UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

SECURITIES AND EXCHANGE COMMISSION,	:	
Plaintiff,	:	
v.	:	**COMPLAINT**
ROYAL DUTCH PETROLEUM COMPANY and THE "SHELL" TRANSPORT AND TRADING COMPANY, P.L.C.,	:	**H-04-3359**
Defendants.	:	

Plaintiff Securities and Exchange Commission alleges as follows:

SUMMARY

1. This case concerns the overstatement of proved oil and gas reserves by Royal Dutch Petroleum Company ("Royal Dutch") and The "Shell" Transport and Trading Company ("Shell Transport") (collectively, "Shell").

2. Between January 9 and May 24, 2004, Shell announced the reclassification of 4.47 billion barrels of oil equivalent, or approximately 23% of previously reported "proved reserves," because they were not proved reserves as defined by applicable law. Shell also announced a reduction in its Reserves Replacement Ratio. Shell's overstatement of proved reserves, and its delay in correcting the overstatement, resulted from (i) its desire to create and maintain the appearance of a strong RRR, a key performance indicator in the oil and gas industry, (ii) the failure of its internal reserves estimation and reporting guidelines to conform to applicable regulations, and (iii) the lack of effective internal controls over the reserves estimation and reporting processes.

3. In the interest of protecting the public against misleading financial disclosures by public companies, the Commission brings this action seeking civil money penalties of $120 million against the defendants.

JURISDICTION AND VENUE

4. This Court has jurisdiction over this action pursuant to Section 27 of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78aa].

5. Defendants have, directly and indirectly, made use of the means or instrumentalities of interstate commerce and/or the mails in connection with the transactions described in this Complaint.

6. Venue lies in this Court pursuant to Section 27 of the Exchange Act [15 U.S.C. § 78aa] because one or more of the acts and transactions described herein took place in this district.

DEFENDANTS

7. Royal Dutch Petroleum Company is incorporated under the laws of The Netherlands and headquartered in The Hague, The Netherlands. Its stock is registered with the Commission pursuant to Section 12(b) of the Exchange Act and trades on the New York Stock Exchange ("NYSE"). The principal trading markets for Royal Dutch's shares are the NYSE and the Euronext Exchange in Amsterdam, The Netherlands.

8. The "Shell" Transport and Trading Company, p.l.c., is incorporated under the laws of England and headquartered in London, England. Its Ordinary shares, as well as shares of an aggregate nominal amount of £1.50 and evidenced by Depositary Receipts ("New York Shares"), are registered with the Commission pursuant to Section 12(b) of the Exchange Act. The primary market for Shell Transport's Ordinary shares is the London Stock Exchange; the New York Shares trade on the NYSE.

9. Royal Dutch and Shell Transport do not engage in operational activities. They derive their respective incomes, except interest income on cash balances or short-term investments, from interests in the collection of companies known as the Royal Dutch/Shell Group of Companies, which is referred to as the "Group." The Group is organized under two holding companies that, directly or indirectly, own all of the Group companies. The parent companies, Royal Dutch and Shell Transport, own all of the shares of the two holding companies. Royal Dutch and Shell Transport are entitled to have their respective nominees elected as the members of the boards of directors of the holding companies. The managing directors of the holding companies are, in turn, appointed to the Joint Committee of Managing Directors ("CMD") that is responsible for considering and developing the Group's objectives and long-term plans.

FACTS

Shell's Recategorization of Proved Reserves and Reduction of Reserves Replacement Ratio

10. In a series of announcements between January 9 and May 24, 2004, Shell disclosed that it had recategorized 4.47 billion barrels of oil equivalent ("boe"), or approximately 23%, of the proved reserves it reported as of year-end 2002, because they were not proved reserves at defined in Commission Rule 4-10 of Regulation S-X [17 C.F.R. §210.4-10]. For reporting purposes, "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, i.e., prices and costs as of the date the estimate is made."

11. This recategorization reduced the standard measure of future cash flows by approximately $6.6 billion as reported in Shell's original 2002 Form 20-F, Supplemental Information under Statement of Financial Accounting Standard No. 69 ("FAS 69").

12. On July 2, 2004, Shell filed an amended 2002 Form 20-F reflecting the restatement of its proved reserves and standard measure of future cash flows for the years 1999 to 2002 as follows:

Year	Reduction in "Proved" Reserves	% Reduction	Reduction in Standardized Measure	% Reduction
1997	3.13 boe	16%	N/A	N/A
1998	3.78 boe	18%	N/A	N/A
1999	4.58 boe	23%	$7.0 billion	11%
2000	4.84 boe	25%	$7.2 billion	10%
2001	4.53 boe	24%	$6.5 billion	13%
2002	4.47 boe	23%	$6.6 billion	9%

13. Although Shell estimated the effects of the reserve recategorization on its proved reserves through 1997, its restatement of its FAS 69 standard measure of future cash flows extended only through 1999.

14. As a result of the overstatement of proved reserves, Shell also announced a reduction in its Reserves Replacement Ratio ("RRR") for 1998 through 2002, from the previously reported 100% to approximately 80%. Had Shell reported proved reserves properly, its annual and three-year RRR over this span would have been as follows:

Year	1-Year RRR		3-Year RRR	
	Original	Restated	Original	Restated
1998	182%	134%	n/a	n/a
1999	56%	-5%	n/a	n/a
2000	69%	50%	102%	60%
2001	74%	97%	66%	48%
2002	117%	121%	87%	90%
2003	n/a	63%	n/a	94%

15. These failures led Shell to record and maintain proved reserves it knew, or was reckless in not knowing, did not satisfy applicable regulations and to report for certain years a stronger RRR than it actually had achieved. Indeed, Shell was warned on several occasions prior to the fall of 2003 that reported proved reserves potentially were overstated and, in such critical operating areas as Nigeria and Oman, depended upon unrealistic production forecasts. In each case, Shell either rejected the warnings as immaterial or unduly pessimistic, or attempted to manage the potential exposure by, for example, delaying de-booking of improperly recorded proved reserves until new, offsetting proved reserves bookings materialized.

Shell's Guidelines Failed to Conform to Securities Rules

16. Royal Dutch and Shell Transport are required to include supplemental information regarding their proved oil and natural gas reserves in their annual reports to the Commission. Issuers may not disclose in Commission filings estimates of oil and gas reserves other than proved reserves, except in circumstances not applicable in this case.

17. Since at least the 1970's, Shell has utilized a series of comprehensive internal guidelines for the estimation and reporting of oil and gas resources, including its proved reserves. However, Shell's guidelines failed to conform to the requirements of Rule 4-10, as supplemented by the Commission staff's interpretative guidance issued in June 2000 and March 2001, in a number of significant ways.

18. In 1998 Shell revised its internal guidelines under which it maintained its existing probabilistic methods for estimating proved reserves in "immature" fields, but applied more deterministic methods in "mature" fields, and directed operating units to increase proved reserves in such fields to equal "expectation" volumes.

19. An oil and gas reserves estimation methodology is considered "probabilistic" when the known geological, engineering and economic data are used to generate a range of estimates and their associated probabilities; it is considered "deterministic" if a single best estimate of reserves is made based on known geological, engineering and economic data. As used by Shell, "expectation reserves" are the most likely estimate of hydrocarbon volumes remaining to be recovered from a project that is technically and commercially mature, or from a producing asset. If probabilistic techniques are used in reserve estimation, the expectation reserves are the probability weighted average of all possible outcomes (commonly referred to as the "P50" outcome). If deterministic techniques are used, expectation reserves correspond to the most likely estimate of future recovery. Generally, a field was "mature" under the revised guidelines if total production was greater than 30% of expectation reserves.

20. This guideline revision added substantial volumes to Shell's reported proved reserves. For instance, nearly 40% of the total proved reserves Shell added in 1998 resulted from this guideline revision. From 1998 through 2001, this guideline revision resulted in more than 1.2 billion boe being added to reported proved reserves. In implementing this change, however, certain of Shell's operating units failed to perform the detailed analysis required to support the resulting increase in proved reserves.

21. Further, Shell's only public disclosure of its material change to its guidelines was a single sentence accompanying the supplemental oil and gas information in its 1998 annual report, which provided only that "[e]stimation methods have been refined during 1998."

Shell's Guidelines Failed To Require Market Existence or Project Commitment

22. Before September 2003, with respect to frontier developments, Shell's guidelines required neither a currently existing market for a field's hydrocarbons nor a commitment by Shell to

develop the field or the infrastructure necessary to bring the hydrocarbons to market. As discussed below, the most significant frontier proved reserves recorded and maintained as a result was the giant Gorgon natural gas field in Australia, originally booked in 1997.

23. Though realizing by year-end 2001 that these aspects of its guidelines sell short of SEC requirements, Shell did not remedy these shortcomings until its September 2003 guideline revisions. The 2003 guidelines for the first time required certainty of an existing market (e.g., a sales agreement for proved natural gas reserves) and a "Final Investment Decision" on significant projects before reserves associated with the project could be deemed proved.

Shell's Guidelines Were Excessively Permissive Regarding Government and Regulatory Approvals

24. The Commission issued staff guidance in 2000 and 2001 stating that reserves subject to significant government and regulatory approvals (e.g., production license extensions) required "a long and clear track record which supports the conclusion that such approvals and renewal are a matter of course." Despite this explicit guidance, Shell's guidelines through 2002 failed to require sufficient assurance of such approvals and, as a result, Shell booked proved reserves for certain projects for which governmental or regulatory approvals were not sufficiently assured for there to be "reasonable certainty" of the recovery of those reserves in future years. These deficiencies impacted reserves bookings in Kazakhstan (Kashagan field), Ireland (Corrib field), Italy (Tempa Rossa field) and the Netherlands (Waddenzee fields).

Shell's Guidelines Failed to Comply With Technical Requirements

25. Shell's guidelines failed in several respects to comply with the technical engineering standards embodied in Rule 4-10 for the estimation of oil and natural gas reserve volumes. These technical requirements include restrictions on estimates of the depth and lateral extent of reserves –

known in the engineering field as "lowest known hydrocarbon" and "lateral extent of proved area" requirements. The technical requirements also include standards governing the use of year-end prices, improved oil and gas recovery techniques and advanced computer reserve modeling, which require that such methods be supported by sufficient reservoir analogies and/or actual performance information.

Shell's Guidelines Failed to Require De-Booking of Non-Compliant Reserves

26. When previously reported proved reserves no longer satisfy the requirements of Rule 4-10, they can no longer be included in proved reserves disclosures. Shell's guidelines, however, did not require the de-booking of reserves that no longer qualified as "proved" under Rule 4-10. Instead, the guidelines urged Shell personnel to "exert caution" in de-booking reserves to "minimize fluctuations [in proved reserves] over time." As a result, questionable proved reserves were effectively shielded from de-booking in all but the most extreme circumstances, which contributed to Shell's failure to de-book significant volumes that, by year-end 2001, had been identified as potentially inconsistent with Rule 4-10.

Shell Failed to Maintain Adequate Internal Controls

27. Shell failed in several respects to implement and maintain internal controls sufficient to provide reasonable assurance that it was estimating and reporting proved reserves accurately and in compliance with applicable requirements. These failures arose from (i) inadequate training and supervision of the operating unit personnel responsible for estimating and reporting proved reserves in the first instance, and (ii) deficiencies in the internal reserves audit function.

Inadequate Operating Unit Controls

28. Shell's reserve estimation and reporting practices were largely decentralized in that they required operating unit personnel initially to determine resource volume categorization,

including estimating volumes of proved reserves for Shell's Commission filings and other public reports. Shell, however, failed to ensure that its personnel were adequately trained with respect to the Commission's reporting requirements. Indeed, Shell's Group Reserves Auditor observed in January 2003 that operating unit comprehension of both Group guidelines and Commission rules regarding proved reserves was generally lacking.

Deficiencies in Group Reserve Auditing Function

29. Shell's decentralized system required an effective internal reserves audit function. To perform this function, Shell historically had engaged as Group Reserves Auditor a retired Shell petroleum engineer – who worked only part-time and was provided limited resources and no staff – to audit its vast worldwide operations. Although the Group Reserves Auditor was an experienced reservoir engineer, he received scant, if any, training on such critical matters as how he should conduct his work and the rules and standards on which his opinions should be based. He also lacked authority to require operating unit compliance with either Commission rules or Group reserves guidelines. Moreover, he reported to the management of Shell's exploration and production division ("EP"), which were the same people he audited.

30. The Group Reserves Auditor visited each operating unit only once every four or more years. Subsequent to his visits, he issued reports rating the operating unit's systems, compliance with Group guidelines and audit response as "good," "satisfactory" or "unsatisfactory," opining whether the operating unit's reported reserves met Group guidelines. From the start of his tenure in January 1999 until September 2003, the Group Reserves Auditor did not issue a single "unsatisfactory" rating.

31. The Group Reserves Auditor also issued an annual report on the reasonableness of Shell's year-end total reserves summary. Until his February 2004 report on Shell's 2003 proved

reserves, the Group Reserve Auditor focused as much on whether Group proved reserves complied with Group guidelines as he did on whether they complied with Commission requirements.

32. Further, the Group Reserves Auditor failed to act independently in several respects. At times, he allowed proved reserves associated with a project to remain booked because he was more "bullish" on its prospects than the local management responsible for the project. At other times, solely to support booking proved reserves for otherwise uneconomic projects, he advised local management to submit development plans that were unlikely ever to be executed.

33. This lack of independence facilitated the booking of questionable reserves (such as approximately 75 million boe booked in 2001 in connection with the Block 18 project in Angola) and contributed to Shell's maintenance of increasingly questionable bookings (such as Gorgon and certain legacy bookings in Brunei) well after they should have been de-booked.

Shell Improperly Booked Reserves

34. Shell's improper proved reserves bookings or maintenance in three of the largest affected countries – Australia's Gorgon project, the Shell's onshore operations in Nigeria and Shell's Omani interests (which, collectively, account for between approximately 50% and 90% of the recategorization in the years 1997 through 2002) – exemplify the faults in Shell's reserves estimation and reporting practices.

Australia: Gorgon

35. Gorgon, an undeveloped frontier gas field off the northwest coast of Australia, was discovered in 1980. No gas from Gorgon has ever been sold or firmly contracted for and Shell has yet to make a final investment decision to develop Gorgon's hydrocarbons.

36. Nonetheless, in 1997, under its guidelines, Shell booked over 550 million boe of proved reserves in Gorgon based on mere indications of interest from a prospective purchaser.

At that time, Shell did not have a contract to sell Gorgon gas, had no firm development plan and had not made a final investment decision.

37. By 1999, the Asian economic crisis had, at least, significantly delayed whatever market interest there had been in Gorgon gas, and Shell still had not firmly committed to develop the field. Yet, Shell maintained Gorgon as proved reserves.

38. On several occasions from 1999 through 2003, Shell reevaluated whether to maintain Gorgon's "proved" status. During this time, Shell learned that none of its partners in Gorgon had booked proved reserves in the field. In March 2000, Shell's Australian affiliate was instructed by regional Shell management to review options for gradually de-booking Gorgon proved reserves. However, Shell determined to maintain Gorgon as proved reserves unless, as Shell's then-Group Reserves Coordinator concluded in September 2002, it became "absolutely clear that development will not proceed in a reasonable time frame."

39. By December 2002, Shell's EP personnel recognized that Gorgon was a "dodgy" booking whose status as proved reserves was not supportable even under Shell's lenient 2002 internal reserves guidelines. Yet, Shell did not de-book Gorgon from proved reserves until the 2004 reclassification.

Nigeria: Shell Petroleum Development Company ("SPDC")

40. Nigeria represents one of Shell's largest worldwide concentrations of reserves and production. Shell's Nigerian operations generally are divided into on-shore and shallow-water (run by Shell Petroleum Development Company ("SPDC")) and deep-water operations.

41. By the end of 1999, SPDC's existing proved reserves – which had increased significantly because of the 1998 revised Shell reserves guidelines – had grown increasingly dependent on production forecasts that gave the appearance that the proved portion of the reserves

could be produced within the remaining license period. These projections, in turn, depended on a number of assumptions concerning improved economic and operating conditions, such as improvements in the country's economic stability, increases in Shell's production quota from the Nigerian authorities and increases in Nigeria's production quota from OPEC.

42. These assumptions were not based upon "existing conditions" as required by Rule 4-10, and were not reasonable in light of the fact that SPDC's operations performed well below the projected levels throughout the period.

43. In fact, Shell EP management was advised in January 2000 that a substantial part of SPDC's reported proved reserves (perhaps more than 600 million boe) was constrained by license expiration and depended on unrealistic production forecasts that appeared to have been "reverse engineered" solely to support the reserve figures. Despite being advised that Shell's 1999 RRR was 37%, EP management forcefully rejected this conclusion and instead caused Shell to report a 56% RRR for that year.

44. EP management declined to de-book any of the potentially exposed reserves and instead agreed only to impose a freeze on the booking of additional reserves in SPDC. The very next month, however, the Group Reserves Auditor's report on Shell's 1999 proved reserves repeated these concerns, noting that SPDC faced license expiration problems and could support its proved reserves figures only through "significant aspirational upturns in future offtake levels in order to justify their proved reserves levels." The Group Reserves Auditor repeated these concerns in each of his next two annual reports, yet EP took no steps to de-book non-compliant reserves

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

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

47. By November 2003, the second phase of the EP review team's work was complete. It confirmed the earlier findings of a 750 million boe "gap" and added another 800 million boe of proved reserves that were not sufficiently mature under Shell guidelines. This information, combined with the unsatisfactory SPDC audit report and contemporaneous negative information and audit reports on Shell's Omani operations, ultimately led Shell to comprehensively review all of its proved reserves exposures and, eventually, to issue its recategorization announcement in January 2004.

Oman

48. Shell's interests in Oman derive from its indirect 34% ownership of Petroleum Development of Oman ("PDO"), an Omani company 60% owned by the Omani government. Shell is the largest private shareholder in PDO and serves as PDO's technical adviser.

49. At year-end 2000, Shell and PDO determined to raise PDO's proved reserves estimates by assuming that, for fields of certain maturity, both proved developed and proved undeveloped reserves would be increased to equal the expectation developed and undeveloped

volumes. This upward revision was based on the 1998 revisions to Shell's guidelines and added 251 million boe to Shell's reported proved reserves at December 31, 2000.

50. In mid-2001, PDO began experiencing a steep production decline. Within a few months, the situation had grown sufficiently dire that PDO took the highly unusual step of withdrawing its long-term business plan for 2002. The production decline also prompted the Omani government to question the volume of expectation reserves PDO was carrying, as a result of which Shell agreed to a $30 million "down payment" to the Omani government on what was expected to be an eventual refund of expectation reserve booking fees it previously had received. By the end of 2001, as its production continued to drop, PDO had no reliable or realistic long-term plan on which to base its proved reserves reporting. With Shell's encouragement, PDO instead adopted an "aspirational" production forecast to support its reported proved reserves figures.

51. During 2002, Shell was advised that PDO's proved reserves figures depended upon sustaining current production rates, without any declines, throughout the remaining lifetime of the production license, which was to expire in 2012. In view of the production declines already being experienced, this was not realistic. Shell nevertheless continued to report its share of PDO's reserves as proved at year-end 2002.

52. Further reviews of PDO reserves in 2003 and 2004 ultimately concluded that 393 million boe of the Shell share of proved reserves associated with PDO had to be de-booked as non-compliant with Rule 4-10. Of this amount, 144 million boe were found non-compliant because they were "associated with projects … not sufficiently mature to qualify as proved undeveloped reserves." The remaining 249 million boe were non-compliant because they were not supported by any identified projects.

Shell's Failure to Timely and Effectively
Ensure Compliance with Rule 4-10

53. Until January 2004, Shell failed to timely and appropriately act to ensure that its reported proved reserves complied with Rule 4-10, but instead sought to ascertain the extent to which the differences could be either reconciled without impacting Shell's existing proved reserves or rationalized as immaterial.

54. Further, the non-executive directors of Royal Dutch and Shell Transport, including the members of the Group Audit Committee ("GAC"), were not provided with the information necessary for the boards of the two companies to ensure that timely and appropriate action was taken with respect to the proved reserves estimation and reporting practices.

55. In January 2002, the Group Reserves Auditor's report on Shell's 2001 proved reserves stated that "recent clarifications of FASB reserves guidelines by the US Security [sic] and Exchange Commission (SEC) have shown that current Group reserves practice regarding the first-time booking of Proved reserves in new fields is in some cases too lenient." The Group Reserves Auditor recommended that the "Group guidelines should be reviewed [and] [f]irst-time bookings should be aligned closer with SEC guidance and industry practice and they should be allowed only for firm projects with technical maturity and full economic viability."

56. On February 11, 2002, an EP Note for Information to the CMD addressed the divergence between Shell's guidelines and the Commission's rules and estimated the possible impact of this divergence on Shell's reported proved reserves. The note explicitly stated that "[r]ecently the SEC issued clarifications that make it apparent that the Group guidelines for booking Proved Reserves are no longer fully aligned with the SEC rules."

57. Potential exposures identified in the note included approximately 1 billion boe of proved reserves relating to projects, including Gorgon, where potential environmental, political or

commercial factors might prevent development, and 1.3 billion boe relating to reserves associated with projects, including certain projects in Nigeria and Oman, that might not be producible within existing license constraints. The note failed to recommend de-bookings, and Shell did not take action to de-book any of these proved reserves at that time.

58. On February 25, 2002, the EP CEO provided a note to the CMD regarding EP's 2001 performance, asking his colleagues to "keep a balanced perspective on EP performance in 2001 and not have it overshadowed by the high profile issues around production growth and reserves replacement." As one of the "Main Issues," the note stated:

> In 2001, SEC issued clarifications of the rules for reserves reporting that made it clear that the probabilistic approach still advocated in the Shell guidelines is, in many cases too aggressive. This will likely impact future bookings in new fields (e.g., Nigeria SNEPCo and Brazil) and possibly existing booked volumes (e.g., Gorgon, Angola Block 18, Ormen Lange and Waddenzee representing some 1.0 bln boe).
>
> SPDC, PDO and Abu Dhabi represent 18% of EP's production, where reserves can no longer be booked due to license expiry issues and production limitations. The reserves exposures in these OUs is over 1 bln bbls.

The note failed to recommend de-bookings, and Shell did not take action to de-book any of these proved reserves at that time.

59. In a July 2002 meeting, EP again reported to CMD that the SEC was tightening its requirements regarding proved reserves. EP, however, reported that "[i]t is considered unlikely that potential over-bookings would need to be de-booked in the short term, but the reserves that are exposed to project risk or license expiry cannot remain on the books indefinitely if little progress is made to convert them to production in a timely manner."

60. The minutes of the above-referenced meeting, however, also reflect that the executives were advised of the concerns that had arisen within EP "that some booking practices had been too aggressive in the past." A Note for Discussion prepared for this meeting repeats the

observation that "[w]ith the benefit of hindsight, some of the organic revisions made in recent years now appear somewhat aggressive," principally in Gorgon and SPDC. The Note observes that without Gorgon and SPDC bookings, "total Proved RRR over the last 10 years would be reduced from 102% to 88%."

61. By September 2002, the CEO of EP internally spoke in blunt terms of his perception of the operational and performance problems facing EP, noting to his CMD colleagues that "[w]e are struggling on all key criteria" and that "RRR remains below 100% mainly due to aggressive booking in 1997-2000." He further observed that "we have tried to adhere to a bunch of criteria that can only be managed successfully for so long" and admonished that "[g]iven the external visibility of our issues (lean organic development portfolio funnel, RRR low, F&D unit costs rising), the market can only be 'fooled' if 1) credibility of the company is high, 2) medium and long-term portfolio refreshment is real and/or 3) positive trends can be shown on key indicators."

62. A month later, the Group Chairman emailed the EP CEO that he was "not contemplating a change in the external promise . . . ." The next day, the EP CEO responded, stating "I must admit that I become sick and tired about arguing about the hard facts and also can not perform miracles given where we are today. If I was interpreting the disclosure requirements literally (Sorbanes-Oxley Act etc.) [sic] we would have a real problem."

63. None of these events prompted Shell to de-book significant volumes. To the contrary, Shell continued to make large, questionable proved reserves bookings during this period, such as the September 2002 booking of 380 million boe in the Kashagan field offshore Kazakhstan, where Shell did not expect to make a final investment decision until 2003 at the earliest. This booking alone increased Shell's 2002 RRR by approximately 26%.

64. By the summer of 2003, Shell's analysis of reserves exposures had progressed, but still no de-bookings were recommended to the CMD. A July 22, 2003 CMD Note for Information reported that "some 1040 million boe (5%) is considered to be potentially at risk." The note concluded, however, that "at this stage, no action in relation to entries in the [Proved Reserves Exposure] Catalogue is recommended . . . . It should be noted that the total potential exposure listed in Appendix C is broadly offset by the potential to include gas fuel and flare volumes in external reserves disclosures." The Proved Reserves Exposure Catalogue in Appendix C quantifies "exposures" at approximately 1 billion boe and "threats" at approximately 1.6 billion boe, or a total of approximately 2.6 billion boe known to be or potentially noncompliant with Rule 4-10.

65. In late August 2003, EP completed a Note for Information to the GAC on Shell's reserves practices. The final version, dated August 26, 2003, was included in materials circulated to the GAC for its October 21, 2003 meeting. The note apprised the committee of steps taken to address possible non-compliance with the Commission's regulations. The GAC, however, was advised that "[m]uch, if not all, of the potential exposure arising from interpretation of factors listed above ["Possible areas of non-compliance with SEC regulations"] is offset by Shell's practice of not disclosing reserves in relation to gas production that is consumed on site as fuel or (incidental) flaring and venting."

66. Notwithstanding the disclosure of "potential exposures," in the October 21 meeting with the GAC, EP personnel failed to update the Committee with several critical facts that had emerged since the note was prepared, including the unsatisfactory audit report on Nigeria, the initial conclusions of the SPDC review that there was a significant "gap" between proved reserves carried and those that could be supported, and a substantially reduced estimate of the potential offset from "fuel and flare" gas.

67. Shell has undertaken substantial remedial efforts in connection with the reserves recategorization and has cooperated with the Commission in its investigation.

FIRST CLAIM
Violations of Section 10(b) of the Exchange Act and Rule 10b-5

68. Paragraphs 1 through 67 are realleged and incorporated by reference.

69. As a result of the Defendants' knowing or reckless overstatement of their oil and gas reserves in their financial statements, the Defendants' Commission filings, specified above, as well as other public statements, contained materially false and misleading statements and disclosures. These filings contained untrue statements of material fact concerning the company's reported proved reserves and omitted to state facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading.

70. By reason of the foregoing, the defendants have violated Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

SECOND CLAIM
Violations of Section 13(a) of the Exchange Act and Rules 12b-20 and 13a-1

71. Paragraphs 1 through 67 are realleged and incorporated by reference.

72. Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] requires issuers to file such annual and quarterly reports as the Commission may prescribe and in conformity with such rules as the Commission may promulgate. Rule 13a-1 [17 C.F.R. §§ 240.13a-1] requires the filing of accurate annual reports that comply with the Commission's Regulation S-X. Rule 12b-20 [17 C.F.R. § 240.12b-20] requires an issuer to include material information as may be necessary to make the required statements, in light of the circumstances under which they were made, not misleading.

73. The following periodic reports that Royal Dutch and Shell Transport filed with the Commission were not prepared in accordance with Rules promulgated by the Commission:

(a) Form 20-F for fiscal 1997;

(b) Form 20-F for fiscal 1998;

(c) Form 20-F for fiscal 1999;

(d) Form 20-F for fiscal 2000;

(e) Form 20-F for fiscal 2001; and

(f) Form 20-F for fiscal 2002.

74. By reason of the foregoing, the defendants violated Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 12b-20 and 13a-1thereunder. [17 C.F.R. §§ 240.12b-20, and 240.13a-1].

THIRD CLAIM
Violations of Sections 13(b)(2)(A) and 13b(2)(B) of the Exchange Act

75. Paragraphs 1 through 67 are realleged and incorporated by reference.

76. Defendants, each having a class of securities registered pursuant to Section 12 of the Exchange Act, in the manner set forth above, failed to:

(a) make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of its assets;

(b) devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that —

(i) transactions are executed in accordance with management's general or specific authorization;

(ii) transactions are recorded as necessary (I) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements, and (II) to maintain accountability for assets;

(iii) access to assets is permitted only in accordance with management's general or specific authorization; and

(iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

77. By reason of the foregoing, Defendants violated Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act. [15 U.S.C. §§78m(b)(2)(A) and 78m(b)(2)B)].

FOURTH CLAIM
Violations of Rule 13b2-1

78. Paragraphs 1 through 67 are realleged and incorporated by reference.

79. Defendants, each having a class of securities registered pursuant to Section 12 of the Exchange Act, in the manner set forth above, directly or indirectly, falsified or caused to be falsified, their books, records and accounts.

80. By reason of the foregoing, Defendants violated Exchange Act Rule 13b2-1[17 C.F.R. § 240.13b2-1].

PRAYER FOR RELIEF

The Commission respectfully requests that the Court:

I.

Find that the Defendants committed the alleged violations.

II.

Enter a final judgment ordering each defendant to pay disgorgement of $1; and ordering the Defendants to pay, jointly and severally, a civil money penalty in the amount of $120,000,000 pursuant to Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

Respectfully submitted,

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