,154	16,061
Provisions			
Deferred taxation	9	**13,355**	12,696
Pensions and similar obligations	20	**4,927**	5,016
Decommissioning and restoration costs	23	**3,955**	3,528
		22,237	21,240
Group net assets before minority interests		**75,989**	63,906
Minority interests		**3,428**	3,582
Net assets		**72,561**	60,324

Statement of Cash Flows

The differences in accounting policy between Netherlands GAAP and US GAAP do not affect the underlying cash flows of the Group and therefore a separate Statement of Cash Flows is not presented under Netherlands GAAP. Reference is made to the Statement of Cash Flows presented on page 51.

Notes to the Netherlands GAAP Financial Statements

29 Basis of Presentation of Group Financial Statements under Netherlands GAAP

These Financial Statements have been prepared in conformity with generally accepted accounting principles in the Netherlands (Netherlands GAAP). These accounting principles are consistent with the accounting principles applied in the preparation of the Group's Financial Statements prepared in conformity with generally accepted accounting principles in the United States (US GAAP), as set out in the Group accounting policies on pages 54 to 57, except as set forth below. The Notes to the Financial Statements prepared in conformity with US GAAP appearing on pages 52 to 77 are an integral part of these Financial Statements prepared under Netherlands GAAP.

The differences between Netherlands GAAP, as applied to the preparation of these Financial Statements (and after giving effect to the restatement described below), and US GAAP, as applied to the Group's Financial Statements prepared in conformity with US GAAP, are as follows:

(i) goodwill: Under US GAAP, commencing in 2002, goodwill is no longer amortised but instead is tested for impairment annually or when certain events occur that indicate potential impairment. Under Netherlands GAAP, goodwill is amortised on a straight-line basis over its estimated useful economic life, which is assumed not to exceed 20 years unless there are grounds to rebut this assumption.

(ii) asset retirement obligations: Under US GAAP, a change in accounting for asset retirement obligations in 2003, as described on page 57, has been accounted for prospectively, with the cumulative effect of the change at the beginning of 2003 of $255 million being reflected in 2003 net income. This change in accounting was also made under Netherlands GAAP. However, the cumulative effect of the change under Netherlands GAAP has been reported as an adjustment to the opening balance of net assets and, due to the absence of comparative data, net income for prior years has not been restated.

(iii) long-term commitments: Under US GAAP, a change in accounting for certain power generation contracts ("tolling agreements") and lease contracts was made in 2003, due to the implementation of FIN 46, as revised, "Consolidation of Variable Interest Entities" (FIN 46-R), as described on page 57. Implementation did not have any effect on net income, but resulted in an increase in the Group's tangible fixed assets and debt of $3.4 billion as of September 30, 2003. Under Netherlands GAAP, these commitments were accounted for in 2003 and prior years as capital leases upon inception, which is comparable with the accounting required under FIN 46-R. The Group's balance sheet under Netherlands GAAP as of December 31, 2002 includes tangible fixed assets and debt of $3.1 billion relating to such agreements.

30 Changes in accounting policies and restatement of comparative data

The Group accounting policies under Netherlands GAAP have been changed from the policies used in previous Financial Statements to correct inappropriate departures from Netherlands GAAP relating to:

(i) the accounting for certain inventories in North America under the LIFO method, which in combination with the adoption of FIFO as the basis for accounting of the Group's inventories in the rest of the world is not an acceptable method under Netherlands GAAP (note that the Group has also made a change in accounting policy under US GAAP in 2003 to eliminate the use of the LIFO method – see Note 3). Net income for 2002 has increased by $511 million (2001: decreased by $446 million). Net assets at December 31, 2002 have increased by $850 million;

(ii) the failure to amortise goodwill, which is required under Netherlands GAAP. Net income for 2002, and net assets at December 31, 2002, have decreased by $120 million. There is no impact for 2001; and

(iii) the failure to include certain assets and debt, relating principally to power generation contracts ("tolling agreements") and lease contracts, in the Group's balance sheet, as required under Netherlands GAAP (note that the Group has also made a change in accounting policy under US GAAP in 2003 to include these amounts in its balance sheet – see Note 3). There is no impact on prior period net income or net assets.

The restatement of the Financial Statements also gives effect to changes in accounting policy relating to exploration costs and certain gas contracts, as discussed in Note 2 as corrections under US GAAP. This change aligns the Group accounting policy under Netherlands GAAP with oil and gas specific accounting standards applicable under US GAAP. The effect of the change for exploration costs is a reduction in previously reported net income for 2002 of $61 million (2001: $14 million), and a reduction in previously reported net assets at December 31, 2002 of $155 million. The effect of the change for certain gas contracts is a reduction in previously reported net income for 2002 and net assets at December 31, 2002 of $39 million.

In addition, errors in the depreciation, depletion and amortisation charge presented in previous Financial Statements, arising as a result of the overstatement of proved reserves as corrected by the Reserves Restatement, have been adjusted in the Netherlands GAAP financial statements through a restatement of the comparative results for the years ended December 31, 2002 and 2001.

Quantitative information concerning the effect of the above changes in accounting policies and adjustments is set forth in the tables opposite and additional information is contained in Note 2 on pages 52 to 54.

Statement of Income

$ million

	2002 As previously reported	2002 Reserves restatement	2002 Changes in policy	2002 **As restated**	2001 As previously reported	2001 Reserves restatement	2001 Changes in policy	2001 **As restated**
Net proceeds	166,717[a]	(52)	(64)	**166,601**	125,441[a]	(80)	–	**125,361**
Cost of sales	138,500[a]	114	(497)	**138,117**	98,069[a]	4	308	**98,381**
Exploration	991	–	82	**1,073**	882	7	21	**910**
Other operating expenses	12,027	–	–	**12,027**	9,529	–	–	**9,529**
Share of operating profit of associated companies	2,624	–	198	**2,822**	3,041	18	(413)	**2,646**
Operating profit	17,823	(166)	549	**18,206**	20,002	(73)	(742)	**19,187**
Net interest expense and currency exchange gains/losses	629	–	–	**629**	104	–	–	**104**
Income before taxation	17,194	(166)	549	**17,577**	19,898	(73)	(742)	**19,083**
Taxation	7,617	(65)	244	**7,796**	8,694	(27)	(263)	**8,404**
Income applicable to minority interests	158	7	14	**179**	352	(4)	(19)	**329**
Net income	9,419	(108)	291	**9,602**	10,852	(42)	(460)	**10,350**

a Including the effect of reclassification of certain amounts following implementation of US accounting guidance EITF Issue No. 02–03 (see Note 3), which had no impact on the net income.

Statement of Assets and Liabilities

$ million

December 31, 2002

	As previously reported	Reserves restatement	Changes in policy	**As restated**
Fixed assets				
Tangible assets	79,390	(467)	2,834	**81,757**
Intangible assets	4,696	–	(120)	**4,576**
Investments	20,760	2	325	**21,087**
Other long-term assets	7,299	–	34	**7,333**
Inventories	10,298	–	1,040	**11,338**
Other current assets	30,248	–	69	**30,317**
Current liabilities	55,115	–	86	**55,201**
Long-term liabilities				
Long-term debt	6,817	–	3,070	**9,887**
Other	6,118	–	56	**6,174**
Provisions				
Deferred taxation	12,471	(186)	411	**12,696**
Pensions and decommissioning	8,544	–	–	**8,544**
Minority interests	3,562	(3)	23	**3,582**
Net assets	60,064	(276)	536	**60,324**

Parent Companies' interest in Group net assets

$ million

	2002	2001
As previously reported at December 31	60,064	56,160
Effect of the adjustments:		
Interest at the beginning of the year		
Cumulative effect of reserves restatement	(164)	(122)[a]
Cumulative effect of changes in policy	248	705[a]
	84	583
Net income for the year		
Reserves Restatement	(108)	(42)
Changes in policy	291	(460)
	183	(502)
Currency translation differences for the year	(7)	3
	260	84
As restated at December 31	**60,324**	**56,244**

a Cumulative effect as at January 1, 2001.

Please refer to the Notes to the Financial Statements prepared in accordance with US GAAP on pages 52 to 77. The following table provides a reconciliation between US GAAP and Netherlands GAAP for Group net income and net assets.

Reconciliation between US GAAP and Netherlands GAAP

$ million

	Net Income **2003**	Net Income 2002 As restated	Net Income 2001 As restated	Net assets **2003**	Net assets 2002 As restated
In accordance with US GAAP	**12,496**	9,722	10,350	**72,848**	60,444
Adjustment for Netherlands GAAP:					
Goodwill amortisation	**(167)**	(120)	–	**(287)**	(120)
Cumulative effect of change in accounting for asset retirement obligations	**(255)**	–	–	–	–
Long-term commitments	**–**	–	–	–	–
In accordance with Netherlands GAAP	**12,074**	9,602	10,350	**72,561**	60,324

Where applicable, differences between Netherlands GAAP and US GAAP affecting these Notes are disclosed overleaf.

31 Tangible and intangible fixed assets

$ million

	Tangible	Goodwill	Other intangibles	Total intangibles	2003 Total Group	2002 As restated Total Group
Cost						
At January 1	**160,569**	3,500	2,958	**6,458**	**167,027**	122,185
Capital expenditure	**12,005**	33	214	**247**	**12,252**	12,102
Assets assumed on acquisitions (Enterprise Oil, Pennzoil-Quaker State and DEA and additional shares in Equilon)	**(28)**	418	(266)	**152**	**124**	23,285
Sales, retirements and other movements	**(4,875)**	(51)	(38)	**(89)**	**(4,964)**	(465)
Currency translation differences	**14,014**	111	130	**241**	**14,255**	9,920
At December 31	**181,685**	4,011	2,998	**7,009**	**188,694**	167,027
Depreciation						
At January 1	**78,812**	1,296	586	**1,882**	**80,694**	68,090
Depreciation, depletion and amortisation charge	**11,000**	296	293	**589**	**11,589**	8,741
Sales, retirements and other movements	**(3,680)**	(29)	(2)	**(31)**	**(3,711)**	(1,524)
Currency translation differences	**7,852**	60	61	**121**	**7,973**	5,387
At December 31	**93,984**	1,623	938	**2,561**	**96,545**	80,694
Net 2003	**87,701**	2,388	2,060	**4,448**	**92,149**	
2002	81,757	2,204	2,372	4,576		86,333

There is an increase in depreciation, depletion and amortisation for intangible fixed assets recorded in cost of sales in 2003 of $167 million (2002: $120 million), with a cumulative impact of $287 million at December 31, 2003, compared with Note 10 prepared under US GAAP. This relates to the amortisation of goodwill under Netherlands GAAP. The increase in the cost of tangible fixed assets at December 31, 2002 of $3.1 billion (2001: $2.2 billion) compared with Note 10 relates to the different treatment of certain long-term commitments prior to 2003. Goodwill arising on the acquisition of PQS is amortised over forty years. Continued brand maintenance in addition to the established long-term leadership of these brands in automotive lubricants and vehicle care markets support this amortisation period.

32 Debt

The increase in debt at December 31, 2002 of $3.1 billion, compared with Note 15 prepared under US GAAP, relates to the different treatment of certain long-term commitments prior to 2003.

(a) Long-term debt

$ million

	2003	2002 As restated
Debentures and other loans	**4,868**	5,523
Amounts due to banks and other credit institutions	**1,061**	794
	5,929	6,317
Capitalised lease obligations	**3,171**	3,570
Long-term debt	**9,100**	9,887
add long-term debt due within one year	**1,874**	2,253
Long-term debt including long-term debt due within one year	**10,974**	12,140

(b) Capitalised lease obligations

The future minimum lease payments under capital leases and the present value of net minimum capital lease payments at December 31, 2003 are as follows:

$ million

	Capital leases
2004	339
2005	382
2006	365
2007	365
2008	365
2009 and after	5,362
Total minimum payments	7,178
less executory costs and interest	3,898
Present value of net minimum capital lease payments	3,280

33 Information by geographical area and by industry segment

See Note 24 prepared under US GAAP. The difference under Netherlands GAAP for net income, arises from increased depreciation, depletion and amortisation in 2002 and 2003 as shown in Note 29 (the majority of which relates to the Oil Products segment) and from the treatment in 2003 of a change in accounting for asset retirement obligations as described on page 80. The difference in tangible fixed assets at December 31, 2002 and in goodwill at December 31, 2002 and 2003 is shown in Note 30 and the difference in total liabilities at December 31, 2002 is shown in Note 32.

34 Division of Group net assets between the Parent Companies and movements therein

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

Division of Group net assets and movements therein, including Group net income — $ million

	Total As restated	Royal Dutch (60%) As restated	Shell Transport (40%) As restated
At January 1, 2001	57,669	34,601	23,068
Movements during the year 2001:			
Group net income	10,350	6,210	4,140
less: distributions to Parent Companies	(9,163)	(5,498)	(3,665)
Undistributed net income	1,187	712	475
Movement in Parent Companies' shares held by Group companies, net of dividends received	(642)	(385)	(257)
Other comprehensive income (see Note 5)	(1,970)	(1,182)	(788)
At December 31, 2001	56,244	33,746	22,498
Movements during the year 2002:			
Group net income	9,602	5,761	3,841
less: distributions to Parent Companies	(5,435)	(3,261)	(2,174)
Undistributed net income	4,167	2,500	1,667
Movement in Parent Companies' shares held by Group companies, net of dividends received	(844)	(507)	(337)
Other comprehensive income (see Note 5)	757	455	302
At December 31, 2002	60,324	36,194	24,130
Cumulative effect of a change in accounting policy	255	153	102
At January 1, 2003	60,579	36,347	24,232
Movements during the year 2003:			
Group net income	12,074	7,244	4,830
less: distributions to Parent Companies	(5,660)	(3,396)	(2,264)
Undistributed net income	6,414	3,848	2,566
Loss on sale of Parent Companies' shares	(1)	(1)	–
Movement in Parent Companies' shares held by Group companies, net of dividends received	(631)	(378)	(253)
Other comprehensive income (see Note 5)	6,200	3,721	2,479
At December 31, 2003	**72,561**	**43,537**	**29,024**

Parent Companies' interest in Group net assets — $ million

	2003	2002 As restated	2001 As restated
Invested by Parent Companies	**741**	741	741
Retained earnings of Group companies	**74,970**	68,302	64,135
Parent Companies' shares held, net of dividends received (Note 22)	**(3,428)**	(2,797)	(1,953)
Cumulative currency translation differences	**1,208**	(3,894)	(6,326)
Unrealised gains/(losses) on:			
securities (Note 14)	**700**	11	(14)
cash flow hedges	**(188)**	(239)	(14)
Minimum pension liability adjustments	**(1,442)**	(1,800)	(325)
Balance at December 31	**72,561**	60,324	56,244

The reduction in retained earnings of Group companies at December 31, 2003 of $287 million (2002: $120 million) compared with Note 4 prepared in accordance with US GAAP, relates to the amortisation of goodwill under Netherlands GAAP.

Restatement of this information as presented in previously issued Financial Statements (see Note 30)

$ million

	Total			Royal Dutch (60%)			Shell Transport (40%)		
	As previously reported	Adjustments	**As restated**	As previously reported	Adjustments	**As restated**	As previously reported	Adjustments	**As restated**
At January 1, 2001	57,086	583	**57,669**	34,252	349	**34,601**	22,834	234	**23,068**
Movements during the year 2001:									
Group net income	10,852	(502)	**10,350**	6,511	(301)	**6,210**	4,341	(201)	**4,140**
less: distributions to Parent Companies	(9,163)	–	**(9,163)**	(5,498)	–	**(5,498)**	(3,665)	–	**(3,665)**
Undistributed net income	1,689	(502)	**1,187**	1,013	(301)	**712**	676	(201)	**475**
Movement in Parent Companies' shares held by Group companies, net of dividends received	(642)	–	**(642)**	(385)	–	**(385)**	(257)	–	**(257)**
Other comprehensive income	(1,973)	3	**(1,970)**	(1,184)	2	**(1,182)**	(789)	1	**(788)**
At December 31, 2001	56,160	84	**56,244**	33,696	50	**33,746**	22,464	34	**22,498**
Movements during the year 2002:									
Group net income	9,419	183	**9,602**	5,651	110	**5,761**	3,768	73	**3,841**
less: distributions to Parent Companies	(5,435)	–	**(5,435)**	(3,261)	–	**(3,261)**	(2,174)	–	**(2,174)**
Undistributed net income	3,984	183	**4,167**	2,390	110	**2,500**	1,594	73	**1,667**
Movement in Parent Companies' shares held by Group companies, net of dividends received	(844)	–	**(844)**	(507)	–	**(507)**	(337)	–	**(337)**
Other comprehensive income	764	(7)	**757**	459	(4)	**455**	305	(3)	**302**
At December 31, 2002	60,064	260	**60,324**	36,038	156	**36,194**	24,026	**104**	**24,130**

Other information:

Report of the Independent Auditors

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

We have audited the Netherlands GAAP Financial Statements of the Royal Dutch/Shell Group of Companies for the year 2003, and the Notes thereto on pages 49 to 84. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements 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 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, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Royal Dutch/Shell Group of Companies as of December 31, 2003 and of the result and the cash flows for the year then ended in accordance with the accounting principles generally accepted in the Netherlands.

Without qualifying our opinion, we emphasise that the Royal Dutch/Shell Group of Companies has restated the comparative data for the years 2002 and 2001 as explained in Note 30 on pages 80 and 81.

KPMG Accountants N.V
The Hague

PricewaterhouseCoopers LLP
London
May 22, 2004

Supplementary information – Oil and Gas (unaudited)

Reserves
Net quantities (which are unaudited) of proved oil and gas reserves are shown in the tables on pages 89 through 95. Proved 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, ie, prices and costs as of the date the estimate is made. Proved developed oil and gas reserves are reserves that 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 volumes will be included when technical, fiscal and other conditions allow them to be economically developed and produced.

Proved reserves are shown net of any quantities of crude oil or natural gas that are expected to be taken by others as royalties in kind but do not exclude quantities related to royalties expected to be paid in cash (except in North America and in other situations in which the royalty quantities are owned by others) or those related to fixed margin contracts. Proved reserves include certain quantities of crude oil or natural gas which will be produced under arrangements which involve Group companies in upstream risks and rewards but do not transfer title of the product to those companies.

Oil and gas reserves cannot be measured exactly since estimation of reserves involves subjective judgment. These estimates remain subject to revision and are unaudited supplementary information.

Recategorisation and restatement of unaudited proved reserves
As announced on January 9, 2004, March 18, 2004, and April 19, 2004, the Group reviewed its proved reserves inventory (with the assistance of external consultants) during the period from late 2003 to April 2004 (collectively, the Reserves Review). The results of the Reserves Review can be summarised as follows:

– following the Reserves Review, 4,474 million barrels of oil equivalent (boe)[1] previously booked at December 31, 2002 as proved reserves have been recategorised as not proved (this was the subject of the announcement made on January 9, 2004, as updated on March 18, 2004 and April 19, 2004 and herein); and
– approximately 400 million boe of proved reserves additions that had been estimated for the year 2003, as announced on February 5, 2004, have not been made (this was also the subject of the announcement on March 18, 2004 as updated on April 19, 2004 and herein).

The tables that follow include a restatement of the Group's proved reserves for the two years ended December 31, 2001 and December 31, 2002, as well as a restatement of the standardised measure of discounted future cash flows (collectively, the Reserves Restatement), in order to give effect to the results of the Reserves Review. In addition, certain volumes identified for recategorisation in the Reserves Review have been reflected as revisions during 2003. The principal reasons for the Reserves Restatement and the 2003 revisions are discussed later in this section.

The Reserves Restatement also reflects changes in the timing of the initial booking of approximately 930 million boe of certain other proved reserves. These quantities, situated in the West Africa Deep Water province and Australia (North West Shelf) were compliant with proved reserves definitions as at December 31, 2002, but the Reserves Review has indicated that the original bookings in 2000 and prior years were made in advance of a sufficient investment commitment or assurance of market availability to support the booking. These changes bring the timing of these proved reserves additions into line with commitments to investment or contractual product sales, most of which were made in the period 1999 to 2002. Accordingly, these quantities do not change the total reduction in proved reserves as at December 31, 2002, because they qualified as proved reserves at that date, although they do affect the trend of reserves bookings over the period covered by this report and affect calculation of the reserves replacement ratio.

The Group has determined that during the periods prior to the Reserves Restatement, its reserves bookings were not fully consistent with the definition of proved reserves as set forth in Rule 4-10 of Regulation S-X under the U.S. Securities Exchange Act of 1934 (Rule 4-10), and the interpretations of that Rule by the staff of the Division of Corporation Finance of the US Securities and Exchange Commission (SEC). In particular, the Group has determined that its prior guidelines contained interpretations and allowed for reserve determinations that were not consistent with Rule 4-10 and SEC staff interpretations of Rule 4-10. The principal areas of variation are listed overleaf.

1 For this purpose, the Group has converted natural gas to crude oil equivalent using a factor of 5,800 standard cubic feet per barrel.

Investment commitment

Volumes of hydrocarbons were booked as proved reserves with respect to certain projects for which there was found subsequently not to be a sufficient level of investment commitment to conclude that there was "reasonable certainty" of recovery of those volumes in future years under existing economic and operating conditions (as defined in SEC staff interpretations of Rule 4-10). Under prior Group guidelines, proved reserves were booked in some cases upon progress with development planning. However, this did not in all cases meet the requirement under Rule 4-10 to demonstrate specific commitment to development actions. Examples include properties in Nigeria (various fields), Norway (Ormen Lange field) and New Zealand (Pohokura field). This factor was also a consideration in Australia (Gorgon field).

Market assurance

Volumes of hydrocarbons were booked as proved reserves with respect to certain projects for which there was insufficient evidence of future market demand at the date of booking to conclude that there was "reasonable certainty" that it would be economic to recover those volumes under conditions existing at the date of booking. The primary example of this category was Australia (Gorgon field and other North West Shelf properties), but it was also a factor in determining reserves restatements for other properties that rely on the long-term extension or renewal of existing sales contracts.

Governmental or regulatory approval

Volumes of hydrocarbons were booked as proved reserves with respect to certain projects for which governmental or regulatory approvals were not sufficiently assured for there to be "reasonable certainty" of the recovery of those volumes in future years. The main examples of such properties are in Kazakhstan (Kashagan field), Ireland (Corrib field), Italy (Tempa Rossa field) and the Netherlands (Waddenzee fields).

Field performance and project delivery

Volumes of hydrocarbons were booked and maintained as proved reserves with respect to certain development projects in producing fields notwithstanding a deferment in project execution or a decline in actual production volumes and forecasts when these indications should have suggested that there was no longer "reasonable certainty" that the originally estimated volumes would be recovered in the future. These issues arose mainly in fields in the Middle East and Nigeria.

Year-end pricing

Volume entitlements under Production Sharing Contracts, and other agreements for which reserves are estimated using the "economic entitlement" method, were determined using the prices that were used internally by the Group for screening investment decisions and for business planning, rather than the year-end price as required under Rule 4-10. When applying year-end prices to such reserves estimates, the resulting reserves figure is usually inversely related to product price, such that at times of high price there will be a lower reserves entitlement than at times of low price, all other factors being equal. Several properties in the Group's portfolio are affected in this manner.

Technical definition

Volumes of hydrocarbons were booked as proved reserves with respect to some projects prior to the development of sufficient data to meet certain technical requirements established by the SEC staff in interpreting the definition of "reasonable certainty" in Rule 4-10. The primary examples are:

- **Lowest Known Hydrocarbon.** In some cases, volumes occurring below the "Lowest Known Hydrocarbon" (ie, the deepest point that has been logged as hydrocarbon-bearing) had been included in proved reserves estimates. Such volumes were considered defensible in prior years generally on the grounds that evidence of the location of fluid contacts was available through measurements of the pressure gradients in the reservoirs concerned. This volume was estimated to be 172 million boe at the end of 2003 and has been accounted for as a revision during the year 2003. It has not been included in the Reserves Restatement for prior years.
- **Proved Area: Lateral Extent.** In some cases, volumes occurring in parts of the reservoir that are more than one offset development well location from existing well penetrations had been booked as proved reserves in the absence of sufficient proof of continuous and economically productive reservoir in the areas concerned. This volume was estimated to be 180 million boe at the end of 2003 and substantially all has been accounted for through restatement of proved reserves for prior years. The 2003 reserves additions as announced on February 5, 2004 were also reduced by approximately 180 million boe as a result of these issues.
- **Improved recovery.** In some cases, volumes related to the successful implementation of improved recovery processes had been booked as proved reserves in the absence of sufficient proof, in accordance with SEC guidance, of "reasonable certainty" that the processes would be effective in the specific reservoirs concerned. This volume was estimated to be 160 million boe at the end of 2003 and substantially all has been accounted for through restatement of proved reserves for prior years.
- **Simulation models.** In some cases, volumes booked on the basis of sophisticated computer modelling were not sufficiently supported by actual reservoir performance to satisfy the requirement of "reasonable certainty" in the estimation of proved reserves. This volume was estimated to be 160 million boe at the end of 2003 and substantially all has been accounted for through the revisions occurring during the year 2003.
- **Economic producibility.** In some cases, proved reserves may have been assigned to reservoirs in the absence of information from a combination of electrical and other type logs and core analyses sufficient to indicate the reservoirs were analogous to similar reservoirs in the same field which were producing or had demonstrated the ability to produce on a formation test. However, there were no material instances of reserves being debooked solely for this reason.

Royalty
For the years ended 1999 to 2002, proved reserves and production had been recorded with respect to royalties paid in cash on properties in Canada. These have now been removed from proved reserves, resulting in a reduction in proved reserves at December 31, 2003, relative to our announcement on February 5, 2004, of 103 million boe and a reduction in production for the year 2003 of 9 million boe.

Effect of Reserves Restatement
The tables on pages 90 to 95 show restated amounts of proved reserves and a restated calculation of the standardised measure of discounted future net cash flows for 2002 and 2001. The allocation to particular years of quantities to be removed from the proved reserves category for some of the mature producing areas has involved the use of estimates as to timing, owing to the practical difficulties in associating particular volumes with particular projects at specific times in the past. Effect has been given to the Reserves Restatement through the removal of proved reserves either in the year in which those reserves were originally booked or the year during which those reserves no longer constituted proved reserves under the SEC rules, as applicable. The table on page 89 presents a statement of proved reserves (or standardised measure) as originally reported, the cumulative effect of the Reserves Restatement on the opening reserves or standardised measure balances for each year concerned, the effect of the Reserves Restatement on movements during each year and the restated closing balance.

All tables have been reformatted compared with previous years' disclosures to provide further geographical detail. The "Europe" and "USA" groupings remain unchanged in terms of the definition of constituent countries, as does the "Western Hemisphere, Other" region. The previously reported "Eastern Hemisphere, Other" region has been divided into three new geographical groupings: "Africa", "Asia Pacific" and "Middle East, Russia and Commonwealth of Independent States (CIS)", the latter also being referred to as the "Middle East" below for convenience. Egypt is included in the "Middle East", as are Sakhalin and states bordering the Caspian Sea. The revised geographical grouping is aligned with the division of the Group's Exploration and Production business into regional directorates for internal management purposes.

The effect of the Reserves Restatement on proved reserves and the standardised measure is summarised as follows:

Year ended December 31, 2002
At December 31, 2002 (and January 1, 2003), the aggregated effect on proved reserves of the Reserves Restatement was 4,474 million boe, comprising 2,795 million barrels of crude oil and natural gas liquids and 9,736 thousand million standard cubic feet of gas. This amounts to 23% of the total proved reserves originally stated at that date (19,346 million boe). Of the total proved reserves restated, 89% (3,992 million boe) was attributable to Group companies and the remainder was attributable to associated companies. 12% of the total had been in the proved developed reserves category and 88% had been categorised as proved undeveloped reserves. Various properties in Nigeria accounted for 36% of the restated volume at that date, 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 in Europe (9%). Please refer to the narrative above for explanation of the principal reasons for the Reserves Restatement. 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%.

The Reserves Restatement gave rise to an estimated reduction of $5,340 million in the standardised measure of discounted future net cash flow for Group companies and a further $1,308 million for associated companies. Together, these effects equate to approximately 9% of the total standardised measure that was originally stated at that date. This effect is disproportionately low compared with the effect on proved reserves (23%) primarily due to the fact that many of the volumes affected are located in relatively low margin operating areas and that the majority are undeveloped (the cost of development for these reserves tends to suppress the standardised measure of these volumes, as compared to the standardised measure for volumes that have already been developed). The reduction of the net present value disclosed by the standardised measure includes an offset due to the correction of an error in the original statement that was discovered during compilation of the restated figures. The error related to the application of an incorrect net margin accruing to production on a fixed margin contract and resulted in an understatement of approximately 1% of the standardised measure value originally reported for the year 2002. The percentage effect is even less in 2001.

Year ended December 31, 2001
At December 31, 2001 (and January 1, 2002), the aggregated effect on proved reserves of the Reserves Restatement was 4,531 million boe, comprising 2,643 million barrels of crude oil and natural gas liquids and 10,951 thousand million standard cubic feet of gas. This amounts to 24% of the total proved reserves originally stated at that date (19,095 million boe). Of the volumes restated, 86% (3,912 million boe) were attributable to Group companies and the remainder were attributable to associated companies. 9% of the total had been in the proved developed reserves category and 91% had been categorised as proved undeveloped reserves. Various properties in Nigeria accounted for 42% of the restated volumes at that date, Australia accounted for 22% of the total and the effect of applying year-end pricing accounted for a further 4% of the total. Additional adjustments include properties elsewhere in Asia Pacific (12%) and the Middle East (10%). After giving effect to the Reserves Restatement, the proportion of total proved reserves that was accounted for as

proved developed reserves at December 31, 2001 increased from 46%, as originally stated, to 57%.

The Reserves Restatement gave rise to an estimated reduction of $5,464 million in the standardised measure of discounted future net cash flow for Group companies and a further $1,005 million reduction for associated companies. Together, these effects equate to approximately 13% of the total standardised measure that was originally stated at that date.

Year ended December 31, 2000

At December 31, 2000 (and January 1, 2001), the aggregated effect on proved reserves of the Reserves Restatement was 4,844 million boe, comprising 2,844 million barrels of crude oil and natural gas liquids and 11,598 thousand million standard cubic feet of gas. This amounts to 25% of the total proved reserves originally stated at that date (19,455 million boe). Of the total aggregated effect, 88% (4,277 million boe) was attributable to Group companies and the remainder was attributable to associated companies. 10% of the total had been in the proved developed reserves category and 90% had been categorised as proved undeveloped reserves. Various properties in Nigeria accounted for 41% of the restated volume at that date, Australia accounted for 22% and the effect of applying year-end pricing accounted for a further 10% of the total. Additional adjustments included properties in the Middle East (9%) and the rest of Asia Pacific (10%). After giving effect to the Reserves Restatement, the proportion of total proved reserves that was accounted for as proved developed reserves at December 31, 2000 increased from 46%, as originally stated, to 58%.

The Reserves Restatement gave rise to an estimated reduction of $6,083 million in the standardised measure of discounted future net cash flow for Group companies and a further $1,153 million for associated companies. Together, these effects equate to approximately 10% of the total standardised measure that was originally stated at that date.

Years prior to 2000

In certain cases, the affected proved reserves have been removed from the proved category in years prior to 2000. Although not tabulated in detail in this report, a summary of the estimated effects on prior years is as follows:

– at December 31, 1999 (and January 1, 2000), the aggregated effect on proved reserves of the Reserves Restatement was 4,582 million boe, comprising 2,408 million barrels of crude oil and natural gas liquids and 12,608 thousand million standard cubic feet of gas. This amounts to 23% of the total proved reserves originally stated at that date (19,868 million boe). Of the total aggregated effect, 87% (4,006 million boe) was attributable to Group companies and the remainder was attributable to associated companies. 16% of the total had been in the proved developed reserves category and 84% had been categorised as proved undeveloped reserves. Various properties in Nigeria accounted for 45% of the restated volume at that date, Australia accounted for 25% and the effect of applying year-end pricing accounted for a further 12% of the total. Various other properties in the rest of Asia Pacific contributed a further 9%;

– at December 31, 1998 (and January 1, 1999), the aggregate effect on proved reserves of the Reserves Restatement was 3,777 million boe, comprising 2,176 million barrels of crude oil and natural gas liquids and 9,285 thousand million standard cubic feet of gas. This amounts to 18% of the total proved reserves originally stated at that date (20,455 million boe). Of the total aggregate effect, 84% (3,167 million boe) was attributable to Group companies and the remainder was attributable to associated companies. 13% of the total had been in the proved developed reserves category and 87% had been categorised as proved undeveloped reserves. Various properties in Nigeria and Australia together accounted for 90% of the restated volume at that date; and

– at December 31, 1997 (January 1, 1998), the aggregate effect on proved reserves of the Reserves Restatement was 3,132 million boe, comprising 1,646 million barrels of crude oil and natural gas liquids and 8,619 thousand million standard cubic feet of gas. This amounts to 16% of the total proved reserves originally stated at that date (19,359 million boe). Of the total aggregate effect, 81% (2,553 million boe) was attributable to Group companies and the remainder was attributable to associated companies. 4% of the total had been in the proved developed reserves category and 96% had been categorised as proved undeveloped reserves. Various properties in Nigeria and Australia together accounted for 90% of the restated volume at that date.

Reserves replacement ratio

For the three years covered by this report (2001–2003), after giving effect to the Reserves Restatement, the proved oil and natural gas reserves replacement ratio (net additions to proved reserves as a percentage of production) for these three years is 94% (88% for oil, including natural gas liquids, and 102% for gas).

The five-year (1999–2003) reserves replacement ratio is 66% (70% for oil, including natural gas liquids, and 60% for gas).

These figures include both Group and associated companies, they include minority interests in Group companies and they include the effects of acquisitions and divestment. They exclude any contribution from oil sands projects, which do not qualify as oil and gas producing activities.

Canadian reserves revision

The timing of the debooking in periods prior to 2003 of certain reserves associated with the Sable Island field of Shell Canada is subject to ongoing finalisation as at the date of this report. However, management is satisfied that the reserves for Sable Island are properly estimated at the end of 2003. Management is reviewing the timing of the debooking of approximately 100 to 150 million boe of gas reserves that were removed from proved reserves as revisions in the period 2000 to 2003. Upon completion of that review, management may conclude that these reserves should have been debooked prior to 2000. However, the estimated effect on the Financial Statements would be insignificant. The estimated effect of the removal of these reserves would be to increase the five-year reserves replacement ratio to 68%. The estimated effect on the Group's standardised measure of discounted cash flows would be less than 1% for any of the years impacted.

Restatement of previously reported Supplementary information – Oil and Gas

	million barrels				thousand million standard cubic feet[a]				$ million	
	Reserves Crude oil and natural gas liquids				Reserves Natural gas				Standardised measure of discounted future cash flows	
	Proved developed and undeveloped reserves		Proved developed reserves		Proved developed and undeveloped reserves		Proved developed reserves			
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
Group companies										
As previously reported at December 31	9,026	8,544	3,959	3,734	48,240	50,613	22,530	23,938	65,702	45,878
Effect of the adjustment										
Amounts at beginning of year	(2,437)	(2,658)[b]	(202)	(255)[b]	(8,554)	(9,389)[b]	(1,088)	(1,299)[b]	(5,464)	(6,083)[b]
Movements during the year	(184)	221	(73)	53	604	835	(80)	211	124	619
	(2,621)	(2,437)	(275)	(202)	(7,950)	(8,554)	(1,168)	(1,088)	(5,340)	(5,464)
As restated at December 31	6,405	6,107	3,684	3,532	40,290	42,059	21,362	22,850	60,362	40,414
Group share of associated companies										
As previously reported at December 31	1,107	925	667	598	5,198	5,216	2,072	1,806	7,070	3,888
Effect of the adjustment										
Amounts at beginning of year	(206)	(186)[b]	(6)	(6)[b]	(2,397)	(2,209)[b]	(13)	(14)[b]	(1,005)	(1,153)[b]
Movements during the year	32	(20)	(2)	–	611	(188)	(212)	1	(303)	148
	(174)	(206)	(8)	(6)	(1,786)	(2,397)	(225)	(13)	(1,308)	(1,005)
As restated at December 31	933	719	659	592	3,412	2,819	1,847	1,793	5,762	2,883
Geographical analysis of the effect of the adjustment										
Group companies										
Europe	(147)	(27)	(2)	(2)	(1,570)	(1,195)	(44)	(44)	(1,493)	(869)
Africa	(1,409)	(1,745)	(235)	(141)	(1,259)	(1,478)	(528)	(376)	(1,146)	(3,103)
Asia Pacific	(101)	(116)	(20)	(29)	(4,197)	(5,159)	(15)	(128)	(1,066)	(909)
Middle East, Russia, CIS	(854)	(494)	15	(10)	(499)	(289)	(254)	(184)	(1,392)	(531)
USA	–	–	–	–	–	–	–	–	–	–
Other Western Hemisphere	(110)	(55)	(33)	(20)	(425)	(433)	(327)	(356)	(243)	(52)
Total	(2,621)	(2,437)	(275)	(202)	(7,950)	(8,554)	(1,168)	(1,088)	(5,340)	(5,464)
Group share of associated companies										
Europe	–	–	–	–	–	–	–	–	–	–
Africa	–	–	–	–	–	–	–	–	–	–
Asia Pacific	(174)	(205)	(8)	(6)	(1,786)	(2,397)	(225)	(13)	(1,308)	(1,005)
Middle East, Russia, CIS	–	(1)	–	–	–	–	–	–	–	–
USA	–	–	–	–	–	–	–	–	–	–
Other Western Hemisphere	–	–	–	–	–	–	–	–	–	–
Total	(174)	(206)	(8)	(6)	(1,786)	(2,397)	(225)	(13)	(1,308)	(1,005)

a These quantities have not been adjusted to standard heat content.
b Cumulative effect of Reserves Restatement as at January 1, 2001.

Crude oil and natural gas liquids

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

Proved developed and undeveloped reserves

million barrels

							2003
	Eastern Hemisphere				Western Hemisphere		
	Europe	Africa[a]	Asia Pacific[b]	Middle East, Russia, CIS[c]	USA	Other	Total
Group companies							
At January 1	1,488	1,828	338	1,484	720	547	**6,405**
Revisions and reclassifications	141	(6)	22	(183)	(54)	(73)	**(153)**
Improved recovery	8	2	15	4	8	1	**38**
Extensions and discoveries	13	62	–	169	9	1	**254**
Purchases of minerals in place	1	–	–	3	–	–	**4**
Sales of minerals in place	(39)	–	–	–	(23)	–	**(62)**
Production	(245)	(133)	(57)	(181)	(110)	(37)	**(763)**
At December 31	**1,367**	**1,753**	**318**	**1,296**	**550**	**439**	**5,723**
Group share of associated companies							
At January 1	2	–	400	118	413	–	**933**
Revisions and reclassifications	–	–	4	–	41	–	**45**
Improved recovery	–	–	12	–	–	–	**12**
Extensions and discoveries	–	–	11	86	–	–	**97**
Purchases of minerals in place	–	–	–	–	–	–	**–**
Sales of minerals in place	–	–	–	(117)	–	–	**(117)**
Production	–	–	(46)	(1)	(41)	–	**(88)**
At December 31	**2**	**–**	**381**	**86**	**413**	**–**	**882**
Total	**1,369**	**1,753**	**699**	**1,382**	**963**	**439**	**6,605**
Minority interests' share of proved reserves of Group companies							
At December 31	–	29	1	155	–	54	**239**

Oil sands[e]

million barrels

	Other	Total
Group companies		
At January 1	600	**600**
Extensions and discoveries	69	**69**
Production	(17)	**(17)**
At December 31	652	**652**
Minority interests' share of oil sands		
At December 31	143	**143**

All oil sands reserves are considered to be developed as from December 31, 2002 onward.

Proved developed reserves

million barrels

							2003
	Eastern Hemisphere				Western Hemisphere		
	Europe	Africa[a]	Asia Pacific[b]	Middle East, Russia, CIS[c]	USA	Other	Total
Group companies							
At January 1	1,127	738	199	1,056	373	191	**3,684**
At December 31	1,056	879	194	898	293	192	**3,512**
Group share of associated companies							
At January 1	1	–	278	15	365	–	**659**
At December 31	1	–	306	1	364	–	**672**

a Excludes Egypt.
b Excludes Sakhalin.
c Middle East and Former Soviet Union/Commonwealth of Independent States. Includes Caspian region, Egypt and Sakhalin.
d As applicable, amounts relating to prior years have been restated. A summary of the changes is shown in the table on page 89.
e Petroleum reserves from operations that do not qualify as oil and gas producing activities, in this case our Athabasca Oil Sands Project, are not included in oil and gas reserves and are not considered in the standardised measure of discounted future cash flows for conventional oil and gas reserves, which is found on page 94. The volumes quoted are "gross", ie, including royalties. Calculation of royalties depends on price, production rates, capital costs and operating costs over the life of the Athabasca Oil Sands Project. At 2003 year-end pricing, net volumes would be approximately 90% of gross volumes.

million barrels

2002[d]

	Eastern Hemisphere			Western Hemisphere		
Europe	Africa[a]	Asia Pacific[b]	Middle East, Russia, CIS[c]	USA	Other	Total
1,078	1,671	445	1,717	675	521	6,107
98	69	(25)	(26)	77	(34)	159
15	–	6	45	51	–	117
1	209	–	–	33	–	243
551	–	–	–	7	93	651
(1)	(19)	(19)	(62)	(3)	–	(104)
(254)	(102)	(69)	(190)	(120)	(33)	(768)
1,488	1,828	338	1,484	720	547	6,405
1	–	362	–	356	–	719
1	–	78	–	65	–	144
–	–	4	–	–	–	4
–	–	6	–	33	–	39
–	–	–	121	–	–	121
–	–	–	(1)	–	–	(1)
–	–	(50)	(2)	(41)	–	(93)
2	–	400	118	413	–	933
1,490	1,828	738	1,602	1,133	547	7,338
–	26	1	126	–	64	217

million barrels

2001[d]

	Eastern Hemisphere			Western Hemisphere		
Europe	Africa[a]	Asia Pacific[b]	Middle East, Russia, CIS[c]	USA	Other	Total
1,152	1,711	436	1,572	611	530	6,012
41	51	(7)	302	31	39	457
67	1	12	19	–	–	99
17	28	5	–	139	1	190
–	–	69	–	3	–	72
–	–	–	–	(1)	(14)	(15)
(199)	(120)	(70)	(176)	(108)	(35)	(708)
1,078	1,671	445	1,717	675	521	6,107
1	–	353	100	441	–	895
–	–	41	(92)	(35)	–	(86)
–	–	13	–	1	–	14
–	–	4	–	–	–	4
–	–	–	–	–	–	–
–	–	–	–	(9)	–	(9)
–	–	(49)	(8)	(42)	–	(99)
1	–	362	–	356	–	719
1,079	1,671	807	1,717	1,031	521	6,826
–	31	1	116	–	69	217

million barrels

600	600
–	–
–	–
600	600
134	134

million barrels

600	600
–	–
–	–
600	600
133	133

million barrels

2002[d]

	Eastern Hemisphere			Western Hemisphere		
Europe	Africa[a]	Asia Pacific[b]	Middle East, Russia, CIS[c]	USA	Other	Total
785	724	249	1,122	429	223	3,532
1,127	738	199	1,056	373	191	3,684
1	–	261	–	330	–	592
1	–	278	15	365	–	659

million barrels

2001[d]

	Eastern Hemisphere			Western Hemisphere		
Europe	Africa[a]	Asia Pacific[b]	Middle East, Russia, CIS[c]	USA	Other	Total
872	740	214	1,151	351	229	3,557
785	724	249	1,122	429	223	3,532
1	–	249	37	364	–	651
1	–	261	–	330	–	592

Natural gas

Group companies' estimated net proved reserves of natural gas at the end of the year, their share of the net proved reserves of associated companies at the end of the year, and the changes in such reserves during the year are set out below. The volumes set out below have not been adjusted to standard heat content, which means that volumes of gas are reported on an "as-sold" basis and are treated as equivalent without regard to the quality of the gas (eg, with respect to the inert gas content thereof or the various hydrocarbon components). The price used to calculate future revenues and cash flows from proved gas reserves is that realised at year-end based on "as-sold" volumes. As such, the realised price reflects the quality of the gas, both in terms of inert components which reduce gas quality and hydrocarbon components with high molecular weights which enrich the quality of the gas.

Proved developed and undeveloped reserves

thousand million standard cubic feet[a]

							2003
	Eastern Hemisphere				Western Hemisphere		
	Europe	Africa[b]	Asia Pacific[c]	Middle East, Russia, CIS[d]	USA	Other	Total
Group companies							
At January 1	22,046	1,844	8,994	1,118	3,874	2,414	**40,290**
Revisions and reclassifications	1	(5)	(114)	(21)	(70)	(531)	**(740)**
Improved recovery	22	506	17	–	10	30	**585**
Extensions and discoveries	485	1,361	7	2,795	305	34	**4,987**
Purchases of minerals in place	6	–	–	–	–	–	**6**
Sales of minerals in place	(139)	–	–	–	(389)	(17)	**(545)**
Production	(1,303)	(128)	(541)	(258)	(555)	(197)	**(2,982)**
At December 31	**21,118**	**3,578**	**8,363**	**3,634**	**3,175**	**1,733**	**41,601**
Group share of associated companies							
At January 1	44	–	3,347	–	21	–	**3,412**
Revisions and reclassifications	–	–	133	–	9	–	**142**
Improved recovery	1	–	11	–	–	–	**12**
Extensions and discoveries	1	–	–	–	–	–	**1**
Purchases of minerals in place	–	–	–	–	–	–	**–**
Sales of minerals in place	–	–	–	–	–	–	**–**
Production	(7)	–	(238)	–	(3)	–	**(248)**
At December 31	**39**	**–**	**3,253**	**–**	**27**	**–**	**3,319**
Total	**21,157**	**3,578**	**11,616**	**3,634**	**3,202**	**1,733**	**44,920**
Minority interests' share of proved reserves of Group companies							
At December 31	**–**	**–**	**68**	**1,285**	**–**	**300**	**1,653**

Proved developed reserves

thousand million standard cubic feet[a]

							2003
	Eastern Hemisphere				Western Hemisphere		
	Europe	Africa[b]	Asia Pacific[c]	Middle East, Russia, CIS[d]	USA	Other	Total
Group companies							
At January 1	12,061	1,181	3,775	574	2,316	1,455	**21,362**
At December 31	12,350	1,094	3,523	449	1,758	1,316	**20,490**
Group share of associated companies							
At January 1	38	–	1,792	–	17	–	**1,847**
At December 31	34	–	1,858	–	22	–	**1,914**

a These quantities have not been adjusted to standard heat content.
b Excludes Egypt.
c Excludes Sakhalin.
d Middle East and Former Soviet Union/Commonwealth of Independent States. Includes Caspian region, Egypt and Sakhalin.
e As applicable, amounts relating to prior years have been restated. A summary of the changes is shown in the table on page 89.

						thousand million standard cubic feet[a]
						2002[e]
		Eastern Hemisphere		Western Hemisphere		
Europe	Africa[b]	Asia Pacific[c]	Middle East, Russia, CIS[d]	USA	Other	Total
22,527	1,921	9,456	1,777	3,694	2,684	42,059
3	12	152	(282)	162	(110)	(63)
75	–	150	–	20	–	245
29	–	1	–	411	9	450
748	–	–	–	208	27	983
(5)	–	(212)	–	(10)	–	(227)
(1,331)	(89)	(553)	(377)	(611)	(196)	(3,157)
22,046	1,844	8,994	1,118	3,874	2,414	40,290
48	–	2,756	–	15	–	2,819
1	–	790	–	7	–	798
–	–	8	–	–	–	8
3	–	15	–	1	–	19
–	–	–	–	–	–	–
–	–	–	–	–	–	–
(8)	–	(222)	–	(2)	–	(232)
44	–	3,347	–	21	–	3,412
22,090	1,844	12,341	1,118	3,895	2,414	43,702
–	–	66	59	–	403	528

						thousand million standard cubic feet[a]
						2001[e]
		Eastern Hemisphere		Western Hemisphere		
Europe	Africa[b]	Asia Pacific[c]	Middle East, Russia, CIS[d]	USA	Other	Total
22,722	1,925	8,339	2,054	3,403	3,010	41,453
890	(45)	260	(73)	141	(257)	916
38	–	266	–	–	–	304
214	121	8	95	385	132	955
–	–	1,095	–	355	9	1,459
–	–	–	–	(9)	(8)	(17)
(1,337)	(80)	(512)	(299)	(581)	(202)	(3,011)
22,527	1,921	9,456	1,777	3,694	2,684	42,059
56	–	3,090	–	86	–	3,232
(4)	–	57	–	(29)	–	24
–	–	17	–	–	–	17
3	–	2	–	–	–	5
–	–	–	–	–	–	–
–	–	(181)	–	(40)	–	(221)
(7)	–	(229)	–	(2)	–	(238)
48	–	2,756	–	15	–	2,819
22,575	1,921	12,212	1,777	3,709	2,684	44,878
–	–	83	153	–	458	694

						thousand million standard cubic feet[a]
						2002[e]
		Eastern Hemisphere		Western Hemisphere		
Europe	Africa[b]	Asia Pacific[c]	Middle East, Russia, CIS[d]	USA	Other	Total
12,322	1,109	3,966	1,097	2,363	1,993	22,850
12,061	1,181	3,775	574	2,316	1,455	21,362
41	–	1,741	–	11	–	1,793
38	–	1,792	–	17	–	1,847

						thousand million standard cubic feet[a]
						2001[e]
		Eastern Hemisphere		Western Hemisphere		
Europe	Africa[b]	Asia Pacific[c]	Middle East, Russia, CIS[d]	USA	Other	Total
12,979	1,109	2,898	1,382	2,347	2,175	22,890
12,322	1,109	3,966	1,097	2,363	1,993	22,850
53	–	1,721	–	66	–	1,840
41	–	1,741	–	11	–	1,793

Standardised measure of discounted future cash flows

United States accounting principles require the disclosure of a standardised measure of discounted future cash flows, relating to proved oil and gas reserve quantities and based on prices[1] and costs at the end of each year, currently enacted tax rates and a 10% annual discount factor. The information so calculated does not provide a reliable measure of future cash flows from proved reserves, nor does it permit a realistic comparison to be made of one entity with another because the assumptions used cannot reflect the varying circumstances within each entity. In addition a substantial but unknown proportion of future real cash flows from oil and gas production activities is expected to derive from reserves which have already been discovered, but which cannot yet be regarded as proved.

The standardised measure for the Middle East, Russia, CIS geographical grouping includes a negative contribution of $2,238 million from the Group's Sakhalin properties (Russia). This also accounts for the negative contribution of minority interests to the standardised measure for that geographical grouping and for Group companies as a whole. The standardised measure for Sakhalin is negative due to the inclusion of the full committed costs of development and operation for the asset under the integrated Production Sharing Agreement. Meanwhile, revenues are registered only in relation to the currently estimated proved reserves. Proved gas reserves are constrained to those volumes that are related to firm sales commitments. Consequently the currently stated proved reserves are only a small fraction of the volume that is expected to be committed to sales over time and upon which the decision to proceed with development was based.

							$ million
							2003
	Eastern Hemisphere				Western Hemisphere		
	Europe	Africa[a]	Asia Pacific[b]	Middle East, Russia, CIS[c]	USA	Other	Total
Group companies							
Future cash inflows	117,606	47,325	24,115	45,238	31,419	16,224	**281,927**
Future production costs	21,853	7,433	4,515	7,745	4,977	4,379	**50,902**
Future development costs	6,543	7,337	2,505	9,772	3,085	1,328	**30,570**
Future tax expenses	44,361	18,764	4,785	16,391	8,542	2,900	**95,743**
Future net cash flows	44,849	13,791	12,310	11,330	14,815	7,617	**104,712**
Effect of discounting cash flows at 10%	22,027	5,826	5,610	9,209	5,231	2,965	**50,868**
Standardised measure of discounted future net cash flows	22,822	7,965	6,700	2,121	9,584	4,652	**53,844**
Group share of associated companies							**5,828**
Minority interests	–	170	38	(976)	–	547	**(221)**

Change in standardised measure of Group companies discounted future net cash flows relating to proved Oil and Gas Reserves

			$ million
	2003	2002[d]	2001[d]
At January 1	**60,362**	40,414	56,958
Net changes in prices and production costs	**13,162**	36,717	(28,132)
Extensions, discoveries and improved recovery	**7,043**	5,356	3,280
Purchases and sales of minerals in place	**(2,801)**	8,284	1,932
Revisions of previous reserve estimates	**(346)**	419	2,984
Development cost related to future production	**(14,413)**	(5,931)	(4,713)
Sales and transfers of oil and gas, net of production costs	**(24,891)**	(20,387)	(20,173)
Development cost incurred during the year	**8,239**	6,673	5,287
Accretion of discount	**9,806**	6,406	8,927
Net change in income tax	**(2,317)**	(17,589)	14,064
At December 31	**53,844**	60,362	40,414

a Excludes Egypt.
b Excludes Sakhalin.
c Middle East and Former Soviet Union/Commonwealth of Independent States. Includes Caspian region, Egypt and Sakhalin.
d As applicable, amounts relating to prior years have been restated. A summary of the changes is shown in the table on page 89.

1 The weighted average year-end oil price in 2003 was $26.66/bbl ($24.74/bbl and $16.58/bbl in 2002 and 2001 respectively). The weighted average year-end gas price in 2003 was $17.30/boe ($15.16/boe and $12.21/boe in 2002 and 2001 respectively).

						$ million
						2002[d]
		Eastern Hemisphere		Western Hemisphere		
Europe	Africa[a]	Asia Pacific[b]	Middle East, Russia, CIS[c]	USA	Other	Total
103,061	46,571	25,791	37,606	32,702	18,854	264,585
19,388	6,523	3,946	5,286	4,858	4,117	44,118
4,783	6,776	2,518	2,887	3,201	1,628	21,793
33,827	20,395	5,330	18,389	9,158	3,870	90,969
45,063	12,877	13,997	11,044	15,485	9,239	107,705
20,734	5,535	7,039	4,165	5,479	4,391	47,343
24,329	7,342	6,958	6,879	10,006	4,848	60,362
						5,762
–	136	26	753	–	466	1,381

						$ million
						2001[d]
		Eastern Hemisphere		Western Hemisphere		
Europe	Africa[a]	Asia Pacific[b]	Middle East, Russia, CIS[c]	USA	Other	Total
76,299	26,986	22,577	34,375	18,982	11,796	191,015
14,059	5,087	4,737	5,143	4,021	3,990	37,037
3,466	6,155	2,884	4,017	2,352	1,385	20,259
26,002	8,644	4,293	15,651	4,543	1,648	60,781
32,772	7,100	10,663	9,564	8,066	4,773	72,938
16,027	3,309	5,130	3,484	2,648	1,926	32,524
16,745	3,791	5,533	6,080	5,418	2,847	40,414
						2,883
–	94	15	557	–	307	973

Additional information concerning proved reserves

Some of our Deepwater Gulf of Mexico reserves may not have had a production flow test to surface. In such situations, we have used other technologies that we believe are reliable to establish economic producibility. Proved reserves supported by using such other technologies are 100 million barrels of crude oil and natural gas liquids and 246 thousand million standard cubic feet of gas.

Proved reserves can be either developed or undeveloped. Group proved reserves at December 31, 2003 were divided into 56% developed and 44% undeveloped on a barrel of oil equivalent basis.

Proved reserves are recognised under various forms of contractual agreements. Group proved reserves volumes present in agreements such as Production Sharing Contracts or other forms of economic entitlement contracts where Group share of reserves can vary with actual year-end price are approximately 1,270 million barrels of crude oil and natural gas liquids and 8,530 thousand million standard cubic feet of gas.

A portion of our oil reserves is located in countries that are part of OPEC. As such, our oil production rates may be subject to limitations imposed by OPEC quotas. Our proved oil reserves in OPEC countries totalled some 2,020 million barrels at December 31, 2003.

Royal Dutch Petroleum Company Annual Report and Accounts

Contents

Report of the Supervisory Board

to the shareholders

Members of the Supervisory Board and Managing Directors
Having reached the age limit prescribed by the Articles of Association, Jan Timmer retired as a member of the Supervisory Board on June 30, 2003. Mr Timmer was appointed to the Supervisory Board in 1996. At the General Meeting of Shareholders held on April 23, 2003, the Chairman of the Supervisory Board and the shareholders paid tribute to Mr Timmer for his outstanding service to the Company.

At the same General Meeting, Wim Kok, former Prime Minister of the Netherlands, was appointed to the Supervisory Board.

In addition, Aad Jacobs, Chairman of the Supervisory Board, retiring in accordance with the schedule of rotation, was reappointed as a member of the Supervisory Board and Rob Routs was appointed as a Managing Director of the Company with effect from July 1, 2003.

Professor Joachim Milberg retired from the Supervisory Board on October 1, 2003, for personal reasons.

Malcolm Brinded resigned as a Managing Director of the Company on March 3, 2004, and was appointed as a Managing Director of Shell Transport on the same date.

Walter van de Vijver resigned as a Managing Director of the Company on March 3, 2004.

Meetings of the Supervisory Board
During 2003, the Supervisory Board met twelve times to discuss and, where appropriate, adopt resolutions on issues relating to the Company. Mr Milberg was absent from a number of these meetings for personal reasons. Most of the meetings were attended by the Board of Management. The Managing Directors did not attend when their performance, remuneration or succession were discussed. The Supervisory Board also reviewed its own performance and that of its individual members as well as its profile, composition and competence.

In addition, the members of the Supervisory Board met eight times in the Conference with the Managing Directors of the Company and the Directors of The "Shell" Transport and Trading Company, p.l.c. The purpose of the Conference is described on page 108. Topics of discussion at the Conference included, *inter alia*, the strategic direction of the Group's businesses, as well as governance, business risks and internal control of Group companies.

The Dutch corporate governance code
All Supervisory Board members are independent within the meaning of the Dutch corporate governance code, except Henny de Ruiter, who also serves as a Director on the Boards of the Group Holding Companies but will retire from the Supervisory Board on June 30, 2004, and Maarten van den Bergh, who retired as a Managing Director of the Company in 2000 and also serves as a Director on the Boards of the Group Holding Companies. Further information about the individual members of the Supervisory Board is provided on pages 8 and 9. Memberships of the Group Audit Committee and the Remuneration and Succession Review Committee can be found on page 109 and 112 respectively. For information in respect of the remuneration policy of the Company, reference is made to the Remuneration Report on pages 111 to 120.

Annual Accounts
We herewith submit the Annual Accounts as drawn up today by the Board of Management and approved by the Supervisory Board, which are accompanied by the other information to be attached thereto by virtue of the law and the Annual Report drawn up by the Board of Management. The Annual Accounts comprise the following documents as signed by each of the Managing Directors and the members of the Supervisory Board:

1 the Balance Sheet as at December 31, 2003;
2 the Profit and Loss Account for the year 2003; and
3 the Notes to the Balance Sheet and the Profit and Loss Account, including the Netherlands GAAP Financial Statements of the Royal Dutch/Shell Group of Companies as presented on pages 78 and 79 and the Notes thereto as presented on pages 52 to 77, 80 to 84 of this report.

On the basis of these Annual Accounts we propose:

a that the Balance Sheet as at December 31, 2003, the Profit and Loss Account for the year 2003 and the Notes to the Balance Sheet and the Profit and Loss Account, including the Netherlands GAAP Financial Statements of the Royal Dutch/Shell Group of Companies as presented on pages 78 and 79 and the Notes thereto as presented on pages 52 to 77, 80 to 84, be finalised in accordance with the attached Accounts;
b that it be resolved that the interim dividend of €0.74 made payable in September 2003 and the second interim dividend of €1.02 made payable in May 2004 will together constitute the total dividend for 2003 on each of the ordinary shares outstanding and that the remaining amount of undistributed profit be carried forward to reserves;
c that the Managing Directors be discharged of responsibility in respect of their management for the year 2003; and
d that the members of the Supervisory Board be discharged of responsibility for their supervision for the year 2003.

Proved reserves
The recategorisation of proved reserves announced on January 9, 2004 has had a major impact on the Company and the Group and has resulted in the delayed publication of the Annual Report and Accounts 2003. The Group Audit Committee commissioned an independent investigation and report on the matter. The executive summary and recommendations thereof have been published.
The Supervisory Board regrets the Reserves Restatement. The Supervisory Board will continue to closely monitor the issue of the proved reserves and the implementation of all the remedial actions announced in this report on the pages 40 to 42, to avoid the reoccurrence of such an incident.

The Hague
May 22, 2004
The Supervisory Board

Aad Jacobs
Chairman

Annual Report

Activities of the Company
Royal Dutch Petroleum Company (Royal Dutch) is a holding company which, in conjunction with The "Shell" Transport and Trading Company, p.l.c. (Shell Transport), a UK company, owns, directly or indirectly, investments in the numerous companies of the Royal Dutch/Shell Group. Royal Dutch has an interest of 60% in the Group and Shell Transport an interest of 40%.

The assets and income of the Company consist mainly of its interest in the net assets and its share in the net income of the Royal Dutch/Shell Group of Companies.

Annual Accounts
Translated into euros, Royal Dutch's share in the net income of the Royal Dutch/Shell Group of Companies for 2003 amounts to €6,513 million. The dividend distributed and yet to be distributed to Royal Dutch was €2,868 million. The share in the net income for 2002 amounted to €6,093 million (as restated).

When administrative expenses have been deducted and interest income has been added, profit after taxation for the year 2003 amounts to €6,520 million, compared with €6,108 million (as restated).

Royal Dutch's 60% interest in the Group net assets, expressed in dollars, has been translated into euros at the year-end rate. The amount thus obtained should be regarded as a reflection of the dollar value of Royal Dutch's interest in the Group assets and liabilities.

Share buyback
The General Meeting of Shareholders held on April 23, 2003, adopted a proposal to reduce the Company's issued share capital by €8,839,600 by cancellation of 15,785,000 ordinary shares which the Company had acquired between the General Meeting of May 16, 2002, and the General Meeting held on April 23, 2003, under the share buyback programme. This cancellation was effected on July 24, 2003.

The General Meeting of Shareholders renewed the authorisation of the Board of Management, with effect from July 1, 2003, for a period of 18 months, for the acquisition by the Company, with due observance of the statutory provisions and for its own account, of shares in its capital up to a maximum of 10% of the issued capital.

Such shares can be acquired on the stock exchange or otherwise at a price between an amount equal to the par value of the shares and an amount equal to 110% of the opening price quoted for shares of the Company at Euronext Amsterdam on the day of the acquisition or, in the absence of such a price, the last previous price quoted there. In 2003 the Company did not repurchase any shares.

Since the beginning of the programme until May 11, 2004, a total number of 60,796,352 ordinary shares were acquired by the Company and cancelled. In April the Company announced it would recommence acquiring ordinary shares under the programme.

It will be proposed to the General Meeting of Shareholders to be held on June 28, 2004, to cancel the shares acquired by the Company until the General Meeting in 2004 and to renew the authorisation of the Board of Management for the acquisition by the Company of its own shares for a period of 18 months with effect from July 1, 2004.

Proxy voting
The Company continued to enable shareholders participating in the Shareholders' Communication Channel (Communicatiekanaal Aandeelhouders) or holding registered shares in the Netherlands or in the USA to participate in the decision-making process without being present at the General Meeting, by means of a voting instruction form. This allowed these shareholders to state how they wished their votes to be cast per agenda item. In 2003, 14% of the issued capital was present or represented at the General Meeting, 92% thereof was represented in this manner.

Risk management and internal control systems
With the exception of weaknesses identified in the controls relating to reserves bookings referred to in the paragraph about risk management and internal control systems on page 110 of the Corporate governance section, the Board of Management confirms that the risk management and internal control systems are adequate and effective.

Royal Dutch/Shell Group of Companies
For the reporting with regard to the Royal Dutch/Shell Group of Companies, reference may be made to the Message to shareholders (pages 2 and 3), Strategic direction (pages 12 and 13), Market overview (page 16) and the Operational and Financial Review (pages 17 to 47), which form part of this Annual Report.

The Hague
May 22, 2004
The Board of Management

Jeroen van der Veer
President

Rob Routs
Managing Director

Annual Accounts

Profit and Loss Account € million

	Note	**2003**	2002 As restated	2001 As restated
Share in the net income of companies of the Royal Dutch/Shell Group	4	**6,513**	6,093	6,930
less Administrative expenses		**8**	5	6
		6,505	6,088	6,924
Interest income		**18**	28	33
Profit before taxation		**6,523**	6,116	6,957
less Taxation	5	**3**	8	10
Profit after taxation		**6,520**	6,108	6,947

Statement of Appropriation of Profit € million

	Note	**2003**	2002 As restated	2001 As restated
Profit after taxation		**6,520**	6,108	6,947
Taken from/(to) Statutory investment reserve	6	**(3,645)**	(2,776)	(782)
Undistributed profit at beginning of year		**3,650**	4,712	4,674
Final dividend distributed		**(2,084)**	(2,042)	(1,973)
(Repurchase)/cancellation of share capital		**9**	(847)	(2,654)
Unclaimed dividends forfeited		**1**	1	1
Available for distribution		**4,451**	5,156	6,213
less Interim dividend[a]		**1,542**	1,506	1,501
Undistributed profit at end of year[b]		**2,909**	3,650	4,712

Earnings per share €

	Note	**2003**	2002 As restated	2001 As restated
Basic earnings per ordinary share	12	**3.20**	2.97	3.32
Diluted earnings per ordinary share	12	**3.20**	2.97	3.32

a Including 4% cumulative preference dividend for 2003 amounting to €26,880 on priority shares (2002: €26,880; 2001: €27,227).

b Before second interim dividend of €2,125 million (proposed final dividend 2002: €2,084 million; 2001: €2,042 million). The Supervisory Board and the Board of Management propose to the General Meeting of Shareholders to be held on June 28, 2004 that it be resolved that the interim dividend made payable in September 2003 and the second interim dividend made payable in May 2004 will together constitute the total dividend for 2003.

Balance Sheet (before appropriation of profit)

€ million

	Note	Dec 31, 2003	Dec 31, 2002 As restated
Fixed assets			
Financial fixed assets			
Investments in companies of the Royal Dutch/Shell Group	6	**34,516**	34,586
Current assets			
Receivables			
Dividends receivable from companies of the Royal Dutch/Shell Group		**2,449**	2,982
Other receivables from companies of the Royal Dutch/Shell Group		**363**	582
Other receivables	7	**36**	36
Cash and cash equivalents		**8**	7
		2,856	3,607
Current liabilities			
Other liabilities	8	**10**	11
Current assets less current liabilities		**2,846**	3,596
Total assets less current liabilities		**37,362**	38,182
Shareholders' equity			
Paid-up capital	9		
Ordinary shares		**1,166**	1,175
Priority shares		**1**	1
		1,167	1,176
Share premium reserve		**1**	1
Investment reserves	6		
Statutory		**22,874**	23,148
Currency translation differences		**486**	(2,370)
Other		**9,910**	12,562
		33,270	33,340
Other statutory reserves	10	**15**	15
Undistributed profit		**2,909**	3,650
		37,362	38,182

Statement of Cash Flows

€ million

	2003	2002 As restated	2001
Returns on investments and servicing of finance			
Dividends received from Group companies	**3,401**	4,446	6,342
Interest received	**18**	32	30
Other	**212**	(587)	(5)
Net cash inflow/(outflow) from returns on investments and servicing of finance	**3,631**	3,891	6,367
Taxation			
Tax (paid)/recovered	**(4)**	(8)	(14)
Financing			
Repurchase of share capital, including expenses	**–**	(889)	(2,700)
Dividends paid	**(3,626)**	(3,536)	(3,459)
Increase/(decrease) in cash and cash equivalents	**1**	(542)	194
Cash at January 1	**7**	549	355
Cash at December 31	**8**	7	549

Notes to the Annual Accounts

1 The Company

Royal Dutch, one of the Parent Companies of the Royal Dutch/Shell Group, is a holding company which, in conjunction with Shell Transport, owns, directly or indirectly, investments in the numerous companies known collectively as the Royal Dutch/Shell Group of Companies.

The Netherlands GAAP Financial Statements of the Royal Dutch/Shell Group of Companies as presented on pages 78 and 79 and the Notes thereto on pages 52 to 77, 80 to 84 form part of the Notes to the Annual Accounts.

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

2 Restatement and changes in accounting principles

Previously published Financial Statements of the Royal Dutch/Shell Group of Companies were presented based on accounting principles which were in all material respects in accordance with US and Netherlands GAAP. With effect from 2003 the Group Financial Statements include separate financial information prepared under Netherlands GAAP. The accounting policies under Netherlands GAAP have been revised, in respect of inventory accounting and the amortisation of goodwill, in order to more closely reflect accounting practice generally accepted in the Netherlands. In addition, errors in the depreciation, depletion and amortisation charges related to the restatement of reserves have been adjusted with restatement of prior years (see page 80 of the Netherlands GAAP information of the Royal Dutch/Shell Group of Companies). The accounting principles in the Netherlands GAAP Financial Statements of the Royal Dutch/Shell Group of Companies have also been revised in respect of exploration costs and certain contracts for the sale and delivery of own natural gas production. The effect on the determination of the share of Royal Dutch in the net income of companies of the Royal Dutch/Shell Group is disclosed in Note 30 to the Netherlands GAAP Financial Statements of the Royal Dutch/Shell Group of Companies on pages 80 and 81.

From January 1, 2003 the 60% share of Royal Dutch in the book value of Shell Transport shares held by Group companies is eliminated, thus eliminating in full the shares of both Parent Companies held by Group companies. In this way, the euro book value of Royal Dutch investments is directly aligned to 60% of the Royal Dutch/Shell Group's net assets translated at the year-end dollar/euro rate of exchange. The change reduces Shareholders' equity by €496 million as at December 31, 2002 (December 31, 2001: €347 million), see Note 6.

Furthermore, as from January 1, 2003, changes in generally accepted accounting principles in the Netherlands require that proposed dividends which are subject to finalisation at the General Meeting of Shareholders no longer be accounted for as liabilities in the balance sheet, but as undistributed profit, a part of Shareholders' equity, until they are finally approved. This change increases Shareholders' equity by €2,084 million as at December 31, 2002 (December 31, 2001: €2,042 million).

Prior year amounts related to these accounting changes have been restated to conform with current year presentation.

The effect on profit after taxation and the Shareholders' equity of Royal Dutch is as follows:

			€ million
	Profit after taxation		Shareholders' equity
	2002	2001	Dec 31, 2002
As previously reported	6,004	7,282	36,446
Reserves restatement	(69)	(28)	(176)
Changes in accounting principles of the Royal Dutch/Shell Group of Companies			
Valuation of inventories	324	(299)	537
Goodwill amortisation	(76)		(76)
Exploration costs	(39)	(9)	(99)
Valuation of certain gas contracts	(25)		(25)
Currency translation effect	(11)	1	(13)
Changes in accounting principles of Royal Dutch			
Accounting for Shell Transport shares			(496)
Accounting for proposed dividend			2,084
As restated	**6,108**	**6,947**	**38,182**

3 Accounting principles

The Annual Accounts of Royal Dutch include the Netherlands GAAP Financial Statements of the Royal Dutch/Shell Group of Companies. These Annual Accounts have been prepared in accordance with legal requirements and generally accepted accounting principles in the Netherlands.

The investments in and the share in the net income of companies of the Royal Dutch/Shell Group are accounted for by the equity method (see also Notes 4 and 6). Accounting principles used by the Group are given in the Notes to the Netherlands GAAP Financial Statements of the Royal Dutch/Shell Group of Companies on page 80.

Current assets and liabilities are stated at their nominal value. Assets and liabilities in foreign currencies are translated into euros at year-end rates of exchange, whereas results for the year are translated at average rates. For the Profit and Loss Account euros are translated from dollars at the weighted average rate of exchange. Currency translation differences arising from translating the investments in companies of the Royal Dutch/Shell Group are taken to Investment reserves (see Note 6).

Administrative expenses, Interest income and Taxation are stated at the amounts attributable to the respective financial years.

4 Share in the net income of companies of the Royal Dutch/Shell Group

Net income of the Royal Dutch/Shell Group included in the Profit and Loss Account has been calculated as 60% of the net income of the Royal Dutch/Shell Group as presented in the Netherlands GAAP Financial Statements of the Royal Dutch/Shell Group on pages 78 and 79. The Royal Dutch share in the net income of the Royal Dutch/Shell Group amounts to €6,513 million, the equivalent of $7,244 million (2002: €6,093 million, the equivalent of $5,761 million as restated). Net income has been translated into euros using the weighted average rate of exchange for the year.

The dividend for 2003 distributed and yet to be distributed by Group companies to Royal Dutch amounted to €2,868 million, the equivalent of $3,396 million (2002: €3,317 million, the equivalent of $3,261 million).

5 Taxation

The effective tax rate in 2003 was 0% (2002: 0%), as against a statutory corporate income tax rate in the Netherlands of 34.5%. This difference is attributable almost entirely to the participation exemption in the Dutch Corporate Income Tax Act, which exemption applies generally to any benefits, including dividends, derived from subsidiaries that have been subject to a tax on income.

6 Investments and reserves

The 60% interest in Group net assets is equal to the interest applicable to Royal Dutch as shown in Note 34 to the Netherlands GAAP Financial Statements of the Royal Dutch/Shell Group of Companies.

Royal Dutch's investments in the companies of the Royal Dutch/Shell Group are stated at an amount equal to its 60% share in Group net assets, translated into euros at the year-end rate of exchange. Movements during the year are translated at different rates of exchange. The resulting difference from movements in the dollar/euro rate is included in currency translation differences.

Movements in Investments and Investment reserves

	$ million		€ million				
				Investment reserves			
	60% interest in Group net assets[a]	Exchange rate (€/$)	Royal Dutch investments	Statutory	Currency translation differences	Other	Total
Balance at December 31, 2001 (as previously reported)			**38,431**	**25,485**	**(4,306)**	**16,006**	**37,185**
Deduct: 60% of the book value of Shell Transport shares held by Group companies at December 31, 2001			(347)			(347)	(347)
	33,696	1.13	38,084	25,485	(4,306)	15,659	36,838
Restatement December 31, 2001 as described in Note 34	50	1.13	56	50	7	(1)	56
Balance at December 31, 2001 (as restated)	**33,746**	**1.13**	**38,140**	**25,535**	**(4,299)**	**15,658**	**36,894**
Movements during the year 2002							
Share in the net income of Group companies (as restated)	5,761	1.06	6,093				
Distribution to Royal Dutch	(3,261)	1.02	(3,317)				
Undistributed net income of Group companies (as restated)	2,500	1.11	2,776	2,776			2,776
Net (increase)/decrease in Parent Companies' shares held by Group companies	(507)	1.06	(538)			(538)	(538)
Other comprehensive income, net of tax (as restated)	455	0.96	434	(831)	1,265		434
Translation effect arising from movements in dollar/euro rate (as restated)			(6,226)	(4,332)	664	(2,558)	(6,226)
Share of Group net assets at December 31, 2002 (as restated)	36,194	0.96	34,586	23,148	(2,370)	12,562	33,340
Add: 60% of the book value of Shell Transport shares held by Group companies at December 31, 2002			496			496	496
Balance at December 31, 2002 (as restated)			35,082	23,148	(2,370)	13,058	33,836
Deduct: 60% of the book value of Shell Transport shares held by Group companies at December 31, 2002			(496)			(496)	(496)
Balance at January 1, 2003 (as restated)	**36,194**	**0.96**	**34,586**	**23,148**	**(2,370)**	**12,562**	**33,340**
Cumulative effect of change in accounting for asset retirement obligations[b]	153	0.96	146	146			146
	36,347	0.96	34,732	23,294	(2,370)	12,562	33,486
Movements during the year 2003							
Share in the net income of Group companies	7,244	0.90	6,513				
Distribution to Royal Dutch	(3,396)	0.84	(2,868)				
Undistributed net income of Group companies	3,848	0.95	3,645	3,645			3,645
Loss on sale of Parent Companies' shares	(1)	0.95	(1)	(1)			(1)
Net (increase)/decrease in Parent Companies' shares held by Group companies	(378)	0.89	(335)			(335)	(335)
Other comprehensive income, net of tax	3,721	0.79	2,951	499	2,452		2,951
Translation effect arising from movements in dollar/euro rate			(6,476)	(4,563)	404	(2,317)	(6,476)
Balance at December 31, 2003	**43,537**	**0.79**	**34,516**	**22,874**	**486**	**9,910**	**33,270**

a See Notes 30 and 34 to the Netherlands GAAP Financial Statements of the Royal Dutch/Shell Group of Companies.

b This relates to a change in Group accounting policies in 2003 for asset retirement obligations which is recorded as an adjustment to the opening balance of net assets in 2003. Prior periods have not been restated due to the absence of comparative data for 2002 and 2001, respectively.

The difference of €33,270 million between the cost of the investments and the amounts at which the investments are stated in the Balance Sheet has been taken to Investment reserves.

The Statutory investment reserve comprises Royal Dutch's 60% share in the undistributed net income of Group companies which has arisen as from January 1, 1984; Royal Dutch's share in the undistributed net income of Group companies accumulated until that date is included in Investment reserves – Other.

Royal Dutch's 60% share in the cumulative Group currency translation differences arises as a result of translating the assets and liabilities of non-dollar companies to dollars at year-end rates of exchange and is shown under Investment reserves as Currency translation differences. Distribution from Group companies and loss on sale of Parent Companies' shares are translated at a rate of exchange used for distribution of dividends.

The net increase/decrease in Parent Companies' shares held by Group companies results from sales and purchases of these shares minus dividends received on these shares, translated at the average rate of exchange for the year.

Other comprehensive income, net of tax, consists of currency translation differences, unrealised gains/losses on securities and on cash flow hedges and minimum pension liability adjustments and is translated at the year-end rate (see Note 34 to the Netherlands GAAP Financial Statements of the Royal Dutch/Shell Group of Companies on page 83).

The movements during the year in the value of the Group reporting currency (dollar) against the Royal Dutch reporting currency (euro) lead to currency translation differences.

As the amounts dealt with under Investment reserves have been, or will be, substantially reinvested by the companies concerned, it is not meaningful to provide for taxes on possible future distributions out of earnings retained by those companies; no such provision has therefore been made.

7 Other receivables

		€ million
	Dec 31, 2003	Dec 31, 2002
Dividend tax receivable	**36**	35
Other receivables	**0**	1
	36	36

8 Other liabilities

		€ million
	Dec 31, 2003	Dec 31, 2002
Dividends	**8**	8
Accounts payable	**2**	1
Corporation tax	**0**	2
	10	11

9 Share capital

The authorised capital as laid down in the Articles of Association is expressed in euros and amounts to €1,792,000,000. The authorised share capital is divided into 3,198,800,000 ordinary shares with a par value of €0.56 each and 1,500 priority shares with a par value of €448 each. The movements in issued and paid-up capital during 2002 and 2003 were as follows:

Share capital

	Number of shares	€
Ordinary shares of N.fl.1.25/€0.56		
At December 31, 2001	2,126,647,800	1,206,288,373
Redenomination to €0.56		(15,365,605)
Cancelled during 2002	(27,362,800)	(15,323,168)
At December 31, 2002	2,099,285,000	1,175,599,600
Cancelled during 2003	(15,785,000)	(8,839,600)
At December 31, 2003	**2,083,500,000**	**1,166,760,000**
Priority shares of N.fl.1,000/€448		
At December 31, 2001	1,500	680,670
Redenomination to €448		(8,670)
At December 31, 2002	1,500	672,000
At December 31, 2003	**1,500**	**672,000**
Total ordinary and priority shares		
At December 31, 2002	2,099,286,500	1,176,271,600
At December 31, 2003	**2,083,501,500**	**1,167,432,000**

10 Other statutory reserves

The other statutory reserves resulted from the redenomination in 2002 from guilders into euros of the nominal values of the shares.

11 Royal Dutch shares held by Group companies

The movements in 2003 in Royal Dutch shares held by Group companies were as follows:

	Number of shares	€ million	
		Book value	Royal Dutch 60% interest in the book value
At December 31, 2002	39,115,193	2,118	1,271
Purchases	11,431,478	435	261
Deliveries and other movements	(266,589)	(159)	(96)
At December 31, 2003	**50,280,082**	**2,394**	**1,436**

These movements relate to the granting and exercise of stock options and to other incentive compensation plans as mentioned in Note 22 to the Financial Statements of the Royal Dutch/Shell Group of Companies on pages 69 to 71.

12 Earnings per share

The basic earnings per share amounts shown are related to profit after taxation and after deducting the 4% cumulative preference dividend on priority shares. The calculation uses a weighted average number of shares of 2,036,687,755 (2002: 2,057,657,737 shares; 2001: 2,095,731,261 shares). This amount is based on outstanding shares, after deduction of shares held by Group companies in respect of stock options and other incentive compensation plans. For the purpose of the calculation, shares repurchased under the buyback programme are deemed to have been cancelled on purchase date.

The diluted earnings per share are based on the same profit figures. For this calculation the weighted number of shares is increased by 674,210 for 2003 (2002: 442,580; 2001: 1,124,897). These numbers relate to share options schemes as mentioned above.

Basic earnings per share reported in previous years have been restated reflecting (i) a correction in the weighted number of outstanding shares for the number of shares held by Group companies in respect of stock options, which shares were erroneously not deducted in the calculation of the weighted average number of shares, and (ii) the Reserves Restatement and changes in accounting principles.

Quantitative information concerning the effect of the above restatement and changes in accounting principles is set forth in the table below and additional information regarding the nature of these items is contained in Note 2.

		€
	2002	2001
Basic earnings per ordinary share (as previously reported)	**2.87**	**3.44**
Adjustments		
Correction number of weighted shares	0.05	0.03
Reserves restatement	(0.03)	(0.01)
Valuation of inventories	0.16	(0.14)
Amortisation of goodwill	(0.04)	
Exploration costs	(0.02)	–
Valuation of certain gas contracts	(0.01)	
Currency translation effect	(0.01)	–
Basic earnings per ordinary share (as restated)	**2.97**	**3.32**
Diluted earnings per ordinary share	**2.97**	**3.32**

13 List of companies of the Royal Dutch/Shell Group

A list of companies drawn up with due observance of the provisions in Articles 379 and 414, Book 2 of the Netherlands Civil Code, has been deposited at the office of the Commercial Register in The Hague.

14 Remuneration of members of the Supervisory Board and Managing Directors

For the amounts borne in 2003 by Royal Dutch and by the Royal Dutch/Shell Group of Companies in respect of remuneration of the Managing Directors, reference is made to the relevant tables on pages 117 to 119.

For the amounts borne in 2003 by Royal Dutch and by companies of the Royal Dutch/Shell Group in respect of remuneration of the members of the Supervisory Board, reference is made to the relevant table on page 120. This table also includes amounts borne by companies of the Royal Dutch/Shell Group in respect of remuneration for two members of the Supervisory Board who served simultaneously as Directors of these companies.

In addition to the pensions from a pension fund, ten former Managing Directors receive retirement benefits for duties performed by them simultaneously in the past as Directors of Group companies, as referred to in the previous paragraph. These retirement benefits have not been insured but provisions have been made in respect thereof in accordance with applicable accounting principles. In 2003, an amount of €797,569 (2002: €463,004) has been added to the provision for retirement benefits of former Managing Directors.

The breakdown of these charges per former Managing Director is as follows:

		€
	2003	2002
Drs M.A. van den Bergh	**145,893**	71,779
A.P. Bénard	**42,165**	31,188
Ir. J.H. Choufoer	**55,381**	35,094
Ir. J.M.H. van Engelshoven	**80,712**	47,368
R.M. Hart	**80,399**	52,006
Drs C.A.J. Herkströter	**101,043**	52,580
Ir. H. de Ruiter	**124,019**	68,670
Ir. K. Swart	**19,664**	14,292
Ir. L.C. van Wachem	**115,672**	66,422
Ir. E.G.G. Werner	**32,621**	23,605
Total[a]	**797,569**	463,004

a These amounts differ from actual relevant pensions paid.

15 Employee numbers

Royal Dutch did not have any employees at year-end 2003 or 2002. The Managing Directors of Royal Dutch have a contract of employment with Shell Petroleum N.V.

16 Contingencies and litigation

Subsequent to the year ended December 31, 2003, in connection with the recategorisation of certain hydrocarbon reserves announced on January 9, 2004, a number of shareholder class action complaints were filed in the United States District Court of New Jersey, the United States Securities and Exchange Commission has issued a formal order of private investigation, the United States Department of Justice has commenced a criminal investigation, the UK Financial Services Authority has served formal notice of investigation under the Financial Services and Markets Act 2000 and Euronext Amsterdam and the Dutch Authority Financial Markets are investigating the issues related to the reserves recategorisation. The Company is unable to estimate the range of possible losses from such matters and does not believe their resolution will have a material impact on the Company's financial condition although they could have a significant effect on periodic results.

Corporate governance

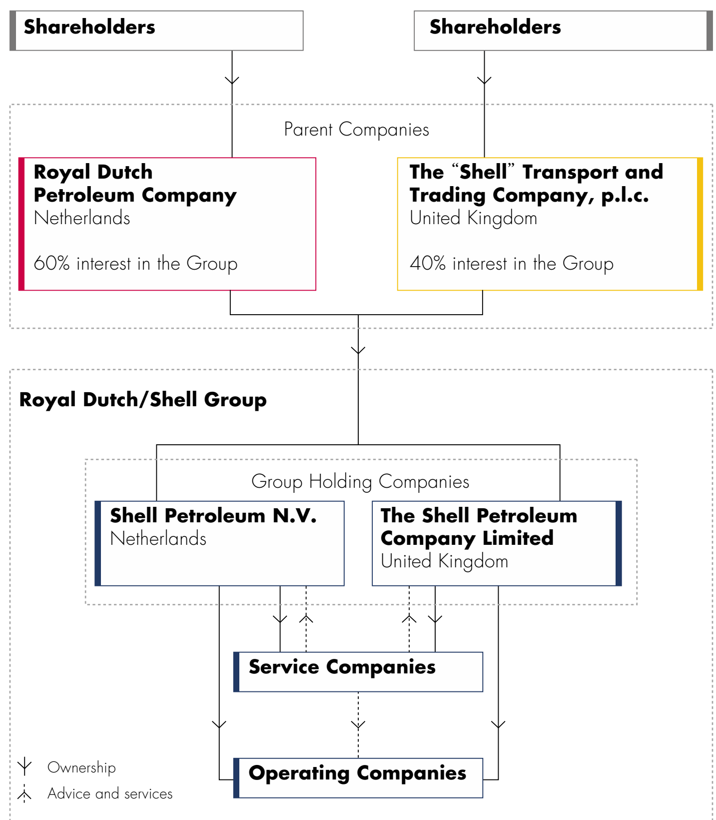
The Company complies in all material respects with the Recommendations on Corporate Governance in the Netherlands, which were issued in 1997. In December 2003 the Corporate Governance Committee chaired by Morris Tabaksblat issued a new Dutch corporate governance code (the code). While this code does not require reporting on its application for the 2003 reporting year, the Company has taken early steps to amend its arrangements so as to reflect much of the code in its governance. The principles and best practice provisions of the code are applied and where they are not, the current practice is described and explained. In 2004 the Company will continue reviewing arrangements that require an explanation under the code, and consider further amendments. In addition to complying with the corporate governance rules of the Netherlands, the Company is also obliged to follow US securities law, rules and regulations as they apply because of the Company's listing on the New York Stock Exchange (NYSE). The Company has taken steps to comply with the provisions of the Sarbanes-Oxley Act and the recently-revised corporate governance rules of the NYSE to the extent that they are applicable to the Company as a foreign issuer and will continue to do so.

The corporate governance of the Company will be placed on the agenda of the General Meeting of Shareholders of 2005.

Royal Dutch's sole activity is the ownership of a 60% interest in the Royal Dutch/Shell Group of Companies, of which it is not a part and in whose activities it does not engage. The other 40% is owned in like manner by The "Shell" Transport and Trading Company, p.l.c. (Shell Transport). This arrangement has stood unaltered since 1907, subject only to changes of detail, and during this long period the Group has grown to be one of the largest global commercial enterprises. The Supervisory Board and Board of Management consider that these enduring arrangements between Royal Dutch and Shell Transport have served shareholders well. It must be recognised that the framework within which the Boards operate is conditioned to some extent by Royal Dutch's unique relationship with Shell Transport, and this results in some special arrangements which may not be appropriate in other companies.

The joint arrangements for supervising the governance of the operations of the Royal Dutch/Shell Group of Companies throughout the world are summarised in this section under the heading "Arrangements with Shell Transport". The remainder of this section refers to the governance of Royal Dutch itself.

Structure of the Royal Dutch/Shell Group



Board of Management

Royal Dutch is managed by a Board of Management, consisting of at least two Managing Directors, under the supervision of a Supervisory Board. In accordance with the Articles of Association of the Company and as permitted by Dutch legislation, Managing Directors are appointed by the General Meeting of Shareholders from the persons nominated by the meeting of holders of priority shares. One or more shareholders representing in the aggregate at least 1% of the Company's issued capital and showing documentary evidence thereof may also draw up a nomination. Such a nomination shall be regarded as a nomination by the meeting of holders of priority shares provided it is submitted to the chairman of that meeting at least two weeks before the General Meeting of Shareholders at which the appointment is to be made and it is approved by the meeting of holders of priority shares. The nominations are of a binding nature. It is considered that this leads to the appointment of carefully selected and suitable nominees. The term of appointment for Managing Directors appointed prior to 2004 ends upon their retirement. As from 2004, Managing Directors are appointed or reappointed for a period of four years, unless retiring earlier. The General Meeting of Shareholders can discharge Managing Directors at any time.

The Supervisory Board appoints one of the Managing Directors as President, who determines the division of responsibilities among the Managing Directors and has the casting vote in the event of an equality of votes at a meeting of the Board of Management. The Board of Management is responsible for achieving the Company's objectives, its strategy and policy, its results and its financing. It is further responsible for the contents of publicly disclosed financial reports as well as for compliance with legislation and regulations. The Board of Management is accountable to the Supervisory Board and to the General Meeting of Shareholders. The Board of Management is also responsible for providing the Supervisory Board with all of the information it requires in the exercise of its duties.

The remuneration of the Managing Directors is addressed in the Remuneration Report on pages 111 to 120.

For the guidance of Managing Directors, principal executives and senior financial officers of the Royal Dutch/Shell Group, a Code of Ethics (www.shell.com/codeofethics) has been drawn up in conjunction with the Group's Statement of General Business Principles (see Social Responsibility Committee on page 110). Under the Code of Ethics, Managing Directors should avoid any conflict of interest with the Company. Decisions to enter into transactions under which members of the Board of Management would have a conflict of interest that is of material significance to the Company and/or to the relevant Board of Management member require the approval of the Supervisory Board.

An internal global procedure for Group employees to raise, in confidence, accounting, controls and auditing concerns has been put in place. There are a number of national whistle-blowing procedures in operation and any employee can report any irregularity to the management without jeopardising their position in the Group. The introduction of a worldwide procedure is under consideration.

The Managing Directors of Royal Dutch and the Managing Directors of Shell Transport are also members of the Presidium of the Board of Directors of Shell Petroleum N.V. and Managing Directors of The Shell Petroleum Company Limited, the Group Holding Companies. As such, they are generally known as Group Managing Directors.

Supervisory Board

The Supervisory Board is responsible for supervising the policies of the Board of Management and the general course of business of the Company and the Group and further advises the Board of Management. The Supervisory Board discusses strategy, business risks and the results of the Board of Management's assessment of the risk management and internal control systems. The specific duties of the Supervisory Board are set out in the Rules of Procedure of the Supervisory Board, which are under revision and will be disclosed on the Shell website in the course of 2004. In performing its duties, the Supervisory Board is required to take into account the interests of all of the Company's stakeholders.

The Supervisory Board consists of at least five members, who are appointed in the same manner as members of the Board of Management as set out in the Board of Management paragraph. The composition of the Supervisory Board is such that it is able to perform its duties properly and that its members are able to act critically and independently of one another and of the Board of Management and of any particular interests. An induction programme for newly-appointed members of the Supervisory Board, enabling them to acquire an understanding of the Company and the business of the Group, will be further developed in 2004. Each year, one of the members of the Board retires by rotation. Pursuant to the Rules of Procedure of the Supervisory Board, the schedule of rotation is fixed in accordance with the date of appointment. As a result, members usually retire by rotation after a period of approximately four years. They are immediately eligible for re-appointment, which will, however, only take place after careful consideration and in accordance with the profile requirements. The maximum term for holding office as a Supervisory Board member is ten years. The Rules of Procedure as well as the Company's Articles of Association provide that a member of the Supervisory Board retires after having reached the age of 70. Amendment of the Rules of Procedure and of the Articles of Association with a view to aligning them with the code regarding the term of appointment is under consideration.

The Rules of Procedure also provide that members of the Supervisory Board shall resign, either on their own initiative or at the request of the Supervisory Board, in the event of inadequate performance, fundamental differences of opinion, irreconcilable conflict of interest or any other compelling reason. The General Meeting of Shareholders is authorised to discharge a member from the Supervisory Board.

The Supervisory Board reviews its own overall performance as well as that of the individual members of the Board on an annual basis. The Supervisory Board also evaluates the Board of Management and its individual members.

The Chairman of the Supervisory Board is elected by the Board from among its members. The Chairman chairs the meetings of the Supervisory Board and it is his responsibility to ensure that the Board functions properly in all respects. The role of the Chairman includes keeping in regular contact with the President of the Company on all matters that relate to the Supervisory Board's responsibilities. The Chairman's tasks include monitoring the information to be submitted for Supervisory Board Meetings by or on behalf of the Board of Management. He has the right to request all additional information he deems appropriate. Finally, the Chairman also presides over the General Meeting of Shareholders and is responsible for ensuring orderly and efficient proceedings. The Chairman of the Supervisory Board is assisted in his role by the Company Secretary.

Members of the Supervisory Board should avoid undisclosed actual or potential conflicts of interest with the Company. A Supervisory Board member who is faced with such a conflict is obliged to disclose this immediately to the Chairman who then has to decide whether or not to disclose the conflict to the entire Supervisory Board. The Supervisory Board member concerned must abstain from any vote on items concerning such a conflict of interest. With a view to further alignment with the code, revision of the Rules of Procedure in respect of conflict of interest issues is under consideration.

In addition to the code of conduct for dealings in securities of Royal Dutch and Shell Transport by members of the Supervisory Board and the Board of Management, the Supervisory Board will also consider adopting regulations governing ownership of and transactions in securities of other Dutch listed companies.

The Board aims for diversity of knowledge and experience among its members in relation to the various businesses of the Group and the international nature of the Company and the Group. In line with these goals, the Board attaches great importance to experience in the energy industry and the international environments in which Group companies operate, and values having a former Managing Director of the Company among its members. Currently two of the seven members are former Managing Directors. With the retirement of Henny de Ruiter on June 30, 2004, only one former Managing Director will remain on the Supervisory Board. The Company supports the principle that the members of its Supervisory Board should aim to restrict their memberships of supervisory boards of Dutch listed companies to five. Aad Jacobs and Henny de Ruiter currently exceed this number. The Company expects to fully comply with the principle after July 2006. Any new members of the Supervisory Board will have to comply with the principle from 2004. A profile of the Supervisory Board is published on the Shell website (www.shell.com/investor). There are no family relationships between members of the Board of Management and the Supervisory Board. Members of neither Board are nominated or appointed pursuant to any agreement with a third party. For more information about the members of the Supervisory Board see pages 8 and 9 or www.shell.com/investor.

General Meetings of Shareholders

The Company recognises that good corporate governance requires the full participation of shareholders in the decision-making at the General Meeting of Shareholders. General Meetings of Shareholders of Royal Dutch are held at least once a year to discuss the reports of the Board of Management and the Supervisory Board, to finalise the Annual Accounts and to resolve on any dividend proposal and other items on the agenda.

General Meetings of Shareholders are called by the Board of Management or the Supervisory Board. The items to be dealt with at the meeting are determined by the Board of Management and the Supervisory Board and are specified in the agenda and explanatory notes to the agenda included in the notice of meeting. A General Meeting of Shareholders may also be held at the request of one or more shareholders who individually or jointly represent at least 10% of the Company's issued capital, for the purpose of dealing with subjects specified by such shareholders. The Board of Management and the Supervisory Board will add items proposed by shareholders to the agenda of a General Meeting of Shareholders, provided that: (a) such a proposal is submitted by one or more shareholders who individually or jointly represent at least 1% of the Company's issued capital and is received by the Company at least 60 days in advance of the meeting; and (b) in the opinion of the Board of Management and the Supervisory Board such a proposal concerns an item on which the General Meeting of Shareholders can legitimately decide and does not contravene serious interests of the Company or any Group company.

The resolutions of the General Meeting of Shareholders shall be passed by absolute majority of the votes cast, except in those cases where the law or the Articles of Association prescribe a larger majority. At General Meetings shareholders may cast one vote for each ordinary share held and holders of priority shares may cast 800 votes per priority share held. They may do this in person or by proxy. Shareholders participating in the Shareholders' Communication Channel (Communicatiekanaal Aandeelhouders) or holding registered shares in the Netherlands or in the USA receive a voting instruction form by means of which they can participate in the decision-making process without being present in person at the General Meeting.

As prescribed by the Articles of Association a civil notary draws up the record of the proceedings of the General Meeting. As from 2004 this report will be available within three months from the General Meeting of Shareholders.

Provision of information

The Group's presentations of its quarterly and annual results and all major analyst meetings are announced in advance on the Shell website (www.shell.com/investor) and by means of press releases. They can be followed real time via webcasting or teleconference. Other meetings with analysts or investors are not normally announced in advance, nor can they be followed by webcast or any other means. Discussions in such meetings are always limited to information that is already in the public domain. This is in line with the requirement to ensure that all shareholders and other parties in the financial market have equal and simultaneous access to information which may influence the share price.

Priority shares

Royal Dutch has 1,500 issued priority shares. Each member of the Supervisory Board and of the Board of Management is the holder of six priority shares. The Royal Dutch Priority Shares Foundation holds the other priority shares. The Board of the Foundation consists of all members of the Supervisory Board and the Board of Management of the Company. Priority shares represent certain special rights, which include:

– determining the number of Managing Directors and the number of members of the Supervisory Board;
– drawing up a binding nomination consisting of at least two persons for filling vacancies on the Board of Management and the Supervisory Board; and
– granting consent for amendment of the Articles of Association or for dissolution of the Company.

These rights serve the interest of a careful selection of suitable nominees and a careful consideration of proposals to amend the Articles of Association. Furthermore, the priority shares can be considered an anti-takeover measure. There are no additional anti-takeover measures.

The rights mentioned above are exercised by the meeting of holders of priority shares. At this meeting one vote may be cast for each priority share, but no one may cast more than six votes in all.

Arrangements with Shell Transport

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

The Structure of the Royal Dutch/Shell Group is shown on page 105 and the current members of the Boards of the Parent Companies are shown on pages 8 and 9.

The Conference

Meetings of the Conference, comprising the members of the Supervisory Board and the Board of Management of Royal Dutch and the Directors of Shell Transport, are held regularly during the year. The Conference is currently chaired by Lord Oxburgh, non-executive Chairman of Shell Transport. Aad Jacobs, Chairman of the Supervisory Board of Royal Dutch is currently Vice-Chairman. The purpose of the Conference is to receive information from Group Managing Directors about major developments within the Royal Dutch/Shell Group of Companies and to discuss reviews and reports on the business and plans of the Group. Senior executives of Group companies also attend these meetings of the Conference to present strategic plans and proposals for major projects, giving the Conference frequent opportunities to hear from and put questions to those with first-hand experience of the business, in addition to receiving fully documented reports and proposals.

In particular, the Conference reviews and discusses:

– the strategic direction of the businesses 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, Remuneration and Succession Review Committee and Social Responsibility Committee;
– performance 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 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, or which members of Conference wish to raise.

Committee of Managing Directors

The Committee of Managing Directors (CMD) is a joint committee established by the Boards of the Group Holding Companies to help them operate effectively. A CMD member, also known as Group Managing Director, is either on the Board of Management of the Company or on the Board of Shell Transport and is a member of the Boards of both Group Holding Companies. CMD advises the Group Holding Companies on investment in Shell companies and on the exercise of shareholder rights for these companies. CMD guides the Group by providing strategic direction, support and appraisal to Group businesses.

CMD regularly updates the Conference on strategy, organisation, plans and performance, as well as on risk management and internal control. Further information on the responsibilities of the CMD members is given on page 7.

Joint committees

The Parent Companies have established three joint committees to assist with their respective governance responsibilities: the Group Audit Committee, the Remuneration and Succession Review Committee and the Social Responsibility Committee. All of these 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 non-executive Directors.

Group Audit Committee

In 1976 the Supervisory Board of Royal Dutch, jointly with the Board of Shell Transport, established a Group Audit Committee. Under its Terms of Reference, the committee acts in an advisory capacity to the Boards, providing them with quarterly and annual updates regarding its activities and related recommendations. The committee regularly considers the effectiveness of risk management processes and internal control systems 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 the internal and external audit. The committee does not supervise the application of information and communication technologies in particular. This is part of the general responsibilities of the Board of Management and Supervisory Board respectively. The committee has established an internal, global procedure for employees to raise in confidence accounting, controls and auditing concerns. The secretary to the committee is the designated recipient of any such concerns.

During 2003, the Group Audit Committee reviewed its role in the light of governance developments and at its meeting in February 2004 concluded that two discrete sub-committees should be established to review and report to the Boards of either Royal Dutch or Shell Transport (as appropriate) on matters that are Parent Company specific. For Royal Dutch such matters include, *inter alia,* the supervision of the risk management and internal control systems, the Company's financing and its financial reporting. The sub-committee will also supervise the Company's policy on tax planning as well as compliance with the recommendations and observations of the Company's Independent Auditors and the relations with the Company's Independent Auditors (including their independence, remuneration and non-audit services). It will determine the extent of the Independent Auditors' involvement in the content and publication of financial reports other than the Annual Accounts. The sub-committee will assess the performance of the Independent Auditors, advise (together with the Board of Management) the Supervisory Board on the nomination of the Independent Auditors for the appointment by the General Meeting of Shareholders and provide recommendations on their remuneration and provision of non-audit services.

Current membership of the Group Audit Committee is shown in the table below.

Appointed by the Supervisory Board of Royal Dutch	
Aad Jacobs	Chairman of the committee with effect from March 2003
Lawrence Ricciardi	
Henny de Ruiter	

Appointed by the Board of Shell Transport
Sir Peter Burt
Luis Giusti
Nina Henderson

The membership of the Royal Dutch sub-committee comprises those Supervisory Board members appointed to the Group Audit Committee. Aad Jacobs is Chairman and has been designated the sub-committee member with appropriate recent and relevant financial experience. The Chairman of the Supervisory Board of Royal Dutch currently chairs the Group Audit Committee. It is intended that as from July 2004 the Chairman of the Supervisory Board will not also serve as the Chairman of the committee or sub-committee.

During 2003 there were a total of six meetings of the Group Audit Committee. Attendance at these meetings is shown in the table below.

Attendance	
Members	Attendance
Aad Jacobs	6
Sir Peter Burt	5
Luis Giusti	6
Nina Henderson	6
Lawrence Ricciardi[a]	2
Henny de Ruiter	4

a Lawrence Ricciardi was appointed a member during the year and attended all meetings following his appointment.

A copy of the new Terms of Reference of the Group Audit Committee (including the Royal Dutch sub-committee) is available from Investor Relations and can be found on the Shell website (www.shell.com/investor).

Remuneration and Succession Review Committee

In 1967, the Supervisory Board of Royal Dutch, jointly with the Board of Shell Transport, established a Remuneration Committee which later became the Remuneration and Succession Review Committee (REMCO). For detailed information on REMCO reference is made to the Remuneration Report on page 112.

Its Terms of Reference are reviewed annually and were revised in February 2004 to reflect the requirements of the Dutch corporate governance code and the UK Combined Code. A copy of the Terms of Reference of REMCO is available from Investor Relations and can be found on the Shell website (www.shell.com/investor).

Social Responsibility Committee

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

Current membership of the Social Responsibility Committee is shown in the table below.

Appointed by the Supervisory Board of Royal Dutch
Maarten van den Bergh
Wim Kok
Jonkheer Aarnout Loudon

Appointed by the Board of Shell Transport	
Lord Oxburgh	Chairman of the committee
Teymour Alireza	
Dr Eileen Buttle	

During 2003 the committee met twice. Attendance at these meetings is shown in the table below.

Attendance	
Members	Attendance
Lord Oxburgh	2
Teymour Alireza	2
Maarten van den Bergh	2
Dr Eileen Buttle	2
Wim Kok[a]	0
Jonkheer Aarnout Loudon	2

a Wim Kok was appointed a member during the year and was unable to attend the one meeting held following his appointment.

The Group's core values of honesty, integrity and respect for people have been embodied for more than 25 years in the Group's Statement of General Business Principles, which since 1997 have included a commitment to support fundamental human rights and to contribute to sustainable development. The principles apply to all Shell employees. The Group's Statement of General Business Principles is publicly available on the Shell website (www.shell.com/sgbp).

The Shell Report, which reviews how Group companies are living up to the Group's Statement of General Business Principles and contributing to sustainable development, is published annually and is available at www.shell.com/shellreport or via the contact given on the back cover of this report.

Risk management and internal control systems

The approach in the Group to risk management and internal control as set out on page 39 involves the Board of Management in regular reviews of the risks that are significant to the fulfilment of Group objectives. Following the announcements in 2004 of the reserves recategorisation, remedial actions as set out on pages 40 to 42 have been taken or are proposed to be taken to address the weaknesses in the controls relating to reserves bookings as further described in that section.

The Board of Management of Royal Dutch has also reviewed the effectiveness of the Company's own system of risk management and internal control. The results of the 2003 assessment have been reviewed both with the Royal Dutch sub-committee of the Group Audit Committee and with the Supervisory Board.

Financial reporting

The Board of Management is responsible for the quality and completeness of publicly disclosed financial reports under the supervision of the Supervisory Board. Financial information from all Group businesses flows into the Group's financial reporting system, which supplies all financial information to the Board of Management. The Group Audit Committee has a key role in respect of the preparation and publication of the Annual Report, the Annual Accounts, the announcements of quarterly and half year results as well as other financial information.

The General Meetings of Shareholders of Royal Dutch and Shell Transport each have appointed Independent Auditors. These Independent Auditors jointly audit the Financial Statements of the Group. The Independent Auditors for the Group communicate with and attend the meetings of the Group Audit Committee and provide a report to both Royal Dutch and Shell Transport in respect of the Financial Statements of the Group. The Independent Auditors of the Company report on their findings in relation to the audit of the Annual Accounts to the Supervisory Board and the Board of Management. With effect from 2005 the Independent Auditors of the Company will be invited to attend the General Meeting of Shareholders to answer questions about their report.

New York Stock Exchange (NYSE) rules

The NYSE corporate governance rules allow foreign issuers to follow home country practice. A summary of the ways in which the governance of the Company significantly differs from those followed by companies in the USA under NYSE listing standards is published on the Shell website (www.shell.com/investor).

Remuneration Report

Aarnout Loudon

Message to shareholders

The Remuneration and Succession Review Committee has followed recent developments in corporate governance and welcomes calls for greater transparency and clarity in the area of executive remuneration. These new developments are in line with the Group's well-established Statement of General Business Principles. In preparing this Remuneration Report, the committee has considered established and new corporate governance requirements in the Netherlands, the UK and the USA. Ongoing dialogue with institutional investors has also informed our policies and plans throughout the year.

One of the key responsibilities of the committee is to balance the perspectives of all stakeholders, internal and external, in its recommendations on executive remuneration. At the same time the committee considers it vital to come to a consistent and coherent set of executive remuneration policies and plans. It strives to reconcile these two objectives through a rigorous application of the pay-for-performance principle and through a conservative competitive position relative to our global peers with regard to executive remuneration levels. The committee believes that this approach will best serve shareholders' interests.

The committee has recommended that current policies and plans be maintained for the 2004 financial year, during which time the principles and best practice provisions put forward by the Tabaksblat Committee in the Netherlands will be assessed in further detail. The committee will continue to monitor and assess changes and trends in the field of executive remuneration. A policy reappraisal will be presented for approval at the General Meeting of 2005. The committee looks forward to continued dialogue on this subject.

Aarnout Loudon
Chairman of the Remuneration and Succession Review Committee

About this report

This report sets out the remuneration policy as it applies and will apply to Group Managing Directors, including those who are also Managing Directors of Royal Dutch, and to the members of the Supervisory Board of Royal Dutch. It discloses the individual remuneration of the Managing Directors and Supervisory Board members of Royal Dutch for the year ended December 31, 2003. Where appropriate the report also reflects the recent management changes[1]. This report already applies the principles and best practice provisions put forward by the Tabaksblat Committee in the Netherlands to a considerable extent. In reflection of the joint arrangements between Royal Dutch and Shell Transport, current and new UK corporate governance disclosure requirements have also been taken into account.

This report contains the following sections:
- The Remuneration and Succession Review Committee;
- Remuneration policy;
- 2003 actual remuneration; and
- Supervisory Board members.

1 Malcolm Brinded resigned as a Managing Director of the Company on March 3, 2004. He was appointed a Managing Director of Shell Transport on the same date.

Walter van de Vijver resigned as a Managing Director of the Company on March 3, 2004.

The Remuneration and Succession Review Committee

The committee

The Remuneration and Succession Review Committee (REMCO) is a joint committee of the Supervisory Board of Royal Dutch and the Board of Shell Transport. REMCO is composed of three members appointed from the Supervisory Board of Royal Dutch and three members appointed from the Board of Shell Transport. Members of the committee during 2003 are shown in the table below:

Appointed by the Supervisory Board of Royal Dutch	
Aarnout Loudon	Chairman of the committee
Hubert Markl	Appointed to the committee on December 3, 2003
Joachim Milberg	Retired from the committee on October 1, 2003
Henny de Ruiter	

Appointed by the Board of Shell Transport	
Nina Henderson	
Sir Peter Job	
Sir John Kerr	Appointed to the committee on October 21, 2003
Sir Mark Moody-Stuart	Retired from the committee on October 21, 2003

The Chairman of the committee is currently Aarnout Loudon. Of the Royal Dutch members of the committee only Henny de Ruiter is not an independent member of the Royal Dutch Supervisory Board, as he serves as a Director of the Group Holding Companies. He will retire from the Supervisory Board of Royal Dutch and as such from REMCO on June 30, 2004. The Shell Transport members of the committee are currently all independent non-executive Directors. Biographical details of the REMCO members are shown on page 9.

REMCO's responsibilities

REMCO is responsible for making recommendations to the Supervisory Board of Royal Dutch and the Board of Shell Transport on the performance of the Group Managing Directors, and on all issues related to remuneration and benefits with respect to Group Managing Directors. It advises on the terms of any contract to be offered to a Group Managing Director, including the Group's liabilities in relation to any provisions for the termination of such contracts. It also reviews and endorses candidates for appointments to the position of Group Managing Director and reviews other relevant human resource matters. REMCO is also kept informed of remuneration matters concerning other senior executives of the Group, and where appropriate, reviews these to assess alignment and consistency.

As a joint committee of two independent boards, REMCO cannot formally determine the remuneration package of individual Managing Directors. The committee makes recommendations to the Supervisory Board of Royal Dutch and the Board of Shell Transport.

REMCO reviewed its Terms of Reference in light of corporate governance developments and they were subsequently revised by the Supervisory Board of Royal Dutch and the Board of Shell Transport in February 2004. They can be found on the Shell website (www.shell.com/investor). Printed copies are available from Investor Relations (see inside back cover for contact details).

During 2003 REMCO met eight times; attendance figures for the individual committee members are shown below:

Attendance

Members	Attendance	
Aarnout Loudon	8	
Nina Henderson	8	
Sir Peter Job	7	
Sir John Kerr	2	New member since October 21, 2003
Hubert Markl	–	New member since December 3, 2003
Joachim Milberg[a]	1	Retired on October 1, 2003
Sir Mark Moody-Stuart	5	Retired on October 21, 2003
Henny de Ruiter	7	

a Joachim Milberg's attendance was affected by personal circumstances and he retired from the Supervisory Board and the committee in October.

In addition to fulfilling these responsibilities, REMCO also discussed a number of other issues during the year. These included:

- institutional investor relations and communications;
- corporate governance;
- a new long-term incentive plan[1]; and
- REMCO's Terms of Reference.

Advisers to REMCO

During 2003 REMCO sought advice from John Hofmeister, Group Human Resources Director and Secretary to the committee, and from Michael Reiff, Group Head of Remuneration and Benefits. No formal internal or external adviser was appointed by REMCO. Towers Perrin provided external data that was collated by internal staff and used in the preparation of briefing papers that REMCO considered when making its decisions. REMCO received external advice and market data assurance from Kepler Associates, who did not provide any other services to the Group.

1 This plan was approved by the General Meetings of Shareholders of both Royal Dutch and Shell Transport in April 2003 (see Remuneration policy – Long-Term Incentive Plan (LTIP) on page 115 for information on the plan).

Remuneration policy

The remuneration policy and plans for Group Managing Directors are described below. It is REMCO's recommendation that the current policy and plans be maintained for the 2004 financial year, during which time the principles and best practice provisions put forward by the Tabaksblat Committee in the Netherlands will be assessed in further detail.

Philosophy

The remuneration policy is intended to recognise and support the Group's:

– Statement of General Business Principles, including the Group's core values and commitment to contribute to sustainable development;
– strategic direction;
– need to attract and retain talented individuals;
– aim to motivate and reward Group Managing Directors for exceptional performance that enhances the value of the Group; and
– desire to align Group Managing Directors' interests with those of shareholders.

The Group's remuneration policy is based on the following working principles:

Performance driven

The remuneration structures for employees are designed to reward performance that contributes to the achievement of the Group's objectives. Consistent with this principle, more than half of a Group Managing Director's target total remuneration (excluding pension) is performance-linked and largely weighted to the long term. This proportion is in line with market practice and the long-term nature of the Group's business.

Competitiveness

Remuneration levels are set by reference to the practice of global companies of comparable size, complexity and international scope. The Group takes a conservative approach to executive remuneration levels within the range of leading comparator companies.

Consistency

Group remuneration plans covering base pay, annual bonus, and long-term incentives for Group Managing Directors and senior executives contain similar performance mechanisms and reward structures.

Base pay

The purpose of base pay is to provide an element of fixed remuneration set at a competitive level that is appropriate to the scope and complexity of the role of a Group Managing Director. Base pay levels are set by reference to market-based salary scales that reflect the collegiate nature of the Committee of Managing Directors. Appropriate market levels are established by benchmarking against three comparator groups. The major integrated oil companies serve as the Group's industry peers. The AEX10[1] and FTSE20[2] are used as the Group's home markets peers. Details of these groups can be found in the industry peer group table and in the home markets peer group table on page 115.

The salary scales are reviewed annually by REMCO and are adjusted in line with market practice with effect from July 1 each year. Progression of an individual Group Managing Director's salary to the target position is usually over a three-year period from appointment.

Annual incentive

Group Managing Directors are eligible for an annual bonus. The incentive is designed to reward Group Managing Directors for achieving annual results that further the Group's objectives. The structure and the mechanisms also apply to annual bonus plans for Group employees.

As part of the annual Group business planning process, challenging financial, operational and sustainable development targets are set to form a Group Scorecard. Performance during the year is then measured against this Scorecard and annual bonus awards are made on this basis. The financial objectives relate to Total Shareholder Return (TSR[3]) relative to other major integrated oil companies (see the industry peer group table on page 115), and to Return on Average Capital Employed (ROACE). The operational objectives relate to portfolio value growth with key targets for each business. The sustainable development objectives focus on people, health, safety, environment and reputation. The 2003 Scorecard weightings are 60% for financial objectives, each factor equally weighted, 20% for operational objectives and 20% for sustainable development objectives. The same approach has been adopted for 2004.

1 AEX10: the 10 largest companies by way of market capitalisation in the Amsterdam Exchange index, a market capitalisation weighted index of stocks traded on the Amsterdam Exchange, now a part of the Euronext Exchange. This group is established at the beginning of the relevant performance period.
2 FTSE20: the 20 largest companies by way of market capitalisation in the Financial Times Stock Exchange 100 index, a market capitalisation weighted index of stocks traded on the London Stock Exchange. This group is established at the beginning of the relevant performance period.
3 TSR is measured by the average weighted share price performance plus dividend of Royal Dutch and Shell Transport over the 10-day period at the beginning and end of the relevant financial year.

Targets are set at stretching but realistic levels. At the end of the financial year the Group results are translated into an overall Group score, which can range anywhere between zero and two, the minimum and maximum, respectively. When determining the final outcome, the results on the non-financial targets are not taken into account if the results on the financial targets are below target. Bonus awards are based on the score multiplied by the target bonus level with REMCO using its judgment in making its final recommendations. The target level for 2004 will be 100% of base pay, in line with market practice.

Deferred bonus

Group Managing Directors are eligible to participate in the Deferred Bonus Plan. Participation is on a voluntary basis only. The plan serves to provide Group Managing Directors with an investment opportunity which aligns their interests with those of shareholders during the deferral period and encourages share ownership in the Company. Since 2001, Group Managing Directors have been given the opportunity to elect to defer up to one-third of their annual bonus into shares.

The deferred bonus shares, together with shares equivalent to the value of dividends payable on the deferred bonus shares (dividend shares), are released three years after deferral. Provided the participants remain in Group employment for three years following the deferral, or reach normal retirement within the three-year period, they will also receive one additional share for every two deferred bonus and dividend shares accumulated. There is no further performance test for the additional matching shares beyond that governing performance in the relevant bonus year. The plan does not result in dilution of shareholder equity.

Long-term incentives

Group Managing Directors are eligible for two forms of long-term incentive remuneration: stock options and shares. Both plans are performance-related. Neither results in dilution of shareholder equity. The objective of long-term incentive arrangements is to ensure that Group Managing Directors share the interests of shareholders. The Group's business and performance is oriented to the long-term and, accordingly, long-term incentives comprise more than half of Group Managing Directors' remuneration.

Expected value models are used in the determination of appropriate long-term incentive levels. Option valuations have been modelled by Towers Perrin and Kepler Associates using the Black-Scholes model, which is a commonly accepted approach to calculate the expected value of stock options. A standard valuation approach, provided by Towers Perrin and Kepler Associates[1], has been adopted to determine the expected value of the conditional award of shares under the Long-Term Incentive Plan (LTIP). The expected value based on these methods is equal to 22% of the face value of the grant for stock options and 43% of the face value of the award of shares under the LTIP.

Stock options

Stock options are granted once a year under the Group Stock Option Plans which apply to Group Managing Directors and senior executives. Stock options vest three years after grant and remain exercisable for ten years after grant. Stock options, once granted, will not be repriced, neither will any of the other terms and conditions be altered to apply retrospectively to grants already made.

Stock options granted to Group Managing Directors in 2003 and beyond are 100% performance-linked. The current financial performance criteria are TSR and ROACE; these will be calculated as the average result of the three financial years prior to grant. TSR is measured against the other major integrated oil companies (see the industry peer group table on page 115). These financial targets have been chosen as they represent a balanced test of the Group's long-term external performance and internal operating efficiency. These same performance criteria will be used in 2004. At the end of the financial year, the three-year results on the performance criteria will be translated into an overall performance rating, which can range anywhere between zero and two. The levels of the stock option grants are based on this rating multiplied by the target grant level. Target grant levels will reflect competitive market practice.

The value of the stock options depends on both the performance on the criteria at the time of grant and the future share price performance. This approach reflects the long-term nature of value creation in the Group, where both past and future performance are of significant impact. Given the global nature of the Group's business and executive cadre, this approach balances the market practices with regard to stock options in the majority of countries in which the Group operates.

1 Their models take into account the threshold and maximum levels of performance and the proportion of shares that will be released at these points, as well as the nature of the comparator groups against which performance is measured. Risk of forfeiture and dividends are also taken into account.

Long-Term Incentive Plan (LTIP)

Performance shares are awarded conditionally once a year under the Group LTIP which applies to Group Managing Directors and selected senior executives. The number of shares conditionally awarded will reflect competitive market practice. The plan allows for a conditional award with a face value of zero to two times base pay for Group Managing Directors. The performance period will not be less than three consecutive years. The number of shares received will depend on the extent to which the performance criteria are satisfied. An award will only be released in full in the case of exceptional performance.

The performance targets are linked to relative TSR over the three-year performance period. Relative TSR has been chosen as the performance test that most closely aligns the interests of Group Managing Directors and senior executives with those of shareholders. TSR is measured relative to two separate groups of comparator companies, as REMCO considers that it is appropriate to test performance against both major home markets and industry competitors. The first comparator group consists of the AEX10 together with the FTSE20. The second comparator group consists of the five major integrated oil companies. Half of each conditional award will be tested against the first group and half against the second group.

For the first comparator group, 100% of the shares tested against that group will be awarded for performance in the top quartile and 25% will be awarded for performance at the median. Between these two points a straight-line calculation will be used. No shares will be received for performance below the median. For the second comparator group, 100% of the shares tested against that group will be received if the Group is in first place, 75% for second place and 50% for third place. No shares will be received for fourth or fifth place.

Home markets peer group for base pay and for LTIP

AEX10 listed companies[a]

as at January 1, 2003	as at January 1, 2004
ABN AMRO	ABN AMRO
AEGON	AEGON
Ahold	Ahold
Akzo Nobel	Fortis
Heineken	Heineken
ING Group	ING Group
KPN	KPN
Philips	Philips
Royal Dutch	Royal Dutch
Unilever N.V.	Unilever N.V.

FTSE20 listed companies[a]

as at January 1, 2003	as at January 1, 2004
Anglo American	Anglo American
AstraZeneca	AstraZeneca
Aviva	Barclays
Barclays	BHP Billiton
BG Group	BP
BP	British American Tobacco
British American Tobacco	British Sky Broadcasting
BT	BT
Diageo	Diageo
GlaxoSmithKline	GlaxoSmithKline
HBOS	HBOS
HSBC	HSBC
Lloyds TSB	Lloyds TSB
National Grid Transco	National Grid Transco
Rio Tinto	Rio Tinto
Royal Bank of Scotland	Royal Bank of Scotland
Shell Transport	Shell Transport
Tesco	Tesco
Unilever PLC	Unilever PLC
Vodafone	Vodafone

a In the case of Royal Dutch and Shell Transport, and Unilever N.V. and Unilever PLC, the weighted average TSR of the two companies will be used.

Industry peer group for base pay, annual bonus, stock options and LTIP

as at January 1, 2003, and January 1, 2004
BP
ChevronTexaco
ExxonMobil
Royal Dutch/Shell Group
Total

Pension policy

Retirement benefit arrangements for all staff are based on local market conditions and the overall value of the remuneration package necessary to attract and retain high-calibre individuals. They take into account factors such as costs, affordability, sustainability, sharing of investment risks and company future liabilities, and local legislation.

For the Dutch Managing Directors of Royal Dutch the principal source of their pensions is the Stichting Shell Pensioenfonds (SSPF). This is a defined benefit fund to which Managing Directors contribute the same percentage of relevant earnings as other employees. Contributions to the pension fund are based on the advice of actuaries. Neither the annual bonus nor the deferred bonuses are pensionable.

The principal source of pension for the British Managing Director of Royal Dutch[1] is the Shell Overseas Contributory Pension Fund (SOCPF). This is a defined benefit fund to which the Managing Director contributes the same percentage of relevant earnings as other employees. Contributions to the fund are based upon actuarial advice. Neither the annual bonus nor the deferred bonuses are pensionable.

Managing Directors retire on June 30, following their 60th birthday. There are provisions in both pension funds for a surviving dependant benefit, in the case of SSPF of 70% or, in the case of SOCPF of 60%, of actual or prospective pension. In case of death-in-service, a lump sum of two times annual base pay is paid by the respective Group company, or, in case of SOCPF, three times annual pensionable pay.

Other benefits policy

Group Managing Directors are eligible to participate in regular employee benefit plans applying in their home countries including a company car benefit. Expatriate Group Managing Directors are eligible to participate in the Group expatriate policies and plans for a limited period. Personal loans or guarantees are not granted to Group Managing Directors.

All-employee share schemes

Group Managing Directors are not eligible to participate in the Global Employee Share Purchase Plan.

Contracts policy

Contracts for Group Managing Directors are based on country-specific labour laws and market practice. They contain similar terms and conditions as for senior employees in the country concerned. The contracts end at retirement date or by notice of either party. Notice periods are in line with those of other senior employees. Standard Group Managing Directors' contracts do not contain any predetermined settlements for early termination. If and when a situation arises in which a severance payment is appropriate, its terms and conditions will be recommended by REMCO and decided by the Supervisory Board taking into account applicable law and corporate governance provisions. The Company will bear the costs and damages resulting from legal proceedings against a Group Managing Director, except if the Group Managing Director concerned is ruled to be seriously at fault by a court of law.

External appointments

External appointments are considered to be valuable in terms of broadening the experience and knowledge of Group Managing Directors to the benefit of the Group, provided there is no conflict of interest and the commitment required is not excessive. Such appointments are subject to the explicit approval of the Supervisory Board. Monetary payments received by Group Managing Directors from outside directorships and similar sources are required to be paid over to and retained by the employer.

Shareholdings

A shareholding policy is currently under consideration. This would require Group Managing Directors to build up shareholdings in the Company for as long as they remain in office. Details of Managing Directors' shareholdings can be found under Other information on page 122. Details of Managing Directors' options can be found in the Stock options table on page 118.

1 Malcolm Brinded resigned as a Managing Director of the Company on March 3, 2004. He was appointed a Managing Director of Shell Transport on the same date.

2003 actual remuneration[1]

Base pay

The salary scales for the Royal Dutch Managing Directors were increased by 9% on average with effect from July 1, 2003.

Annual incentive

The target level of bonus for the year 2003 was 100% of base pay, in line with market practice. Having regard to the Group's performance, REMCO recommended that no annual bonuses be payable to Managing Directors in respect of the year 2003.

Stock options

For the grant of stock options in March 2003 REMCO took into account TSR and ROACE based on three-year averages of 2000, 2001 and 2002. This resulted in a grant based on a performance rating of 0.94 (see Remuneration policy – Stock options on page 114 for further information on the rating).

Stock options granted in March 2001 were due to vest in March 2004. The performance period for the options was January 1, 2001 to December 31, 2003. The Royal Dutch/Shell Group ranked fifth in TSR against the industry peer group (three-year average over the period 2001 to 2003). REMCO recommended that the options granted under performance conditions should not vest (50% of the grant). Therefore only the remaining 50% of the options granted in March 2001, which vest over time, vested in March 2004.

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 to 2005.

Emoluments of Managing Directors in office during 2003 €

	Salaries	Annual bonus[a]	Other benefits[b]	Total
Jeroen van der Veer				
2003	**1,120,000**	**0**	**11,502**	**1,131,502**
2002	1,013,729	1,230,500[c]	4,768	2,248,997
2001	923,929	619,450[c]	4,620	1,547,999[d]
Malcolm Brinded				
2003	**800,000**	**0**	**23,707**	**823,707**
2002[e]	372,500	428,375[c]	2,210[f]	803,085
Rob Routs				
2003[g]	**405,000**	**0**	**55,612**	**460,612**
Walter van de Vijver				
2003	**842,500**	**0**	**26,060**	**868,560**
2002	735,095	902,750	18,091[h]	1,655,936
2001[i]	342,536	221,330	2,162	566,028

a The annual bonus is included in the related performance year and not in the following year in which it is paid.
b Includes social security premiums paid by the employer, employer's contribution to the health insurance plan, where applicable school fees, and, where applicable, other benefits stated at a value employed by the Fiscal Authorities in the Netherlands.
c Of which one-third was deferred under the Deferred Bonus Plan.
d The total for 2001 as stated in the Annual Report and Accounts 2002 was €1,841,439 and included an amount for realised share option gains upon exercise of €293,440. In 2002, there were no realised share option gains upon exercise. From 2003 these gains will be shown in the Stock options table. The total for 2001, as reported here, has been restated to reflect this change.
e Malcolm Brinded was appointed a Managing Director with effect from July 1, 2002, therefore, where appropriate, the 2002 emoluments are prorated.
f Exclusive of deferred payment in shares amounting to £386,000 granted in 1999.
g Rob Routs was appointed a Managing Director with effect from July 1, 2003, therefore, where appropriate, the 2003 emoluments are prorated.
h Exclusive of deferred payment in shares amounting to €688,839 granted in 1999.
i Walter van de Vijver was appointed a Managing Director with effect from July 1, 2001, therefore, where appropriate, the 2001 emoluments are prorated.

1 The information in the tables in this section has been subjected to audit, except for the Expected value columns in the Stock options table and in the Long-Term Incentive Plan table on page 118, which are unaudited.

Stock options

Options Royal Dutch

	Number of options									
	At Jan 1, 2003	Granted during the year	Exercised (cancelled/ lapsed) during the year	At Dec 31, 2003	Exercise price[a] €	Exercisable from date	Expiry date	Expected value of the 2003 stock options grant[b] €	Realisable gains as at Dec 31, 2003[c] €	Realised gains on stock options exercised
Jeroen van der Veer	40,850	–	–	40,850	41.16	22.12.01	21.12.08	–	26,144	–
	45,000	–	(11,250)	33,750	59.54	23.03.03	22.03.10	–	0	–
	80,000	–	–	80,000	62.60	26.03.04	25.03.11	–	–	–
	105,000	–	–	105,000	62.10	21.03.05	20.03.12	–	–	–
	–	150,000	–	150,000	36.81	19.03.06	18.03.13	1,214,730	–	–
Malcolm Brinded	50,000	–	–	50,000	62.10	21.03.05	20.03.12	–	–	–
	–	115,000	–	115,000	36.81	19.03.06	18.03.13	931,293	–	–
Rob Routs	20,000	–	–	20,000	41.16	22.12.01	21.12.08	–	12,800	–
	18,000	–	–	18,000	59.54	23.03.03	22.03.10	–	0	–
	50,000	–	–	50,000	62.10	21.03.05	20.03.12	–	–	–
	–	49,400	–	49,400	36.81	19.03.06	18.03.13	400,051	–	–
	–	50,066[d]	–	50,066	40.95	19.08.06	18.08.13	451,045	–	–
Walter van de Vijver	10,000	–	–	10,000	48.92	11.12.00	10.12.07	–	0	–
	20,000	–	–	20,000	41.16	22.12.01	21.12.08	–	12,800	–
	32,000	–	(8,000)	24,000	59.54	23.03.03	22.03.10	–	0	–
	10,000	–	(2,500)	7,500	68.73	23.08.03	22.08.10	–	0	–
	40,000	–	–	40,000	62.60	26.03.04	25.03.11	–	–	–
	75,000	–	–	75,000	62.10	21.03.05	20.03.12	–	–	–
	–	115,000	–	115,000	36.81	19.03.06	18.03.13	931,293	–	–
Maarten van den Bergh[e]	37,950	–	–	37,950	41.16	22.12.01	29.06.05	–	24,288	–
Options Shell Transport					£				£	
Malcolm Brinded	37,500	–	–	37,500	4.39	11.12.00	10.12.07	–	0	–
	139,200	–	–	139,200	3.63	22.12.01	21.12.08	–	73,080	–
	245,000	–	(61,250)	183,750	5.05	23.03.03	22.03.10	–	0	–
	14,000	–	–	14,000	5.63	13.11.03	12.11.10	–	0	–
	278,200	–	–	278,200	5.52	26.03.04	25.03.11	–	–	–

a The exercise price is the average of the opening and closing share prices over a period of five trading days prior to and including the day on which the options are granted (no discount).
b The expected values of the 2003 stock options grants have been calculated on the basis of the Black-Scholes model valuations provided by Towers Perrin and Kepler Associates. The values are unaudited. The expected value is equal to 22% of the face value of the grant.
c Represents the value of unexercised stock options at the end of the financial year, which is calculated by taking the difference between the exercise price of the option and the fair market value of Royal Dutch or Shell Transport shares, respectively, at December 31, 2003, and multiplied by the number of shares under option at December 31, 2003. The actual gain, if any, a Managing Director will realise, will depend on the market price of the Royal Dutch or Shell Transport shares at the time of exercise.
d In 2003, 259 active employees who received Texaco Stock Appreciation Rights (SARs) while employed by the former alliance with Texaco in the USA, were offered a three-for-two replacement of Texaco SARs with Royal Dutch stock options. As a result of his previous employment with the alliance Rob Routs held 33,337 Texaco SARs which were replaced by 50,066 Royal Dutch stock options under the Group Stock Options Plan in August 2003. The exercise price of these options was the average share price over a period of five trading days prior to and including the day on which the options were granted. The options will vest three years after grant and remain exercisable until 10 years after grant.
e Maarten van den Bergh holds share options relating to his former service with the Group.

Long-Term Incentive Plan (LTIP)

	At Jan 1, 2003	Performance shares conditionally awarded during the year	At Dec 31, 2003	Market price at date of award[a] €	Start of performance period	End of performance period	Expected value of the 2003 performance shares award[b] €
Jeroen van der Veer	–	57,142	57,142	40.95	01.01.03	31.12.05	1,006,185
Malcolm Brinded	–	41,758	41,758	40.95	01.01.03	31.12.05	735,296
Rob Routs	–	39,560	39,560	40.95	01.01.03	31.12.05	696,592
Walter van de Vijver	–	43,956	43,956	40.95	01.01.03	31.12.05	773,999

a The market price is based on the average of the opening and closing share prices over a period of five trading days prior to and including the day on which the number of shares are determined in accordance with the Plan rules.
b The expected values of the 2003 conditional performance shares awards have been calculated on the basis of a standard valuation approach provided by Towers Perrin and Kepler Associates. The values are unaudited. The expected value based on this approach is equal to 43% of the face value of the award. The end of the performance period is not until December 31, 2005, however, if the agreed performance criteria were to be applied at December 31, 2003, none of the shares would qualify for release.

Deferred Bonus Plan

	Number of deferred bonus and dividend shares under award as at January 1, 2003	Deferred bonus shares awarded during the year[a]	Market price of deferred bonus shares at award[b] €	Dividend shares accrued during the year[c]	Average market price of dividend shares paid during the year[d] €	Total number of deferred bonus and dividend shares under award as at December 31, 2003
Jeroen van der Veer						
2003 award	–	11,188	36.66	507	39.04	11,695
2002 award	3,549	–	60.09	161	39.04	3,710
Malcolm Brinded						
2003 award	–	6,426	36.66	292	39.04	6,718

Awards made in 2002 and 2003 refer to the portion of the annual bonus deferred in respect of 2001 and 2002 and their related accrued dividends.

a Representing the proportion of the annual bonus that has been deferred and converted into notional share entitlements (deferred bonus shares), which will not result in beneficial ownership until they are released. The value of these deferred bonus shares is also included in the annual bonus figures in the Emoluments of Managing Directors table on page 117.

b The market price is based on the average share price over a period of five trading days prior to and including the day on which the share awards are made.

c Representing dividends paid during the year on the number of shares equal to the deferred bonus shares awarded.

d The market price shown is the average at the date of the 2002 final and 2003 interim annual dividends paid during the year: €37.60 and €40.47, respectively.

Pensions

	Age as at Dec 31, 2003	Years of Group service as at Dec 31, 2003	Increase in accrued pension during 2003 € thousand	Accumulated annual pension as at Dec 31, 2003 € thousand	Pension premium 2003 paid by employer € thousand	Pension premium 2002 paid by employer € thousand
Jeroen van der Veer	56	32	76	675	171	0
Malcolm Brinded	50	29	54[a]	472[b]	622[c]	37
Rob Routs[d]	57	25	8	452	81	–
Walter van de Vijver	48	24	61	375	129	0

a Includes an accrued pension increase and the movement in the exchange rate between sterling and the euro over the period disclosed; sterling converted to euro at the average quarterly rate of exchange.

b Sterling converted to euro against year-end rate of exchange.

c As a result of the 2002 valuation of the SOCPF fund the Actuary requested that an additional one-time company contribution to the fund be paid. The amount stated comprises the basic pension increase and a prorated amount relating to this additional employer contribution. Sterling converted to euro at the average quarterly rate of exchange.

d As from July 1, 2003. REMCO considered it important to apply the policy of treating Dutch Managing Directors of Royal Dutch in a cohesive and consistent manner, which implied participation in the Dutch pension plan. Rob Routs accrued the majority of his pension rights during his previous employment with Shell Canada. Taking into account his retirement during 2007, it has been decided to provide the same pension entitlements that he would have received had he remained in the Canadian plan. A transfer of his accrued Canadian rights to the Stichting Shell Pensioenfonds required a net additional cash funding by the Group of €3,074 thousand (partly to offset Canadian tax withholdings of 25%), resulting in five additional years of service. This was the most cost-effective resolution within the various relevant national legal and tax regimes.

Pensions

For employees in the Netherlands their contribution to the pension plan offered by the Stichting Shell Pensioenfonds was 5% during the first half year and 8% during the second half year of 2003. The employing company contribution rate was 10% until July 1, 2003 and 20% thereafter. The non-Dutch Managing Director contributed 4% of relevant earnings to the plan offered by the Shell Overseas Contributory Pension Fund during the year. The employing company's contribution rate in 2003 was 30% of relevant earnings.

Managing Directors' contracts of service

No Managing Director has a contract of service with Royal Dutch. The Managing Directors of Royal Dutch have employment contracts with one of the Group Holding Companies that provide entitlement to the statutory notice period applicable to the employees in the Netherlands, being one month for an employee and, depending on the duration of employment, a maximum of four months for the employer. Such contracts expire on the expected date of retirement which, in the case of the Managing Directors, is June 30 following their 60th birthday. There are no predetermined termination compensation arrangements in place for Managing Directors of Royal Dutch.

Supervisory Board members

Policy

The remuneration of the members of the Supervisory Board is, in accordance with the Articles of Association, the responsibility of the General Meeting and is determined within the limits set by shareholders. The Articles of Association provide for an amount to be fixed by the General Meeting that shall serve as the basis for the remuneration of members of the Supervisory Board. At the General Meeting held on May 16, 2002, that amount was set at €75,000 multiplied by the number of members of the Supervisory Board holding office during any year or proportionately during part of a year. The amount so fixed constitutes the maximum aggregate remuneration in respect of any year for all members of the Supervisory Board. Out of the funds so earmarked, the Supervisory Board fixes the amount of the remuneration for each of its members, taking into account any special duties performed by a member. Within the limits set by shareholders, the level of remuneration is reviewed from time to time by the Supervisory Board to ensure it is in line with Supervisory Board members' fee levels of other major listed companies, and adjustments are made when appropriate. Personal loans or guarantees are not granted to members of the Supervisory Board. The Company will bear the costs and damages resulting from legal proceedings against a member of the Supervisory Board, except if the member concerned is ruled to be seriously at fault by a court of law.

Fees

At its last review in December 2002, the Supervisory Board resolved to increase the Supervisory Board fees to €55,000 per annum and the additional fee for the Chairman to €15,000 per annum, with effect from January 1, 2003. Also an additional fee amounting to €2,375 per meeting, will be payable to Supervisory Board members required to make intercontinental trips to attend Supervisory Board meetings. Fees for each membership of the committees of the Supervisory Board remained at €7,000.

Emoluments of the members of the Supervisory Board €

	2003	2002	2001
Aad Jacobs			
Chairman's fee	**15,000**	5,750	–
Supervisory Board fees	**55,000**	46,000	45,378
Committee fees	**7,000**	7,000	6,807
	77,000	58,750	52,185
Maarten van den Bergh			
Supervisory Board fees	**55,000**	46,000	45,378
Committee fees	**7,000**	7,000	6,807
Holding Company fees[a]	**27,711**	29,021	29,148
	89,711	82,021	81,333
Wim Kok[b]			
Supervisory Board fees	**27,500**	–	–
Committee fees	**3,500**	–	–
	31,000	–	–
Aarnout Loudon			
Supervisory Board fees	**55,000**	46,000	45,378
Committee fees	**14,000**	14,000	13,613
	69,000	60,000	58,991
Hubert Markl			
Supervisory Board fees	**55,000**	23,000	–
Committee fees	**–**	–	–
	55,000	23,000	–
Joachim Milberg[c]			
Supervisory Board fees	**41,250**	46,000	45,378
Committee fees	**5,250**	7,000	6,807
	46,500	53,000	52,185
Lawrence Ricciardi			
Supervisory Board fees	**55,000**	46,000	22,689
Committee fees	**3,500**	–	–
Intercontinental travel fees	**21,375**	–	–
	79,875	46,000	22,689
Henny de Ruiter			
Supervisory Board fees	**55,000**	46,000	45,378
Committee fees	**14,000**	10,500	6,807
Holding Company fees[a]	**27,711**	29,021	29,148
	96,711	85,521	81,333
Jan Timmer[d]			
Supervisory Board fees	**27,500**	46,000	45,378
Committee fees	**7,000**	14,000	13,613
	34,500	60,000	58,991

The information in this table has been subjected to audit.

a Maarten van den Bergh and Henny de Ruiter received fees from the Group Holding Companies in respect of duties performed by them as Directors of these Companies.
b Appointed as from July 1, 2003.
c Retired on October 1, 2003.
d Retired on June 30, 2003.

Group share plans

Set out below is a summary of the principal employee share schemes operated by Group companies.[1] The shares subject to the plans are existing issued shares of Royal Dutch or Shell Transport and no dilution of shareholder equity is involved. Shares to be delivered by a Group company under these plans are generally bought in the market at the time the commitment is made.

Group Stock Option Plans

Under these plans, eligible employees may be granted stock options over shares of Royal Dutch or Shell Transport. The price at which the shares can be bought (the exercise price) will not be less than the fair market value of the shares at the date the stock options were granted. This is calculated as the average of the stock exchange opening and closing prices over the five business days ending on the date of grant, except for the US plans where the grant price is the New York Stock Exchange closing price on the date of grant.

Stock options are exercisable three years from grant except for those granted under the US plans which vest one-third per year for three years. Stock options lapse ten years after grant; however, leaving Group employment may cause options to lapse earlier.

For Group Managing Directors and the most senior executives 100% of options granted in 2003 and in subsequent years will be subject to performance conditions.

Restricted Stock Plan

Grants are made under this plan on a highly selective basis for recruitment and retention of senior staff. A maximum of 250,000 Royal Dutch shares (or equivalent value in Shell Transport shares) can be granted under the plan in any year. Shares are granted subject to a three-year restriction period. The shares, together with additional shares equivalent to the value of the dividends payable over the restriction period, are released to the individual at the end of the three-year period, provided that the individual has remained in employment. Group Managing Directors are not eligible to participate in the Restricted Stock Plan.

Group Long-Term Incentive Plan (LTIP)

Shares are awarded conditionally once a year under the Group LTIP which applies to Group Managing Directors and selected senior executives. The plan allows for a maximum grant with a face value of two times base pay. The value of shares conditionally awarded will reflect competitive market practice. Release may occur three years after grant. The entire award is expected to be released only in cases of exceptional performance. Details of the plan can be found on page 115.

Global Employee Share Purchase Plan

This plan enables employees to make contributions, which are applied quarterly to purchase Royal Dutch or Shell Transport shares at current market value. If the acquired shares are retained in the plan until the end of the twelve-month cycle the employee receives an additional 15% share allocation. In the USA a variant of this plan is operated where contributions are applied to buy Royal Dutch shares at the end of the twelve-month cycle. The purchase price is the lower of the market price on the first or last trading day of the cycle reduced by 15%. Group Managing Directors are not eligible to participate in the Global Employee Share Purchase Plan.

Shell Sharesave Scheme

In lieu of the Global Employee Share Purchase Plan, employees in the UK continue to participate in the Shell Sharesave Scheme. Stock options are granted over shares of Shell Transport at a price set at the date specified in the invitation. Options are granted on a date not more than 30 days after the option price is determined and are normally exercisable after a three-year or five-year contractual savings period.

Shell All-employee Share Ownership Plan

Employees in the UK may also participate in the Shell All-employee Share Ownership Plan, which is designed to encourage employee participation in their company. Employees invest amounts up to a maximum of £125 per month in Shell Transport shares at the current market value using funds deducted from their monthly salary. The contributions are not liable to income tax, however, to maintain the tax benefit, the shares must be held in the plan for a defined period (normally five years).

1 Details of the number of shares held by Group companies in connection with the above plans are shown in Note 22 of the Group Financial Statements on pages 69 to 71.

Other information

1 Summary of the arrangement in the Articles of Association regarding the appropriation of the profit

After the amounts to be appropriated to reserves have been fixed by the Board of Management with the approval of the Supervisory Board, an amount of €17.92 is distributed on each priority share out of the profit available for distribution. The balance of profit available for distribution then remaining is distributed to the holders of ordinary shares, unless the General Meeting of Shareholders resolves that the whole or part of such profit be carried forward to the following year. Shares acquired and held by the Company in its own capital are not included in the profit distribution calculation and no distributions are made thereon.

2 Proposal for appropriation of the profit available for distribution

The proposal for appropriation of the profit available for distribution is stated in the Report of the Supervisory Board on page 97 and is disclosed in the Statement of Appropriation of Profit on page 99.

3 Special rights in the Articles of Association regarding control in the Company

Pursuant to the Articles of Association, the meeting of holders of priority shares determines the number of Managing Directors and members of the Supervisory Board and, when the case arises, that meeting decides whether or not to fill a vacancy on the Board of Management or the Supervisory Board. The meeting of holders of priority shares is furthermore entitled to make a binding nomination, containing the names of at least two persons, for each appointment of a Managing Director or a member of the Supervisory Board.

The prior consent of the meeting of holders of priority shares is required for the passing of a resolution to amend the Articles of Association or to dissolve the Company. A resolution to amend the Articles of Association may also be passed subject to the subsequent approval of that meeting.

Each of the members of the Supervisory Board and the Managing Directors is the holder of six priority shares. The other 1,446 priority shares are held by the Royal Dutch Priority Shares Foundation. The Board of the Foundation consists of all the members of the Supervisory Board and the Managing Directors of the Company.

4 Share buyback

In the period between the General Meeting held on April 23, 2003 and May 11, 2004 the Company did not acquire any shares under the share buyback programme.

5 Supervisory Board members' and Managing Directors' share interests in the Company[a]

		Number of ordinary shares
	Dec 31, 2003	Dec 31, 2002
Supervisory Board		
Aad Jacobs	**–**	–
Maarten van den Bergh	**4,000**	4,000
Wim Kok	**–**	–
Jonkheer Aarnout Loudon	**75,000**	75,000
Professor Hubert Markl	**–**	–
Lawrence Ricciardi	**10,000**	–
Henny de Ruiter	**–**	–
Managing Directors		
Jeroen van der Veer	**10,512**	7,012
Malcolm Brinded	**2,500**	–
Rob Routs	**–**	–
Walter van de Vijver	**10,668**	10,668

a Excluding shares under the deferred bonus plan (see page 119) which will be released in principle three years after deferral.

Report of the Independent Auditors

Introduction

We have audited the Annual Accounts for the year 2003 of Royal Dutch Petroleum Company appearing on pages 99 to 104. These Accounts are the responsibility of the Company's management. Our responsibility is to express an opinion on these Accounts based on our audit.

Scope

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.

Opinion

In our opinion, these Accounts – of which the Netherlands GAAP Financial Statements of the Royal Dutch/Shell Group of Companies as presented on pages 78 and 79 and the Notes thereto on pages 52 to 77 and 80 to 84 form part – give a true and fair view of the financial position of the Company at December 31, 2003, 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 financial reporting requirements included in Part 9, Book 2 of the Netherlands Civil Code.

Emphasis of Matter

Without qualifying our opinion, we emphasise that the Company has restated the comparative data for the years 2002 and 2001 as explained in Note 2 on page 101.

KPMG Accountants N.V.
The Hague
May 22, 2004

Shareholder information

Shareholder base

The estimated geographical distribution of shareholdings in the Parent Companies at the end of 2003 was:

	Royal Dutch	Shell Transport	Combined
			%
Continental Europe	68	1	41
United Kingdom	1	96	39
USA	30	3	19
Other	1	*	1
	100	100	100

Data based on registered ownership records.

* Less than 1%.

At the end of 2003, there were approximately 740,000 shareholders of Royal Dutch and 240,000 shareholders of Shell Transport.

At the end of 2003, no interests had been notified to the Company in 5% or more of the Company's issued ordinary share capital.

Number of shares

The number of outstanding ordinary shares with a par value of €0.56 at the end of 2003 was 2,083,500,000.

Share prices

Euronext Amsterdam €

	2003	2002	2001	2000	1999
Highest	**44.58**	63.20	73.48	75.90	64.10
Lowest	**33.35**	39.21	43.72	51.51	34.90
Year-end	**41.80**	41.95	56.90	65.26	60.85

New York Stock Exchange $

	2003	2002	2001	2000	1999
Highest	**52.70**	57.30	64.15	65.69	67.38
Lowest	**36.69**	38.60	39.75	50.44	39.56
Year-end	**52.39**	44.02	49.02	60.56	60.56

Information prior to 2003 has been restated for comparative purposes (see pages 99 to 104).

Key figures per ordinary share €

	2003	2002	2001
Dividends			
Interim	**0.74**	0.72	0.70
Final	**1.02**[a]	1.00	0.96
Total dividend	**1.76**	1.72	1.66
Net income[b]	**3.20**	2.97	3.32
Net assets[c]	**18.38**	18.68	20.64

Key figures per ordinary share $

	2003	2002	2001
Dividends			
Interim	**0.85**	0.70	0.61
Final	**1.21**[a]	1.10	0.88
Total dividend	**2.06**	1.80	1.50[d]
Net income[b]	**3.56**	2.81	2.97
Net assets[c]	**23.18**	19.54	18.26

a Second interim dividend. On March 18, 2004, the original plan to propose a final dividend for 2003 to the General Meeting of Shareholders was withdrawn and a second interim dividend in respect of the financial year 2003 of the same value was made payable in May 2004. See the Report of the Supervisory Board on page 97 for details.

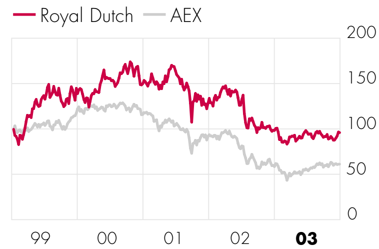
b Basic earnings per share based on Netherlands GAAP.

c Based on Netherlands GAAP and on ordinary shares in issue at December 31, after deduction of shares held by Group Companies in respect of stock options and other incentive compensation plans. For this purpose shares repurchased under the buyback programme are deemed to have been cancelled on purchase date.

d Rounded.

Indexed share price

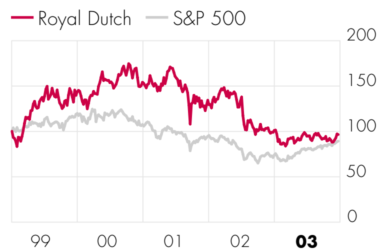
Royal Dutch/AEX Index



Index: December 31, 1998 = 100

Indexed share price

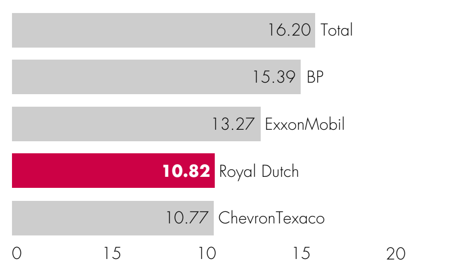
Royal Dutch/Standard & Poor's 500 index



Index: December 31, 1998 = 100

Total shareholder return[a] 1994-2003

%



a Total shareholder return is calculated as the total of stock appreciation and yield from reinvested dividends before taxes. The figures above are based on quarterly reinvestment of gross dividends expressed in dollars. Data for ChevronTexaco, ExxonMobil and Total before the effective date of their respective mergers were replaced by data from the acquiring entities. Source: Bloomberg.

Financial calendar

Financial year ends	December 31, 2003
Announcements	
Full-year results for 2003	February 5, 2004
First quarter results for 2004	April 29, 2004
Second quarter results for 2004	July 29, 2004*
Third quarter results for 2004	October 28, 2004*
Dividends – Hague Register and Bearer shares	
2003 Second interim	
Announced	March 18, 2004
Record date	April 23, 2004
Ex-dividend date	April 26, 2004
Payment date	May 6, 2004
2004 Interim	
Announced	July 29, 2004*
Record date	July 29, 2004*
Ex-dividend date	July 30, 2004*
Payment date	September 15, 2004*
Dividends – New York Register	
2003 Second interim	
Announced	March 18, 2004
Ex-dividend date	April 26, 2004
Record date	April 28, 2004
Payment date	May 12, 2004
2004 Interim	
Announced	July 29, 2004*
Ex-dividend date	July 30, 2004*
Record date	August 3, 2004*
Payment date	September 15, 2004*
General Meeting of Shareholders	June 28, 2004

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

Contact addresses

Investor Relations
Enquiries from shareholders may be addressed to:

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

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

New York
Shell Oil Company
1270 Avenue of the Americas
Suite 2320
New York, NY 10020
USA
Tel: +1 212 218 3113
Fax: +1 212 218 3114
e-mail: ir-newyork@shell.com

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

See addresses on the back cover for requests for publications, including copies of the original Dutch Annual Report.

Hague Register
Royal Dutch shareholders listed in the Hague Register who have enquiries about share ownership, changes of address or payment of dividends may contact:

N.V. Algemeen Nederlands
Trustkantoor ANT
PO Box 11063
1001 GB Amsterdam
The Netherlands
Tel: +31 (0)20 522 2510
Fax: +31 (0)20 522 2500
e-mail: registers@ant-trust.nl

New York Register
Royal Dutch shareholders listed in the New York Register who have enquiries about share ownership, changes of address or payment of dividends may contact:

Stock Transfer and Paying Agent
JPMorgan Service Center
PO Box 43013
Providence, RI 02940-3013
USA
Tel: 800 556 8639 (USA only)
+1 781 575 4328
(international)
Fax: +1 781 575 4082
Website:
www.adr.com/shareholders

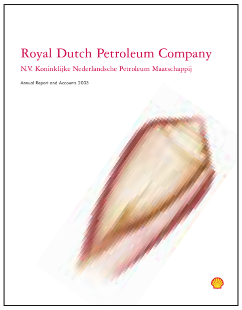
Royal Dutch Petroleum Company
N.V. Koninklijke Nederlandsche
Petroleum Maatschappij

Founded on June 16, 1890

Carel van Bylandtlaan 30
2596 HR The Hague
The Netherlands
Tel: +31 (0)70 377 9111

Designed and produced by Corporate Edge using Ringmaster®. Cover photography by Nick Veasey. Printed by Butler and Tanner who are accredited with the ISO 14001 Environmental Management System.

The paper for this report contains 75% de-inked post-consumer waste. The remaining 25% is from chlorine-free pulp sourced from sustainably managed forests. The manufacturers of the paper are accredited with the ISO 9002 Quality Assurance and ISO 14001 Environmental Management Systems.

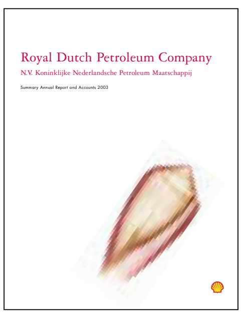


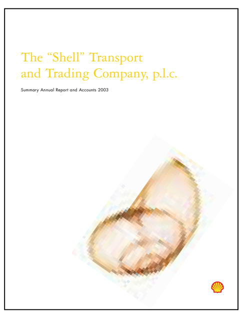
Annual Report and Accounts 2003
The Annual Reports and Accounts of Royal Dutch Petroleum Company and The “Shell” Transport and Trading Company, p.l.c.

Available at **www.shell.com/annualreport**

The Shell Report 2003
Meeting the energy challenge – our progress in contributing to sustainable development.

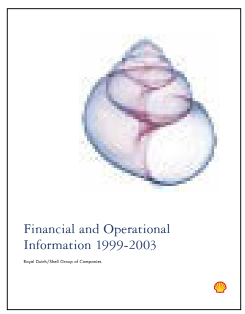
Available at **www.shell.com/shellreport**





Summary Annual Report and Accounts 2003
Summary versions of the Annual Reports and Accounts of Royal Dutch Petroleum Company and The “Shell” Transport and Trading Company, p.l.c.

Available at **www.shell.com/annualreport**



Financial and Operational Information 1999–2003
Five years’ financial and operational information about the Group, including maps of exploration and production activities.

Available at **www.shell.com/faoi**

Statement of General Business Principles
Fundamental principles that govern how each Shell company conducts its affairs.
Available at **www.shell.com/sgbp**

Tell Shell
Tell us what you think about Shell, our performance, our reports or the issues we face. Join the global debate – we value your views.

Visit **www.shell.com/tellshell** or e-mail us at tellshell@shell.com

Contact any of the addresses below for copies of publications:

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

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

Shell Oil Company
1270 Avenue of the Americas
Suite 2320, New York
NY 10020, USA
Tel: +1 212 218 3113
Fax: +1 212 218 3114

More information about the Royal Dutch/Shell Group is available at **www.shell.com**