544865

CHAIRMAN'S FOREWORD

Group net income was £5,691 million in 1996, 30% higher than the previous year's record. On an estimated current cost of supplies basis, which excludes the effect of gains and losses from inventory holdings, earnings were £5,303 million, 23% up; 15% up if special items are excluded.

Last year I was confident that changes in organisation and attitude would lead to improved performance. Although we are still at an early stage, the results for 1996 are encouraging - demonstrating how the organisation has driven the change process forward and achieved an excellent financial performance. I believe that we should do even better in the future, and that the Group will continue to deliver growth in shareholder value.

These results were achieved in mixed conditions. The significant increase in Exploration and Production earnings reflects higher oil prices, as well as increased production and lower costs. The rise in Refining and Marketing earnings was largely the result of inventory holding gains - these businesses face continuing tough competition and, in particular, pressure on marketing margins. Chemicals earnings fell in difficult trading conditions.

The Group's financial position remains very strong. Cash flow from operating activities was £10.7 billion, 13% up on 1995. Capital expenditure was £7.0 billion. At year end, cash, cash equivalents and short-term securities amounted to £7.3 billion. Total debt was £7.0 billion.

Return on average capital employed was 13.2%, up from 10.6%. This was satisfactory in itself. It does not mean that we have achieved our objective of a sustainable 12% return when conditions are less favourable. However, I believe that we are on track towards achieving this goal.

Earnings per share rose to 63.8 pence. A final dividend of 22.5 pence per Ordinary share is recommended, bringing the total for the year to 36.9 pence, 11% higher than for 1995. An increase in capitalisation is proposed. If approved, two further Ordinary shares will be issued for each one held.

Looking forward, there are reasons to be optimistic about the world economy. However, business conditions in the developed and developing worlds are diverging. Developing countries are achieving high levels of economic growth, and their energy needs are increasing rapidly. Growth is slower in the industrialised world, and greater energy efficiency may limit increases in consumption. Competitive pressures are intensifying everywhere.

Shell companies have many strengths - people, assets, technologies, organisation, capital, reputation - to help them pursue the opportunities of such a world and meet its challenges as well as its inevitable surprises. Our businesses have made great strides in improving their operational effectiveness and customer service, and have clear strategies for profitable growth.

Most important is the quality of our people - their skills, their creativity, their commitment to improve, their capacity to learn and adapt, and their drive for success. We are enriched by their cultural diversity within our shared corporate values. They are our ambassadors to the world – to our customers, suppliers and contractors, the communities within which we work – and in the societies to which we contribute. I thank them all for their efforts in achieving success.

With increasing globalisation there is, not surprisingly, a growing focus on the roles and responsibilities of multinational enterprises. As the most international of businesses, the petroleum industry is naturally at the centre of this debate and must respond to particular concerns about the environmental impact of its operations and products.

The Group's *Statement of General Business Principles* – first published over 20 years ago – reflects our shared values such as honesty, integrity and respect for people. These principles, which are regularly reviewed, recognise our responsibilities to shareholders, employees, customers and society.

The latest review – which involved widespread consultation – confirms their pertinence but clarifies some aspects. It emphasises procedures designed to ensure that all employees understand and follow these principles, recognising 'that it is vital that our behaviour matches our intentions'.

Shell companies do not participate in party politics. They believe they have the right to speak out on matters affecting their businesses and – where they can make a contribution – the community. They recognise a responsibility to express support for fundamental human rights within their legitimate roles as businesses.

The principles also reflect the commitment which Shell companies make to contribute to sustainable development, as described below. All sectors of society have a role in achieving this goal. However, this involves inevitable trade-offs between different objectives, which concern society as a whole and not just businesses.

I believe that Shell companies stand second to none in the way they seek to fulfil their business responsibilities. We shall continue to do so.

At the end of June this year I shall be retiring as Chairman and, as already announced, the Board has appointed Mr M Moody-Stuart as my successor. Mark Moody-Stuart has been a Managing Director of Shell Transport for six years and, in commending him to you, I would like to take this opportunity of wishing him every success in his new post.

John Jennings

John Jennings, Chairman
March 13, 1997

CONTRIBUTING TO SUSTAINABLE DEVELOPMENT

Sustainable development has been defined as meeting the needs of the present generation without compromising the ability of future generations to meet their own needs. Shell companies support this goal, which they see as a journey of continual but steady change towards a better quality of life for all. They contribute to each of its three inseparable pillars – economic development, environmental protection and social responsibility.

Economic development

As commercial enterprises, Shell companies make their primary contribution by providing essential energy and other products, creating wealth and pursuing technological advance.

Economic development depends on increasing supplies of affordable, convenient and safe energy. For many years the bulk of these must come from fossil fuels. However, alternative energy sources are becoming increasingly competitive, and energy markets are likely to become more varied. There is also potential to achieve much greater energy efficiency. Shell companies are making significant improvements in the resource and energy efficiency of their operations. Some are contributing to the development of commercially viable alternative energy.

Environmental protection

Shell companies systematically pursue continuous improvement in their environmental performance. They do so in accordance with their Health, Safety and Environment commitment and policy – in the context of their particular ecological, social and economic conditions. They also contribute to reducing the impact of the use of their products.

There are still many uncertainties about the impact of increasing atmospheric concentrations of man-made carbon dioxide on global climate. However, there is now sufficient scientific evidence to support taking prudent precautionary action.

Social responsibility

Shell companies are major, long-term investors in developing countries – providing employment, business opportunities and tax revenues. They support the human development, on which these countries' economic progress depends, by helping to develop essential technical, organisational and commercial skills. Many also make a significant contribution to the community through their social programmes.

FINANCIAL HIGHLIGHTS

Earnings and dividends

	1996	1995	1994
	pence per 25p Ordinary share		
Dividends			
Interim	**14.4**	12.9	11.2
Final	**22.5***	20.4	15.9
	36.9	33.3	27.1
Earnings	**63.8**	48.0	45.1
Net assets	**448.8**	461.6	437.6

* Proposed final dividend, subject to approval at the Annual General Meeting of the Company on May 14, 1997. The final dividend will be paid on May 21, 1997 to Members on the Register on April 18, 1997 and to holders of Bearer Warrants who surrender Coupon No. 197.

	1996	1995	1994
	US dollars per New York Share †		
Dividends			
Interim	**1.77**	1.52	1.36
Final	‡	2.31	1.87
	‡	3.83	3.23
Earnings	**5.98**	4.56	4.14
Net assets	**45.64**	42.88	40.96

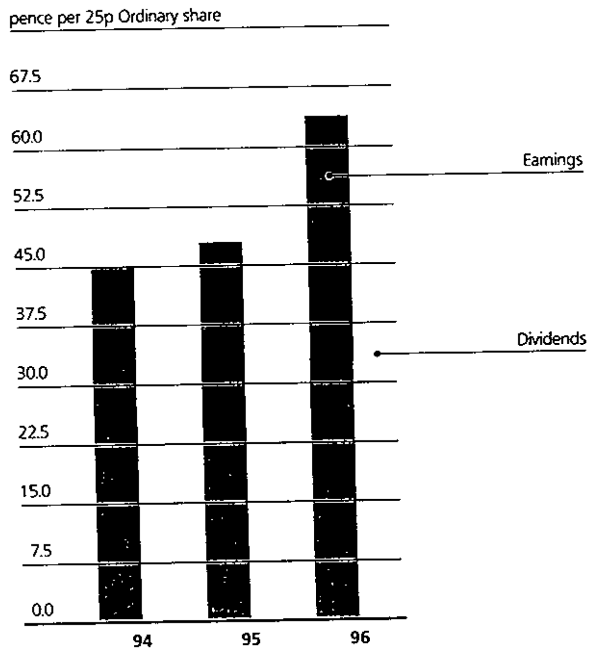
† One New York Share = six 25p Ordinary shares.

The US dollar figures for earnings and net assets are translations of the above sterling amounts (refer to page 59 for details)

Under the current Double Taxation Conventions between the UK and both the USA and Canada, qualifying US and Canadian resident holders of New York Shares receive an amount equal to the imputation tax credit concurrently with their dividend, less a deduction for UK income tax at 15% on the combined amount of the dividend and such tax credit. Amounts shown are US dollar equivalents of the dividend and tax credit at time of payment before deduction of income tax at 15%.

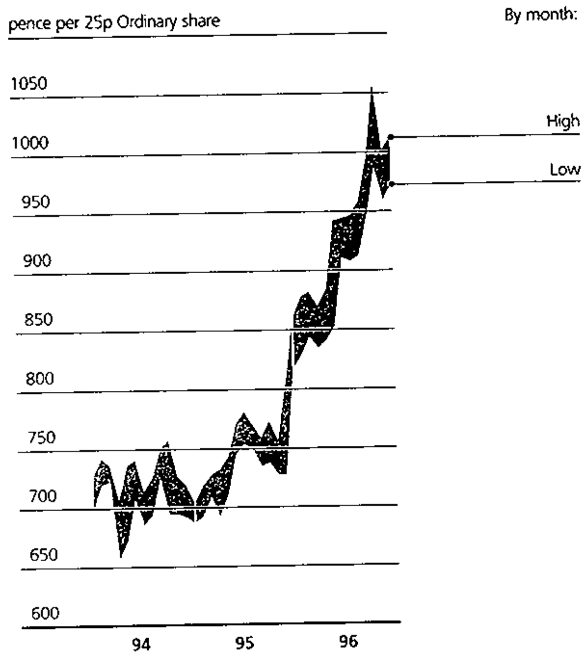
‡ The actual amount to be paid will be determined by the US$/£ exchange rate ruling on May 21, 1997.

Earnings and dividends



Share prices

London Stock Exchange



Share prices

	1996	1995	1994
	London Stock Exchange		
	pence per 25p Ordinary share		
Highest	**1057**	860	758
Lowest	**827**	692	656
Year end	**1012**	852	696
	New York Stock Exchange		
	US dollars per New York Share †		
Highest	**103.13**	82.00	71.75
Lowest	**76.63**	64.25	56.88
Year end	**102.38**	81.38	65.38

\RD OF DIRECTORS

ıaging Directors

John Jennings CBE FRSE Chairman
Born March 30, 1937. A Director and a Managing Director of the Company since 1987 and Chairman since July 1993. A Group Managing Director since 1987.

Mark Moody-Stuart*
Born September 15, 1940. A Director and a Managing Director of the Company and a Group Managing Director since 1991.

:ctors

Sir Antony Acland GCMG GCVO
Born March 12, 1930. A non-executive Director since 1991. Entered Diplomatic Service in 1953. Permanent Under-Secretary of State, Foreign and Commonwealth Office, and Head of the Diplomatic Service 1982-86. H M Ambassador to the USA 1986-91. A Director of Booker plc. Provost of Eton College.

Professor Robert O'Neill AO
Born November 5, 1936. A non-executive Director since 1992. An Australian citizen, served in the Australian army 1955-68. Director of the International Institute for Strategic Studies 1982-87. Chichele Professor of the History of War and a Fellow of All Souls College, Oxford since 1987. Honorary Fellow of Brasenose College, Oxford.

The Lord Armstrong of Ilminster GCB CVO
Born March 30, 1927. A non-executive Director since 1988. Joined Treasury in 1950. Secretary of the Cabinet 1979-87 and Head of Home Civil Service 1981-87. Chairman of Bristol & West Building Society and Biotechnology Investments. A Director of B·A·T Industries, N M Rothschild & Sons, RTZ Corporation and Robeco Group N.V. Chairman of the Trustees of the Victoria and Albert Museum and Chancellor, University of Hull.

Sir Ronald Oxburgh KBE FRS
Born November 2, 1934. A non-executive Director appointed January 10, 1996. Scientific appointments 1960-88. Chief Scientific Adviser, Ministry of Defence 1988-93. Appointed Rector, Imperial College of Science, Technology and Medicine, in 1993.

Sir Peter Holmes MC*
Born September 27, 1932. A Director since 1982. Chairman 1985-93 and a Group Managing Director 1982-93.

Sir William Purves CBE DSO
Born December 27, 1931. A non-executive Director since October, 1993. Joined The Hongkong and Shanghai Bank in 1954 and currently Chairman of HSBC Holdings plc, Midland Bank plc and the British Bank of the Middle East. A Director of The Hongkong and Shanghai Banking Corporation Ltd, Marine Midland Bank and East Asiatic Company Ltd A/S.

* Standing in 1997 for re-election as a Director of the Company.

an

ennings will be retiring from the office of Chairman and Managing of the Company on June 30, 1997, the date of his retirement as a /lanaging Director of the Royal Dutch/Shell Group of Companies. ırd has elected Mr M Moody-Stuart as Chairman with effect from 997.

ə other Directors pay tribute to the significant contribution John s has made to the Board since he was appointed a Director 10 years l particularly since 1993 whilst Chairman. The Board is pleased to hat Mr Jennings will continue to hold office as a Director of npany.

›rs

rent Directors of the Company are shown on page 4; all served as ·s throughout 1996 except Sir Ronald Oxburgh who joined the Board ıary 10, 1996.

. already announced, the Board will recommend to the Annual General g the election of Mr P B Watts as a Director of the Company with rom July 1, 1997. Subject to his election and with effect from the ›ate, it is intended that he be appointed a Managing Director of the ny and shall also become a Group Managing Director. Mr Watts was 1945 and entered Group service in 1969 as a seismologist. He has variety of technical and managerial posts and in 1994 was appointed al Co-ordinator Europe. Since 1996 he has been a member of the ate Centre as Director – Planning, Environment and External Affairs.

ıe Lord Armstrong of Ilminster and Sir Peter Holmes will retire by ı at the Annual General Meeting in accordance with the Articles of ıtion and, being eligible, Sir Peter Holmes will offer himself for re-n. Lord Armstrong, having reached the age of 70, will not be offering f for re-election and will retire at the conclusion of the Annual General ıg to be held on May 14, 1997.

›rd Armstrong has been a non-executive Director of the Company 988 and the Board records sincere appreciation of his services over əriod.

nder the Company's Articles of Association Managing Directors are not ːd to retire by rotation with the other Directors and offer themselves for .tion by the shareholders. This arrangement has been enshrined in the ıny's Articles of Association since incorporation and was until recently :ommon practice. However, many now regard such exemption from ıent by rotation as incompatible with modern principles of full ıtability. As firm supporters of good governance through openness and ıtability the Board does not wish to take issue with the growing body ıion that no member of a public company Board should be exempt he obligation to offer themselves periodically for re-election and in the Managing Directors of Shell Transport will offer themselves for :tion on a regular basis. When the Articles of Association are next ded a provision to this effect will be proposed.

\ccordingly, one of the Managing Directors, Mr M Moody-Stuart, will down at the forthcoming Annual General Meeting and will offer lf for re-election by the shareholders.

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

Activities of the Company

The Company is a holding company which, in conjunction with Royal Dutch Petroleum Company, a Netherlands company, owns, directly or indirectly, investments in the numerous companies constituting the Royal Dutch/Shell Group of Companies and collectively referred to as 'the Group'. Royal Dutch Petroleum Company has a 60% interest in the Group and the Company a 40% interest.

The Company's principal investments are its direct shareholdings in The Shell Petroleum Company Limited, Shell Petroleum N.V. and Shell Petroleum Inc.

These three companies own, directly or indirectly, the investments representing the total Group interests in the other companies of the Group which are engaged in the various branches of the oil, natural gas, chemicals, coal and other businesses throughout the world. The structure of the Group is shown on page 14 and described in Note 6 to the financial statements of the Company.

Having regard to the fact that the Company has no subsidiaries, it is appropriate to draw attention to the Chairman's foreword (pages 1 and 2) and the Discussion and analysis of financial condition and results of operations and other information (pages 17 to 32) concerning Group companies generally which would have had to be included in this Report if such Group companies had been subsidiaries of the Company.

Substantial shareholdings

At March 10, 1997, the only interest in 3% or more of the Company's issued Ordinary share capital notified to the Company was that of Prudential Corporation Group of Companies which held 103,098,969 shares (3.11%).

Corporate Governance

Code of Best Practice

The Directors consider that Shell Transport fully complied with the operative provisions of the Code of Best Practice published by the Committee on the Financial Aspects of Corporate Governance. This statement of compliance has been reviewed by the Company's Auditors, Ernst & Young, and their report to the Board is set out on page 13.

The Directors believe that Shell Transport has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in the financial statements.

The Directors are responsible for, and have reviewed the effectiveness of, Shell Transport's system of internal financial control which is established to provide reasonable assurance of the safeguarding of its assets, the maintenance of proper accounting records and the reliability of financial information. Such a system of control can provide only reasonable and not absolute assurance against material misstatement or loss. Key procedures established which are designed to provide an effective system of internal financial control include segregation of duties and management authorisation and review. In addition, Shell Transport safeguards its 40% interest in the Group, from which it derives virtually the whole of its income, by appointing a number of Directors to the Boards of the Group Holding Companies; and by the appointment of 50% of the membership of the Group Audit Committee.

Audit Committee
ree non-executive Directors of the Company appointed to the Audit Committee are Lord Armstrong, Professor R J O'Neill and liam Purves (Chairman). The three members appointed by the visory Board of Royal Dutch are Mr J M H van Engelshoven, Mr K O Pöhl lr J D Timmer. The Committee reviews the financial reports of the Royal /Shell Group of Companies and considers the Group internal control dures as well as the results of the Auditors' examination of the financial statements.

neration and Succession Review Committee
ree non-executive Directors of the Company appointed to the neration and Succession Review Committee are Sir Antony Acland, Sir Holmes and Sir Ronald Oxburgh. The three members appointed by the visory Board of Royal Dutch are Mr T C Braakman, Mr K V Cassani and C van Wachem (Chairman). The Committee makes recommendations on ms of remuneration with respect to Group Managing Directors and vs matters relating to the succession to the positions of Group ging Directors.
The London Stock Exchange has published 'Best Practice' provisions ding the composition and operation of remuneration committees and emuneration policy, service contracts and compensation payments for tors. The Board of Shell Transport confirms: (i) that the joint Committee's position and operations comply with the Best Practice provisions and at in framing remuneration policy the joint Committee has given full deration to the Best Practice provisions.
The philosophy for remuneration of Group Managing Directors, including e who are also Directors of the Company, is consistent with that for senior agement throughout the Group: to attract and retain high-quality staff at vels and motivate them towards exceptional performance. It seeks to all senior staff with the goals of the Group and its various businesses, with shareholders' interests.
The total remuneration of Managing Directors is reviewed annually. cular attention is given to the relationship between Managing Directors' ies and those of senior managers in the Group. The level and structure of uneration in each country reflects the competitive environment within that try. The level of remuneration is based on scales which are adjusted in ight of both external and internal comparisons. Within these scales idual salaries of Managing Directors are usually progressed over a period ree years from appointment. In 1996 Managing Directors' salary scales e increased by 5%.
Pensions for Managing Directors are reviewed and maintained at a level parable in relative terms to retirement benefits granted to other senior agers in the Group.
Performance-related remuneration is provided in the form of an annual -pensionable bonus with a maximum level of 40% of salary. Bonuses from plan also flow to certain senior managers. The bonus granted is based on ssessment of Group financial and operational performance.
Longer-term incentives for Managing Directors together with senior agers throughout the Group are provided through Group Stock Option s which have been in operation since 1967. It is believed that these emes provide an effective method of aligning the interests of Group senior agers, including Managing Directors, with those of shareholders.
Consideration is given on an individual basis to the granting of options each year.
Details of the total remuneration and benefits of each Director are set out in Note 9 on pages 11 and 12.

Directors Nomination Committee
All Directors are members of the Directors Nomination Committee. The Committee is responsible for approving all nominations to the Board for new appointments or reappointments of non-executive Directors.

Directors' share interests in the Company
These interests, as set out in the table below, include any interests of a spouse or infant child and are all beneficial.

	January 1, 1996	December 31, 1996
		25p Ordinary shares
Mr J S Jennings	23,400	23,400
Mr M Moody-Stuart	10,000	60,000
Sir Antony Acland	2,000	2,000
Lord Armstrong	2,500	2,500
Sir Peter Holmes	18,210	20,256
Professor R J O'Neill	2,217	2,317
Sir Ronald Oxburgh	-*	955
Sir William Purves	1,000	1,000

*at date of appointment January 10, 1996

No Director had an interest in either of the two classes of Preference shares during the year.
There were no changes in the above interests during the period from December 31, 1996 to March 10, 1997.

Share options
Certain Group companies have option plans, the operation of which during 1996 is summarised in Note 23 to the Group financial statements on page 53. The Shell Petroleum Company Limited and Shell Petroleum N.V. are two of the companies with such plans for executives, the shares involved being those of the Company and Royal Dutch.
The Shell Petroleum Company Limited also operates a savings-related share option scheme which has been approved by the Inland Revenue under the Income and Corporation Taxes Act 1988. Under this scheme options over shares in the Company are granted to employees of UK Group companies at prices not less than the market value of the shares on a date not more than 30 days before the date of grant of the option and are normally exercisable after completion of either a five years' or a three years' (from 1997) contractual savings period.
No issue of new shares is involved under any of the plans or schemes mentioned above.
Details of Directors' interests in options relating to Shell Transport shares are set out in Note 9 on page 12.

ɔr payment policy

ry Regulations issued under the Companies Act 1985 require a public ıy to make a statement of its policy on the payment of trade creditors. ılding company with no business other than the holding of shares in ıies of the Royal Dutch/Shell Group, the Company has no trade 's but for the information of shareholders the statement that will in the Directors' Report for 1996 of Shell U.K. Limited, the principal ng company of the Group in the United Kingdom, will confirm that K. complies with the CBI's Prompt Payers Code of Good Practice.

ial statements and dividends

ancial statements of the Company appear on pages 8 to 12. Earnings year amounted to £2,115.2 million, of which £1,129.0 million is le for distribution and £986.2 million represents the Company's share ıings retained by companies of the Royal Dutch/Shell Group.

n November 4, 1996, an interim dividend of 14.4p per Ordinary share ıid.

ıe Directors have decided to recommend a final dividend for 1996 ;p per Ordinary share which would make 36.9p per share for the ubject to approval at the Annual General Meeting, this will be paid on 1, 1997 to Members on the Register on April 18, 1997 and to holders rer Warrants who surrender Coupon No. 197.

alisation issue

rectors recommend that the Ordinary share capital of the Company l be increased to £2,500 million and a capitalisation issue made to ıry shareholders on the basis of two new shares for each existing share. solutions necessary to give effect to these recommendations are set the Notice of the Annual General Meeting convened for May 14, 1997. ɛr from the Chairman giving the background to the capitalisation sals also accompanies this Annual Report.

:ors

& Young are not seeking reappointment as Auditors of the Company v of discussions presently taking place concerning the prospect of ɔroviding in the future certain other services to companies of the Royal /Shell Group.

'rice Waterhouse have signified their willingness to act as Auditors of ɔmpany. Accordingly, a resolution to appoint Price Waterhouse as ɔrs will be submitted to the Annual General Meeting.

der of the Board
'**unsiff,** Secretary
ı 13, 1997

IANCIAL STATEMENTS OF THE "SHELL" TRANSPORT AND TRADING COMPANY, p.l.c.

fit and Loss Account

	1996	1995	1994
			£ million
ne from shares in companies of			
oyal Dutch/Shell Group (Note 3)	**1,121.9**	1,099.4	919.8
est and other income	**14.4**	14.0	9.4
	1,136.3	1,113.4	929.2
nistrative expenses	**3.9**	3.8	3.6
	1,132.4	1,109.6	925.6
n profit on ordinary activities (Note 4)	**3.4**	3.3	1.9
ibutable profit for the year	**1,129.0**	1,106.3	923.7
Share of earnings retained by companies of			
the Royal Dutch/Shell Group (Note 3)	**986.2**	485.7	570.1
Earnings for the year			
attributable to shareholders	**2,115.2**	1,592.0	1,493.8

itement of retained profit

	1996	1995	1994
			£ million
ibutable profit for the year	**1,129.0**	1,106.3	923.7
ibutable retained profit at			
nning of year	**112.3**	110.3	85.4
	1,241.3	1,216.6	1,009.1
uct Dividends on non-equity shares (Note 5)			
First Preference shares	**0.1**	0.1	0.1
Second Preference shares	**0.5**	0.5	0.5
	0.6	0.6	0.6
	1,240.7	1,216.0	1,008.5
uct Dividends on equity shares; 25p Ordinary shares			
Interim of 14.4p in 1996, 12.9p in 1995			
and 11.2p in 1994	**477.3**	427.6	371.2
Proposed final of 22.5p in 1996, final			
of 20.4p in 1995 and 15.9p in 1994	**745.8**	676.1	527.0
	1,223.1	1,103.7	898.2
tributable retained profit at end of year	**17.6**	112.3	110.3

	1996	1995	1994
			pence
nings per 25p Ordinary share			
3,314,503,242 shares in issue			
tributable profit for the year	**34.0**	33.4	27.9
re of earnings retained by companies of			
Royal Dutch/Shell Group	**29.8**	14.6	17.2
nings for the year attributable to shareholders	**63.8**	48.0	45.1

he earnings per share amounts shown above, which are disclosed in accordance with Financial orting Standard No. 3, those relating to earnings for the year attributable to shareholders are, in the ion of the Directors, the most meaningful since they reflect the full entitlement of the Company in income of Group companies.

Balance Sheet

		December 31, 1996	December 31, 1995
			£ million
Fixed assets			
Investments	Shares (unlisted) in		
	companies of the Royal		
	Dutch/Shell Group (Note 6)	**14,870.6**	15,188.1
Current assets			
Debtors	Dividends receivable from		
	companies of the		
	Royal Dutch/Shell Group	**633.7**	656.6
	Other debtors	**3.4**	3.5
Cash at bank	Short-term deposits	**254.0**	249.3
	Cash	**6.3**	0.7
		897.4	910.1
Creditors: amounts due within one year			
	Amounts due to companies of		
	the Royal Dutch/Shell Group	**123.6**	111.8
	Corporation tax	**4.1**	4.3
	Unclaimed dividends	**5.9**	5.5
	Other creditors and accruals	**1.9**	1.6
	Preference dividends accrued	**0.2**	0.2
	Ordinary dividend proposed	**745.8**	676.1
		881.5	799.5
Net current assets		**15.9**	110.6
Total assets less current liabilities		**14,886.5**	15,298.7
Capital and reserves			
Equity interests:			
Called-up share capital (Note 7)			
	Ordinary shares	**828.6**	828.6
Revaluation reserve – Investment (Notes 3 and 6)		**14,028.3**	14,345.8
Profit and loss account		**17.6**	112.3
		14,874.5	15,286.7
Non-equity interests:			
Called-up share capital (Note 7)			
	First Preference shares	**2.0**	2.0
	Second Preference shares	**10.0**	10.0
		12.0	12.0
Shareholders' funds		**14,886.5**	15,298.7

John Jennings, Chairman and Managing Director
March 13, 1997

ment of total recognised gains and losses

	1996	1995	1994
			£ million
able profit for the year	**1,129.0**	1,106.3	923.7
ed surplus/(deficit) on revaluation of			
ents in companies of			
il Dutch/Shell Group (Note 6)	**(317.5)**	792.9	451.6
ecognised gains and losses			
to the year	**811.5**	1,899.2	1,375.3

ment of cash flows

	1996	1995	1994
			£ million
s on investments and servicing			
nce			
ds received from companies of			
al Dutch/Shell Group	**1,144.8**	972.6	859.5
received	**14.4**	14.6	8.0
ds paid: Preference shares	**(0.6)**	(0.6)	(0.6)
	(3.1)	(4.0)	(3.3)
sh inflow/(outflow) from returns			
estments and servicing of finance	**1,155.5**	982.6	863.6
on			
poration tax (paid)/recovered	**(3.6)**	(1.4)	(1.3)
dividends paid			
ry shares	**(1,153.4)**	(954.6)	(828.6)
gement of liquid resources (short-term deposits)			
sh inflow/(outflow) from management			
id resources	**(4.7)**	(44.3)	(40.0)
cing			
crease/(decrease) in amounts due to			
nies of the Royal Dutch/Shell Group	**11.8**	13.0	7.4
ise/(Decrease) in cash	**5.6**	(4.7)	1.1
it January 1	**0.7**	5.4	4.3
it December 31	**6.3**	0.7	5.4

lebt, being amounts due to companies of the Royal Dutch/Shell Group cash, increased during 1996 from £111.1 million to £117.3 million.

Notes to financial statements

1 Accounting policies and convention

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

The financial statements on pages 8 to 12 herein have been prepared in accordance with the Companies Act 1985 and with applicable accounting standards apart from the matter described in Note 3. They have been prepared under the historical cost convention modified by the revaluation of the investments in companies of the Royal Dutch/Shell Group (see Note 6).

2 The Company

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

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

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

3 Share in the income of Group companies

Shell Transport's share in the net income of Group companies of £5,690.9 million, £4,375.2 million and £4,069.6 million for the years 1996, 1995 and 1994 respectively, is as follows:

	1996	1995	1994
			£ million
Distributions from Group companies			
and imputation tax credits referable thereto	**1,402.3**	1,374.3	1,149.7
deduct Imputation tax credits	**280.4**	274.9	229.9
Distributions from Group companies	**1,121.9**	1,099.4	919.8
Share of earnings retained by Group companies			
out of net income (and reflected in the movements			
in the Investment reserve – Note 6)	**986.2**	485.7	570.1
	2,108.1	1,585.1	1,489.9

ɔ companies' net income is arrived at after deducting Group and .iated companies' tax and minority interests. Shell Transport's share in deductions amounted, in the case of taxation, to £2,001.8 million in , £1,394.1 million in 1995 and £992.6 million in 1994, and for minority ›sts to £68.2 million in 1996, £46.6 million in 1995 and £30.2 million 94. The share of income before these deductions was £4,178.1 million 96, £3,025.8 million in 1995 and £2,512.7 million in 1994.

The income and net assets of the companies of the Group have been lated in conformity with the accounting policies described on pages 39 and are shown on pages 36 and 37 of the Group financial statements. ɜ policies differ in certain respects from accounting principles generally ɔted in the United Kingdom, notably in respect of the provision for red taxation. Provision for deferred taxation in the Group financial ments is made using the comprehensive liability method rather than by ɜnce only to the amounts considered to become payable within the eeable future as required by Statement of Standard Accounting Practice P) No. 15.

Having regard to the arrangements between Shell Transport and Royal h (see Note 2), it is the opinion of the Directors that it would have been ›ading for Shell Transport to account for an income entitlement and .tment other than that stated in the financial statements of the Group. rdingly, no adjustments have been made by Shell Transport as required by › No. 1, Accounting for Associated Companies, to restate its share in the ne of and its investments in the companies of the Group so as to accord accounting principles generally accepted in the United Kingdom.

ax on profit on ordinary activities

	1996	1995	1994
			£ million
ɔration tax at 33% in respect of interest income			
ıdministrative expenses	**3.4**	3.3	1.9

axation liability arises in respect of income from shares in companies of Group as this income consists of distributions from a UK resident company :h are not subject to taxation.

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

›reference dividends

Jends on the First and Second Preference shares were formerly at the s amounts of 5½% and 7% respectively. Under the Finance Act 1972, as irmed by the Finance Act 1976, the dividend rights were reduced to ı% and 4.90% respectively. The tax credits normally available to eholders for the two classes of Preference shares were equivalent to ȝ% and 1.63% respectively for dividend payments made between January 992 and April 5, 1993, and 0.96% and 1.22% respectively for payments r April 6, 1993.

ınvestments in Group companies

l Transport has 40% equity shareholdings in The Shell Petroleum Company ted which is registered in England and Wales (consisting of the whole of 02,342,930 issued 'B' shares of £1 each) and in Shell Petroleum N.V. which is incorporated in the Netherlands (consisting of the whole of its 44 issued 'B' shares of N.fl. 5,000,000 each). The remaining 60% equity shareholdings in these two companies (consisting of 153,514,395 'A' shares of £1 each of The Shell Petroleum Company Limited and 66 'A' shares of N.fl. 5,000,000 each of Shell Petroleum N.V.) are held by Royal Dutch.

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

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

Having regard to the arrangements between Shell Transport and Royal Dutch (see Note 2), the investments of Shell Transport in Group companies are stated at the Directors' valuation at an amount equivalent to Shell Transport's 40% interest in the Group net assets.

This valuation comprises the following:

	1996	1995
		£ million
Cost of Shell Transport's investments in Group companies	**178.4**	178.4
Shell Transport's share of:		
Profits capitalised by Group companies	**785.0**	783.2
Earnings retained by Group companies	**13,393.8**	12,409.4
Group currency translation differences		
(arising on aggregation)	**513.4**	1,817.1
	14,870.6	15,188.1

The difference between the cost and the amount at which the investments are stated in the Balance Sheet has been taken to Revaluation reserve.

The movements in the Revaluation reserve – Investment are represented by:

	1996	1995
		£ million
As at January 1	**14,345.8**	13,552.9
Share of earnings retained by Group companies		
out of net income	**986.2**	485.7
Share of Group currency translation differences		
for the year	**(1,303.7)**	307.2
	(317.5)	792.9
As at December 31	**14,028.3**	14,345.8

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

The Company will continue to hold its investments in Group companies. However, as the investments are stated in the Balance Sheet on a valuation basis, it is necessary to report that, if the investments were to be disposed of for the amount stated, a taxation liability of approximately £1,522 million would arise (1995: £1,710 million).

re capital

mber 31, 1996, the share capital of the Company was:

	Authorised	Allotted, called-up and fully paid
		£
ares		
shares of 25p each	900,000,000	828,625,811
ty shares		
erence shares of £1 each	3,000,000	2,000,000
reference shares of £1 each	10,000,000	10,000,000
	13,000,000	12,000,000
	913,000,000	840,625,811

nd Second Preference shares confer on the holders the right to a fixed cumulative dividend n priority to Ordinary shares but do not have any further rights of participation in the profits or he Company.

ditors' remuneration

ees of Shell Transport amounted to £9,811 in 1996, £9,635 in 1995 518 in 1994. Other fees amounted to £3,678 in 1996, £3,584 in 1995 108 in 1994.

ectors' emoluments

oluments of the current Managing Directors of Shell Transport were:

	1996	1995	1994
			£
Jennings (Chairman)			
and fees			
Director	**40,000**	40,000	40,000
er services	**496,322**	470,776	447,243
	17,381	14,543	9,613
ance-related element	**124,000**	95,600	66,750
contributions	**–**	–	–
	677,703	620,919	563,606
Moody-Stuart			
and fees			
a Director	**20,000**	20,000	20,000
er services	**393,627**	383,276	390,706
s	**–**	–	–
nance-related element	**96,375**	77,100	56,025
contributions	**–**	–	16,387
	510,002	480,376	483,118

The emoluments of the other Directors of Shell Transport in office during 1996 were:

	1996	1995	1994
			£
Sir Antony Acland			
Director's fees	**20,000**	20,000	20,000
Committee fees	**3,750**	3,750	3,750
	23,750	23,750	23,750
Lord Armstrong			
Director's fees	**20,000**	20,000	20,000
Committee fees	**3,750**	3,750	3,750
	23,750	23,750	23,750
Sir Peter Holmes			
Director's fees	**20,000**	20,000	20,000
Committee fees	**3,750**	1,875	–
Holding company fees	**21,160**	21,765	20,655
Pensions	**24,687**	23,939	23,347
	69,597	67,579	64,002
Professor R J O'Neill			
Director's fees	**20,000**	20,000	20,000
Committee fees	**5,625**	5,625	1,875
	25,625	25,625	21,875
Sir Ronald Oxburgh			
Director's fees	**19,516**	–	–
Committee fees	**1,875**	–	–
	21,391	–	–
Sir William Purves			
Director's fees	**20,000**	20,000	20,000
Committee fees	**4,675**	3,750	1,875
	24,675	23,750	21,875
Directors' total emoluments			
Salaries and fees			
in respect of services as Directors	**224,101**	226,846	293,869
in respect of other services	**907,330**	868,595	847,562
Performance-related element			
in respect of other services	**220,375**	172,700	122,775
	1,351,806	1,268,141	1,264,206
Pension contributions			
in respect of other services	**–**	–	16,387
	1,351,806	1,268,141	1,280,593
Directors' and past Directors' pensions			
in respect of other services	**390,600**	382,445	379,429

Of the emoluments and pensions shown above £202,941 in 1996, £195,317 in 1995 and £242,316 in 1994 were borne by Shell Transport and charged in the Profit and Loss Account.

ions/Retirement Benefits

rincipal sources of Managing Directors' pensions are the Shell ibutory Pension Fund (for service in the UK) and the Shell Overseas ibutory Pension Fund (for previous service overseas). Both Funds are ed benefit plans. Managing Directors contribute 4% of relevant earnings. ses are not pensionable. Managing Directors retire on June 30 following 60th birthday. The maximum pension is two-thirds of their remuneration ding bonuses. There are also provisions, as for all members of the above s, for a surviving dependant's benefit of two-thirds actual or prospective on, and a lump sum death in service benefit of three times salary.

The employing companies contribute to the Funds on the advice of ries. For the Shell Contributory Pension Fund, no contributions have been ed during the last few years.

Details of accrued benefits to date are shown below:

	Age as at 31.12.96	Years of Group service as at 31.12.96	Annual pension earned during 1996 £000	Total annual pension as at 31.12.96 £000
Jennings	59	38	16	347
Moody-Stuart	56	33	13	270

e options

Interests of the Directors under all the stock option plans of Group panies are shown below:

	Number of options At 1.1.96	During the year Granted	Exercised	At 31.12.96	Exercise price	Market price at date of exercise	Expiry date
S Jennings							
	108,000	–	108,000	–	546p	962p	10.12.97
	150,000	–	–	150,000	695p	–	8.12.98
	150,000	–	–	150,000	681p	–	14.12.99
	158,000	–	–	158,000	860p	–	13.12.00
Moody-Stuart							
	108,000	–	108,000	–	483p	1003p	12.12.96
	108,000	–	–	108,000	546p	–	10.12.97
	108,000	–	–	108,000	695p	–	8.12.98
	108,000	–	–	108,000	681p	–	14.12.99
	111,000	–	–	111,000	860p	–	13.12.00
	–	111,000	–	111,000	978p	–	11.12.01
ls	1,109,000	111,000	216,000	1,004,000			

he above options relate to Shell Transport Ordinary shares. No options ed during the year. All options are exercisable from grant at market price discount) at that time. The middle market price of the Ordinary shares on ember 31, 1996 was 1011.5p and the price range during the year was p to 1057p.

There were no changes in the above interests in options during the od from December 31, 1996 to March 10, 1997.

The number of Directors, including the Chairman, whose emoluments, excluding pensions and pension contributions, fell within the prescribed ranges was:

	1996	1995	1994
£5,001 to £10,000	–	1	1
£15,001 to £20,000	–	1	–
£20,001 to £25,000	4	3	6
£25,001 to £30,000	1	1	–
£40,001 to £45,000	1	1	1
£45,001 to £50,000	–	–	1
£465,001 to £470,000	–	–	1
£480,001 to £485,000	–	1	–
£510,001 to £515,000	1	–	–
£560,001 to £565,000	–	–	1
£620,001 to £625,000	–	1	–
£675,001 to £680,000	1	–	–

Notes

1 There were two Managing Directors throughout 1994, 1995 and 1996. Mr J S Jennings was Chairman and the highest paid Director in each of these years.

2 Pension contributions: Salaries/fees payable to Managing Directors, totalling £771,500 in 1996, £730,750 in 1995 and £714,000 in 1994, count for pension purposes in the Shell Contributory Pension Fund. The payment of employers' contributions to the Fund, which is open to United Kingdom employees of the member companies, has been suspended since January 1, 1990 because of the financial position of the Fund.

3 For share options exercised by Directors during 1996 the difference between the market value of the shares on the date of exercise and the consideration due on those shares was in aggregate:

Mr J S Jennings	£449,280
Mr M Moody-Stuart	£561,600
	£1,010,880

Note: The above figures take no account of whether or not the Director immediately sold the shares; the gains would be reduced by income tax and expenses.

...TORS' RESPONSIBILITIES

...ect of the preparation of financial statements

...npanies Act 1985 requires the Directors to prepare accounts for each ... year which give a true and fair view of the state of affairs of the ...y and of the profit or loss of the Company for that period. In ...g those accounts, the Directors are required to:
...t suitable accounting policies and then apply them consistently;
...e judgements and estimates that are reasonable and prudent;
... whether applicable accounting standards have been followed, subject ...y material departures disclosed and explained in the accounts; and
...are the accounts on the going concern basis unless it is inappropriate ...resume that the Company will continue in business.

...ectors are responsible for keeping proper accounting records which ... with reasonable accuracy at any time the financial position of the ...y and to enable them to ensure that the accounts comply with the ...ies Act 1985. They are also responsible for safeguarding the assets of ...npany and hence for taking reasonable steps for the prevention and ...n of fraud and other irregularities.

...RTS OF THE AUDITORS

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

...e audited the financial statements on pages 8 to 12, which have ...repared under the historical cost convention as modified by the ...ition of the investments in companies of the Royal Dutch/Shell Group ... the basis of the accounting policies set out on page 9.

...ctive responsibilities of Directors and Auditors

...cribed above the Company's Directors are responsible for the ...ation of the financial statements. It is our responsibility to form an ...ndent opinion, based on our audit, on those statements and to ... our opinion to you.

...of opinion

...nducted our audit in accordance with Auditing Standards issued by ...diting Practices Board. An audit includes examination, on a test basis, ...ence relevant to the amounts and disclosures in the financial ...ents. It also includes an assessment of the significant estimates ...dgements made by the Directors in the preparation of the financial ...ents, and of whether the accounting policies are appropriate to the ...ny's circumstances, consistently applied and adequately disclosed.

... planned and performed our audit so as to obtain all the information ...planations which we considered necessary in order to provide us with ...ent evidence to give reasonable assurance that the financial statements ...e of material misstatement, whether caused by fraud or other ...larity or error. In forming our opinion we also evaluated the overall ...acy of the presentation of information in the financial statements.

...on

... opinion the financial statements give a true and fair view of the state ...irs of the Company as at December 31, 1996, and of its profit for the ...hen ended and have been properly prepared in accordance with the ...anies Act 1985.

...st & Young

... & Young, Chartered Accountants
...ered Auditor, London, March 13, 1997

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

In addition to our audit of the financial statements we have reviewed the Directors' statement on page 5 concerning the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to any non-compliance with Listing Rules 12.43(j) and 12.43(v).

We carried out our review in accordance with guidance issued by the Auditing Practices Board, and assessed whether the Directors' statements on going concern and internal financial control are consistent with the information of which we are aware from our audit. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures nor on the ability of the Company to continue in operational existence.

Opinion

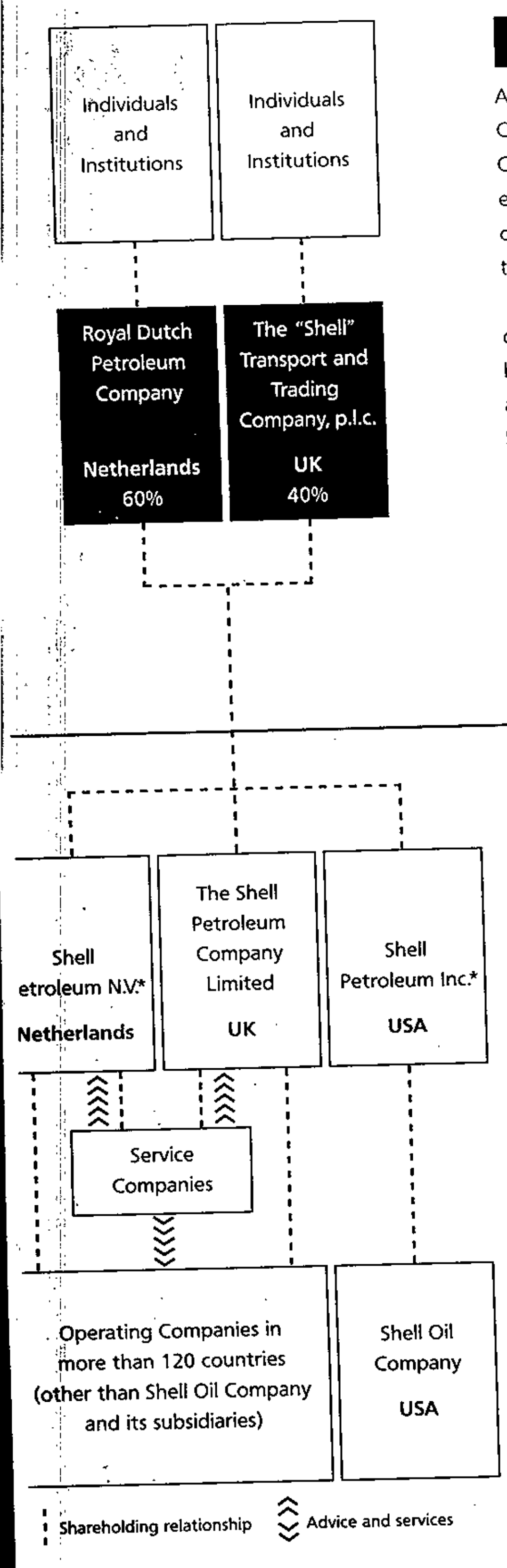
With respect to the Directors' statements on internal financial control and going concern on page 5, in our opinion the Directors have provided the disclosures required by the Listing Rules referred to above and such statements are consistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain Directors and Officers of the Company, and examination of relevant documents, in our opinion the Directors' statement on page 5 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review by Listing Rule 12.43(j).

Ernst & Young

Ernst & Young, Chartered Accountants
London, March 13, 1997

ꞮUCTURE OF THE ROYAL DUTCH/SHELL GROUP



ell Petroleum N.V. holds equity shares in Shell Petroleum Inc. :h are non-controlling but entitle it to the dividend flow from · company.

Parent Companies

As Parent Companies, Royal Dutch Petroleum Company and The "Shell" Transport and Trading Company, p.l.c. do not themselves directly engage in operational activities. They are public companies, one domiciled in the Netherlands, the other in the United Kingdom.

The Parent Companies directly or indirectly own the shares in the Group Holding Companies but are not themselves part of the Group. They appoint Directors to the Boards of the Group Holding Companies, from which they receive income in the form of dividends.

Shareholdings

There are some 295,000 shareholders of Royal Dutch and some 270,000 of Shell Transport.

Shares of one or both companies are listed and traded on stock exchanges in eight European countries and in the USA.

The estimated geographical distribution of shareholdings at the end of 1996 was:

	Royal Dutch	Shell Transport	Combined
	%	%	%
United Kingdom	1	96	39
USA	43	4	27
Netherlands	41	*	25
Switzerland	9	*	5
France	3	*	2
Germany	1	*	1
Luxembourg	1	*	1
Belgium	1	*	*
Others	*	*	*

* Less than 1%.

Royal Dutch/Shell Group of Companies

Group Holding Companies

Shell Petroleum N.V. and The Shell Petroleum Company Limited between them hold all the shares in the Service Companies and, directly or indirectly, all Group interests in the Operating Companies other than those held by Shell Petroleum Inc.

Service Companies

Shell International B.V.
Shell International Limited
Shell International Exploration and Production B.V.
Shell International Petroleum Company Limited
Shell International Chemicals B.V.
Shell International Chemicals Limited
Shell Internationale Research Maatschappij B.V.
Shell International Oil Products B.V.
Shell International Trading and Shipping Company Limited
Shell International Gas Limited
Shell Coal International Limited

The main business of the Service Companies is to provide advice and services to other Group and associated companies, excluding Shell Petroleum Inc. and its subsidiaries. The Service Companies are variously located in the Netherlands or the United Kingdom.

Operating Companies

Operating Companies are engaged in various branches of the oil and natural gas, chemicals, coal and other businesses throughout the world (see page 16). 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.

ɔup Managing Directors are *(left to right)*: **S L Miller, M A van den Bergh, J S Jennings, C A J Herkströter, M Moody-Stuart.**

UP MANAGING DIRECTORS

ɜmbers of the Board of Management of)utch and the Managing Directors of Shell ɔrt are also members of the Presidium of ɜrd of Directors of Shell Petroleum N.V., jing Directors of The Shell Petroleum ıny Limited and Directors of Shell Petroleum e Group Holding Companies). As such, they nerally known as 'Group Managing Directors'. ıey are also appointed by the Boards of Shell ·um N.V. and The Shell Petroleum Company ɟ to a joint committee known as the ittee of Managing Directors, which considers ɜvelops objectives and long-term plans. The ıan of this Committee is Mr C A J Herkströter e Vice-Chairman Mr J S Jennings. A van den Bergh is also Director of Finance.

PRINCIPAL EXECUTIVES OF THE SERVICE COMPANIES

Corporate Centre

R M Cox[1] Group Controller
P D S Hadfield Director – Human Resources
S M G Hodge Group Treasurer
C J Knight Director – Corporate Advice Unit
J H Schraven Director – Legal
P B Watts Director – Planning, Environment and External Affairs

Exploration and Production

J A Colligan Director – Regional Business Asia-Pacific and South America
H G Dijkgraaf[2] Director – Strategy and Business Services
A J Parsley Director – New Business Development
H J M Roels Director – Regional Business Middle East and Africa
R M Sprague[3] Director – Regional Business Europe
T N Warren Director – Research and Technical Services

Oil Products

W A Loader Director – South Zone
G J van Luijk Director – Research and Technical Services
P D Skinner Director – Strategy and Business Services
L E Sloan Director – East Zone
P G Turberville[4] Director – Europe Zone
R Walvis President and Managing Director – Shell International Trading and Shipping Company Limited

Chemicals

J W Dawson Director – Specialities
G M Ferris Director – Petrochemicals outside Europe
E Henkes Director – Strategy and Business Services
J-P Meurin President – Shell Chemicals Europe Limited
B Stouthamer Director – Research and Technical Services

Gas and Coal

W van de Vijver[5] Chief Executive – Shell International Gas Limited, Shell Coal International Limited

:ox succeeded J A de Kreij as Group Controller in March 1997.
)ijkgraaf succeeded R M Sprague as Director in March 1997.
ɩprague succeeded C E Fay as Director in January 1997
4. P G Turberville took up the position of Director in February 1997.
5. W van de Vijver succeeded H G Dijkgraaf as Chief Executive in March 1997

COUNTRIES OF OPERATIONS

The countries throughout the world in which the Royal Dutch/Shell Group of Companies has operations are listed below. The nature of the operations carried out in each country is indicated by letters against its name as shown in the key opposite.

Key

E Exploration – oil/gas
P Production – oil/gas
R Refining
M Marketing – oil products/chemicals
N Natural gas
C Chemicals – manufacturing
O Other business interests

Western Europe

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

CIS, Central and Eastern Europe

Albania E
Bulgaria M
Croatia M
Czech Republic R M
Estonia M
Hungary M
Kazakhstan E
Latvia M
Lithuania M
Poland M
Romania E M
Russia P M N
Slovakia M
Slovenia M

Africa

Angola E M
Botswana M
Burkina Faso M
Cameroon E P M
Cape Verde M
Chad E M
Congo E O
Côte d'Ivoire E M
Djibouti M
Egypt E P M N
Eritrea M
Ethiopia M
Gabon E P M
The Gambia M
Ghana M
Guinea M
Kenya R M
Lesotho M
Mali M
Mauritius M
Morocco M
Namibia E M
Niger M
Nigeria E P M N
Réunion M
Senegal E M
Somalia E
South Africa R M C O
Sudan M
Swaziland M
Togo M
Tunisia M
Uganda M
Zaire P M
Zimbabwe M

Middle East and South Asia

India E M
Jordan M
Oman E P M N
Pakistan E R M
Saudi Arabia R M C
Sri Lanka M
Syria E P N
Turkey R M
United Arab Emirates E P M N
Yemen E P M

Asia-Pacific

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

Western Hemisphere

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

EXPLORATION AND PRODUCTION

There are Group Exploration and Production activities in some 45 countries – with production in 28. Of these, the United States, the United Kingdom, Oman and Nigeria are the biggest producers.

Albania: Exploration proceeded in two onshore blocks.

Angola: Exploration of two offshore blocks continued with the drilling of two wells. A 50% interest was acquired in a further deep-water block.

Argentina: Exploration continued in the offshore Colorado basin.

Australia: Further acreage was obtained in the Timor Sea. Gas reserves in the Perseus field, in the North West Shelf, were substantially increased following appraisal drilling.

Canada: Additional leases were obtained in the Athabasca oil sands in northern Alberta; commercial development options are being studied. Planning continued for the development of the Sable natural gas field, offshore Nova Scotia.

Chad: A Memorandum of Understanding was signed for the proposed development of extensive oil reserves in the Doba Basin in southern Chad. If approved, the project will include a 1,000-kilometre pipeline through Cameroon to the Atlantic coast.

China: Shell's share of production from offshore Xijiang fields in the South China Sea rose from 15,000 b/d to 28,000 b/d. Exploration licences were awarded for an offshore block next to Xijiang and an onshore block in the Bohai basin, in north-eastern China.

Congo: A new deep-water block was acquired.

Côte d'Ivoire: An exploration licence was obtained for the deep-water Entente block.

Denmark: Record oil and gas production was achieved, and two new offshore fields were brought into production.

Egypt: An exploration licence was awarded for the Matruh block, substantially offshore. A gas sales agreement was signed for the Obaiyed field in the Western Desert.

Falklands: An exploration licence was obtained in the islands' first offshore bidding round.

Gabon: The Ineka exploration permit – north-west of the Rabi field – was obtained.

Germany: Record gas production was achieved.

India: Exploration continued in Rajasthan.

Indonesia: Following encouraging seismic results, development studies began for the Kepodang gas field, offshore eastern Java. Exploration continued offshore north-east Kalimantan.

Kazakhstan: The world's largest seismic survey was completed in the Kazakh sector of the Caspian Sea. An interest was obtained in an exploration venture in northern Kazakhstan. A joint venture with a Russian company, Rosneft, was established to participate in a consortium formed to build and operate an oil pipeline from western Kazakhstan through the Russian Federation to the Black Sea.

Malaysia: A production-sharing contract was signed for the SK-E block located, in waters as deep as 2,000 metres, off Sarawak's prolific Baram Delta. The M1 gas field was brought on stream for the LNG-Dua development – the second of 11 offshore gas fields to be developed. A new production-sharing contract guarantees a supply of gas to the LNG plant until 2020.

Namibia: A successful exploratory appraisal well was drilled in the offshore Kudu gas field.

Netherlands: An exploration well drilled from Lauwersoog in Groningen found gas underneath the Waddenzee. It was announced that the Slochteren gas field would be renovated.

New Zealand: A floating production, storage and offtake vessel (FPSO) was commissioned in the Maui field near New Plymouth (North Island).

Nigeria: Construction of facilities to supply gas to the Bonny Island LNG plant started – 40% of the supply from Shell operations will be associated gas, which is produced with oil, substantially reducing gas flaring. Environmental work included upgrading facilities, replacing flowlines and restoring sites. Improved community relations reduced oil loss from disruptions by 80%. Over 200 community assistance projects were completed. A second deep-water exploration well was started.

Norway: The completed Troll facilities were officially opened by King Harald of Norway. Gas began flowing from the onshore processing plant at Kollsnes, near Bergen, to customers in six European countries. Interests were obtained in several further offshore licences.

Oman: Agreement was reached to supply gas from fields in central Oman to an LNG plant, which is now under construction with an expected completion around 2000.

Pakistan: An exploration well was drilled in the onshore Kirthar block, and a second well was started at the same location.

Peru: Work began on appraising the major Camisea gas reserves in Cuzco department. The proposed development plan involves piping natural gas and condensates over the Andes to Lima.

Romania: Three exploration wells were drilled in the Transylvania region.

Russia: A joint venture was formed to develop the Salym oil fields in west Siberia. The Russian authorities were notified of a commencement date for the production-sharing contract for oil and gas field developments offshore Sakhalin Island.

Ukraine: Four exploration blocks were acquired in the Ukrainian sector of the Black Sea.

United Kingdom: The Guillemot and Teal fields were brought into production using the *Anasuria*, the largest FPSO in the North Sea. First gas was delivered from the Schooner field. Brent Charlie platform resumed production – the second of the three platforms to be upgraded as part of the £1.3 billion Brent redevelopment. Work on evaluating alternative decommissioning options for the Brent Spar continued.

United States: The Mars field – the largest discovery in the Gulf of Mexico for 25 years – was brought into production using a tension-leg platform in a record water depth of 890 metres. Gas production began from the Popeye field, and the Phase II expansion of the Tahoe field was commissioned. Work continued on other deep-water fields to be brought into production in 1997, including Ram/Powell (980 metres) and the Mensa gas field (1,650 metres).

Venezuela: In Lake Maracaibo production from the Urdaneta West oil field was raised to 26,000 b/d. The main production platform was brought close to completion.

ORATION AND PRODUCTION

are Group Exploration and Production es in some 45 countries – with production in these, the United States, the United Kingdom, and Nigeria are the biggest producers.

ia: Exploration proceeded in two re blocks.

la: Exploration of two offshore blocks ued with the drilling of two wells. A 50% it was acquired in a further deep-water block.

tina: Exploration continued in the offshore do basin.

alia: Further acreage was obtained in the Sea. Gas reserves in the Perseus field, in the West Shelf, were substantially increased ing appraisal drilling.

la: Additional leases were obtained in the asca oil sands in northern Alberta; ercial development options are being studied. ng continued for the development of the natural gas field, offshore Nova Scotia.

: A Memorandum of Understanding was l for the proposed development of extensive erves in the Doba Basin in southern Chad. If /ed, the project will include a 1,000-kilometre le through Cameroon to the Atlantic coast.

: Shell's share of production from offshore j fields in the South China Sea rose from) b/d to 28,000 b/d. Exploration licences awarded for an offshore block next to Xijiang n onshore block in the Bohai basin, in north- n China.

o: A new deep-water block was acquired.

d'Ivoire: An exploration licence was obtained deep-water Entente block.

iark: Record oil and gas production was ed, and two new offshore fields were ht into production.

:: An exploration licence was awarded for the h block, substantially offshore. A gas sales nent was signed for the Obaiyed field in the n Desert.

nds: An exploration licence was obtained in ands' first offshore bidding round.

n: The Ineka exploration permit – north-west Rabi field – was obtained.

Germany: Record gas production was achieved.

India: Exploration continued in Rajasthan.

Indonesia: Following encouraging seismic results, development studies began for the Kepodang gas field, offshore eastern Java. Exploration continued offshore north-east Kalimantan.

Kazakhstan: The world's largest seismic survey was completed in the Kazakh sector of the Caspian Sea. An interest was obtained in an exploration venture in northern Kazakhstan. A joint venture with a Russian company, Rosneft, was established to participate in a consortium formed to build and operate an oil pipeline from western Kazakhstan through the Russian Federation to the Black Sea.

Malaysia: A production-sharing contract was signed for the SK-E block located, in waters as deep as 2,000 metres, off Sarawak's prolific Baram Delta. The M1 gas field was brought on stream for the LNG-Dua development – the second of 11 offshore gas fields to be developed. A new production-sharing contract guarantees a supply of gas to the LNG plant until 2020.

Namibia: A successful exploratory appraisal well was drilled in the offshore Kudu gas field.

Netherlands: An exploration well drilled from Lauwersoog in Groningen found gas underneath the Waddenzee. It was announced that the Slochteren gas field would be renovated.

New Zealand: A floating production, storage and offtake vessel (FPSO) was commissioned in the Maui field near New Plymouth (North Island).

Nigeria: Construction of facilities to supply gas to the Bonny Island LNG plant started – 40% of the supply from Shell operations will be associated gas, which is produced with oil, substantially reducing gas flaring. Environmental work included upgrading facilities, replacing flowlines and restoring sites. Improved community relations reduced oil loss from disruptions by 80%. Over 200 community assistance projects were completed. A second deep-water exploration well was started.

Norway: The completed Troll facilities were officially opened by King Harald of Norway. Gas began flowing from the onshore processing plant at Kollsnes, near Bergen, to customers in six European countries. Interests were obtained in several further offshore licences.

Oman: Agreement was reached to supply gas from fields in central Oman to an LNG plant, which is now under construction with an expected completion around 2000.

Pakistan: An exploration well was drilled in the onshore Kirthar block, and a second well was started at the same location.

Peru: Work began on appraising the major Camisea gas reserves in Cuzco department. The proposed development plan involves piping natural gas and condensates over the Andes to Lima.

Romania: Three exploration wells were drilled in the Transylvania region.

Russia: A joint venture was formed to develop the Salym oil fields in west Siberia. The Russian authorities were notified of a commencement date for the production-sharing contract for oil and gas field developments offshore Sakhalin Island.

Ukraine: Four exploration blocks were acquired in the Ukrainian sector of the Black Sea.

United Kingdom: The Guillemot and Teal fields were brought into production using the *Anasuria*, the largest FPSO in the North Sea. First gas was delivered from the Schooner field. Brent Charlie platform resumed production – the second of the three platforms to be upgraded as part of the £1.3 billion Brent redevelopment. Work on evaluating alternative decommissioning options for the Brent Spar continued.

United States: The Mars field – the largest discovery in the Gulf of Mexico for 25 years – was brought into production using a tension-leg platform in a record water depth of 890 metres. Gas production began from the Popeye field, and the Phase II expansion of the Tahoe field was commissioned. Work continued on other deep-water fields to be brought into production in 1997, including Ram/Powell (980 metres) and the Mensa gas field (1,650 metres).

Venezuela: In Lake Maracaibo production from the Urdaneta West oil field was raised to 26,000 b/d. The main production platform was brought close to completion.

OPERATIONAL HIGHLIGHTS

OIL PRODUCTS

Refining

Shell companies have either full or partial ownership of 54 refineries located in 33 countries. Approximately two-thirds of the Group's world-wide capacity, based on financial ownership, is located in Europe and North America. In increasingly competitive markets there is a continuing drive to both improve refinery efficiency and rationalise the overall refining network. There is also continuing emphasis on improving the environmental performance of Shell refineries and products.

France: Government approval is being sought to significantly reduce throughput at the Berre refinery in south-east France. The Nanterre lubricants blending plant will undergo a major redevelopment programme.

Germany: The Hamburg lubricants plant became the first in the German oil industry to be registered under the European Union's Environmental Management and Auditing Scheme.

Philippines: A new bitumen manufacturing plant was opened in Pililla, Rizal.

Switzerland: The Cressier refinery is being offered for sale.

Thailand: The new Rayong refinery (Shell 64%) became operational. The 145,000 barrels-a-day refinery will help meet Thailand's rapidly growing demand for oil products.

United Kingdom: Streamlining of operations at the Shell Haven refinery was progressed. Investment to further reduce sulphur dioxide emissions from the Stanlow complex in Cheshire was announced

United States: A major investment programme at the Martinez refinery in California was completed, enabling it to produce more of the reformulated gasolines required by new environmental standards

Marketing

More Shell gasoline is sold around the world than any other brand. Shell companies are also the leading global marketers of lubricants, liquefied petroleum gas (LPG) and bitumen. Over 16,000 service stations in some 100 countries now feature the new Shell 'Retail Visual Identity' as a result of a continuing world-wide programme to upgrade Shell retail networks. The programme also includes the improvement of underground installations in order to protect soil and groundwater. New Pan-European business structures were formed for aviation fuel, LPG and lubricants. The Group's return to Formula One with Ferrari saw three victories in a challenging development season. Top-level motorsport plays a vital role in the development and testing of high-quality, high-performance fuels and lubricants. Ferrari recommends that only Shell lubricants be used in its road cars.

Belgium/Luxembourg: Fina's LPG business was purchased.

Cambodia: A new bulk bitumen depot was opened in Kompong Som.

Canada: Service stations in Calgary and Vancouver were upgraded as the first stage of a major redevelopment of the retail network.

Chile: A total of 128 additional retail sites were acquired.

China: A fuels terminal was commissioned at Tianjin – the first major Shell terminal in China. Lubricants blending and bitumen plants at the site are being constructed. The complex will be an important base for marketing Shell fuels and oil products in north China.

Germany: A network of 44 service stations in eastern Germany was acquired from Total in a reciprocal deal in which Total obtained 38 sites in western Germany.

Hong Kong: A pioneering recovery service for used lubricants was started

Hungary: The 100th Shell service station was opened

India: A lubricants blending plant was commissioned at Talojah near Bombay

New Zealand: A 50% stake was acquired in Tasman Pacific Foods (Restaurants) Ltd, the franchise holder for Burger King in New Zealand.

Oman: The first retail card service in the Sultanate was launched

United Kingdom: The 1000th retail site to be upgraded to the new Shell 'Retail Visual Identity' was unveiled in Bolton

Venezuela: Construction of a new lubricants blending plant began at Valencia in Carabobo state.

Vietnam: A bulk bitumen depot was commissioned at Vinh.

Trading and Shipping

Shell International Trading and Shipping Company (STASCO) is the principal trading and shipping arm of the Oil Products business, trading nearly four million barrels of crude oil and products each day. STASCO operates 36 crude oil and product carriers and 20 LNG/LPG carriers. The fleet recorded the lowest ever frequency of personnel injury.

Singapore: A new international ship manning company was established.

South Korea: The *Megara*, the last of five double-hulled 298,000 deadweight tonnes crude oil carriers, was delivered.

NATURAL GAS

Shell companies are collectively the world's largest private gas producers with production in 17 countries, led by the Netherlands and the United States. Group equity sales rose 10% in 1996 to 223 million cubic metres (8,354 million cubic feet a day.

Australia: The North West Shelf LNG project began delivering additional supplies of gas to Japanese customers. Further expansion of the Karratha LNG plant – nearly doubling its capacity by 2003 – is being considered.

Bolivia: A successful bid was made for an interest in the national gas transportation system. This included a stake in the planned Bolivia-Brazil pipeline, which will offer important future gas business opportunities

Brazil: In early 1997 an interest was obtained in the gas distribution utility for São Paulo

Brunei: A new gas pricing agreement was reached with the Brunei government. Third-party gas supplies will expand deliveries from the Lumut LNG plant to 200 shipments a year from 200[illegible]

Canada: Negotiations are under way to market all Shell Canada's natural gas through a joint venture in which Shell Oil has an interest. The deal would make the venture one of the largest gas marketers in North America a: The LNG Dua plant at Bintulu in exceeded production targets. A joint was agreed for the development of a third ich would create the world's largest LNG mplex. An additional interest was in the Shell Middle Distillates Synthesis Bintulu, which produces some 450,000 year of environmentally superior waxes from gas.

: Construction of the LNG plant on Bonny arted. Seven tankers will deliver LNG from nillion tonne per annum plant to customers e beginning in 1999.

Construction of the LNG plant at Qalhat on of Oman started following a 25-year sales ent with the Korea Gas Corporation. s from the 6.6 million tonne per annum l commence in 2000.

ines: Discussions started on a plan to the Bataan nuclear power plant, which was mmissioned, into a gas-fired plant, so as to cialise gas reserves from the Malampaya nago deep-water gas fields offshore north-awan.

ela: Development of the Cristóbal Colón ject has been deferred.

MICALS

mpanies operate one of the world's largest emical businesses. Restructuring – through alliances, joint ventures, acquisitions and ent – together with extensive capital ent should result in a portfolio of leading usinesses capable of long-term profitability wth. Major initiatives during 1996 included: ls for a world-wide additives merger with Chemical Company; agreement with BASF formation of a European polyethylene joint ; the sale of the fine chemicals businesses; launch of NEODOL as the global brand for tergent alcohols and ethoxylates.

The Paulinia manufacturing plant for the plastic elastomer KRATON came on stream.

a: The chemicals business of Shell Canada orporated as Shell Chemicals Canada Ltd, a owned Group company.

Italy: The new plant for the production of polyethylene terephthalate (PET) is on target for completion in 1997.

Mexico: Construction of the Altamira PET plant continued.

Netherlands: The go-ahead was given for the construction of a major styrene monomer and propylene oxide manufacturing plant at Moerdijk, with BASF. Agreement was reached for the long-term supply of up to 250,000 tonnes a year of styrene to BP.

Singapore: Work continued on the major expansion of the petrochemicals complex. New production capacity for olefins, polyolefins, styrene monomer, propylene oxide and polyols – due to be brought into production in 1997 – will serve the rapidly growing Asia-Pacific market.

United Kingdom: The first manufacturing plant for CARILON, the new Shell high-performance engineering thermoplastic, began production at Carrington to serve a global market.

United States: Commercial production started of CORTERRA, a new Shell polymer arousing interest in the textile and carpet industries.

Vietnam: A wholly-owned Group chemicals company was established – the first such foreign-owned venture in Vietnam.

COAL

Coal sales rose by 5% to 18.5 million tonnes as a result of higher production in Australia and Venezuela and greater traded volumes. International trade in thermal coal grew strongly, primarily in the Pacific rim. Independent electricity generators are increasingly seeking long-term supply agreements.

Australia: Production started from the new Dartbrook mine in New South Wales, which will produce low-sulphur thermal coal for export. Construction of the Moranbah North underground mine in central Queensland, which will produce export coking coal, started. The closure of the 110-year-old South Bulli mine in New South Wales was announced.

South Africa: In early 1997 a Letter of Intent was signed for the sale of all coal interests, including those in the Rietspruit mine and Richards Bay Coal Terminal.

Venezuela: Plans to increase the production capacity of the Paso Diablo/Socuy mine near Maracaibo are being studied.

OTHER BUSINESSES

Paraguay: A new tree plantation venture was established.

Uruguay: A plantation trial was begun to investigate the potential for commercial power generation from wood.

ISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

JMMARY

t income, at £5.7 billion, is the highest ever ›orted for the Royal Dutch/Shell Group of mpanies. In 1996 it increased by £1.3 billion, up % from the previous year. Earnings in 1996 ıefited from net special credits of £100 million, ıereas the 1995 earnings included net special ırges of £210 million.

Reported net income in 1996 includes imated after-tax inventory holding gains of £388 llion, compared with gains of £69 million in 1995 hese gains are excluded, 1996 earnings on an imated current cost of supplies (CCS) basis reased by 23% to £5.3 billion. If special items are o excluded, earnings on an estimated CCS basis ıre 15% higher, at £5.2 billion.

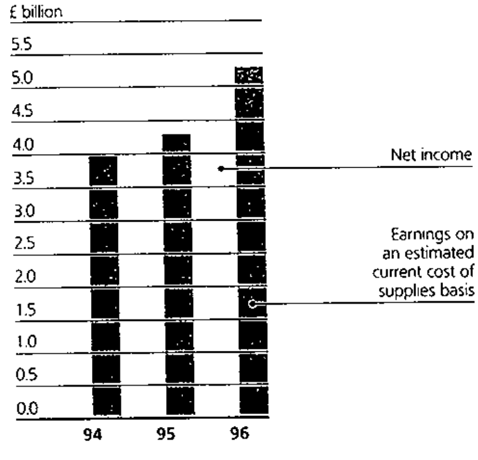
The record earnings were mainly the result a strong improvement by Exploration and duction, buoyed up by higher oil prices and eater world-wide oil production. Inventory lding gains outside the USA and lower net ecial charges helped the Refining and Marketing gment to increase earnings by 34% to £2.0 lion. This segment achieved higher sales volumes, ıt their benefit was offset by pressures on arketing margins. Chemicals earnings, though nefiting from the improved Montell results, were bstantially lower because market conditions ere less favourable than in 1995. Corporate items sulted in a charge to income of £193 million, mpared with a charge of £95 million in 1995.

For 1996 as a whole, the spot price of Brent end crude oil averaged $20.65 per barrel mpared with an average of $17.05 per barrel in 995. Industry refining margins in 1996 were ıpported by strong demand for middle distillates.

1997 the increased supplies of crude oil due to e resumption of Iraqi crude exports and ontinued expansion of non-OPEC production may ceed demand growth, leading to some erosion crude oil prices. Continued lightening of fineries' crude oil diets may also occur. Refining argins are likely to stay under pressure as a world-ide structural surplus of gasoline refining capacity foreseen to persist and the impact of recently ommissioned Asia-Pacific capacity expansion is yet be fully felt.

	1996	1995	1994
			£ million
Net income for the year	**5,691**	4,375	4,070
% change	***+30***	*+7*	*+36*
of which World outside USA	**4,617**	3,708	3,915
USA	**1,074**	667	155
Earnings based on estimated current cost of supplies	**5,303**	4,306	3,995
% change	***+23***	*+8*	*+24*
of which World outside USA	**4,229**	3,730	3,840
USA	**1,074**	576	155
Net sales proceeds	**82,079**	69,595	61,929
% change	***+18***	*+12*	*-2*

Group results



	1996	1995	1994
Return on average capital employed*	**13.2%**	10.6%	10.4%
Ratio of total debt to capital employed	**15.1%**	17.1%	16.7%
Effective tax rate	**46%**	44%	37%
Change in cash, cash equivalents and short-term securities	**−1%**	−1%	+15%

* Net income plus minority interests plus total interest expense less tax on the interest expense as a percentage of average capital employed, which is the sum of net assets, minority interests and total debt

ghts of the 1996 results:

tion and Production earnings were up cause of higher oil prices, more world-wide uction, greater natural gas sales outside the d lower operating costs

l gas reserves increased: 70% more oil ng natural gas liquids) and 181% more gas were added to the reserves than were ed.

ng and Marketing earnings rose rably, largely because the rise in oil prices in inventory holding gains outside the owever, the effect of volume growth was hed by pressures on marketing margins.

cals earnings were substantially down, ng the difficult trading conditions which ped after the first half of 1995.

arnings were depressed by production ies in Australia and Venezuela.

rate items included net losses of llion from movements in currency ge rates.

ity remained strong: cash, cash equivalents ort-term securities were essentially nged from their 1995 total of £7.3 billion, total debt decreased to £7.0 billion.

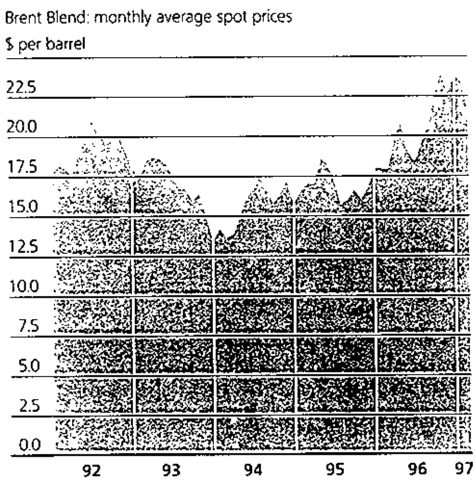
turn on average capital employed was up from 10.6% for the year 1995.

verage effective tax rate rose from 44% because a higher proportion of earnings n high-tax areas.

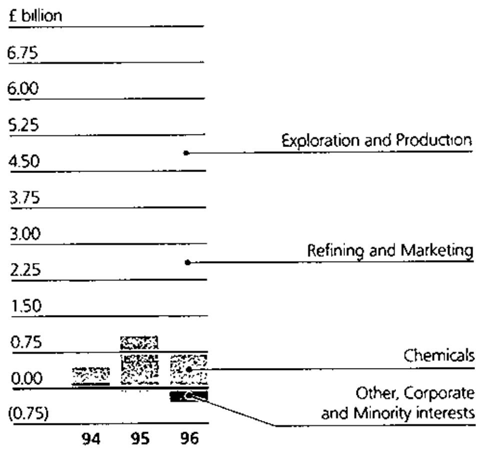
Reported segment earnings

	1996	1995	1994
			£ million
Oil and gas			
Exploration and Production	3,245	1,866	1,538
Refining and Marketing	2,036	1,517	2,085
Chemicals	762	1,092	340
Other industry segments:			
Coal	24	26	(125)
Other	(12)	85	27
Corporate items	(193)	(95)	280
Minority interests	(171)	(116)	(75)
Net income for the year	5,691	4,375	4,070

Crude oil prices



Reported segment earnings



search and technology centre at Thornton in
ed Kingdom underlines the part which
d technology continue to play in meeting
oals. New facilities for water sampling in the
vironmental laboratory support scientists'
ntinually improving the Group's
ntal performance.

ks over Shell's refinery on Pulau Bukom, one
ds on which Singapore's rapidly developing
rochemical industry is situated. Shell has
jor investor in Singapore for nearly a century
layed an important role in the island-state's
sperity.

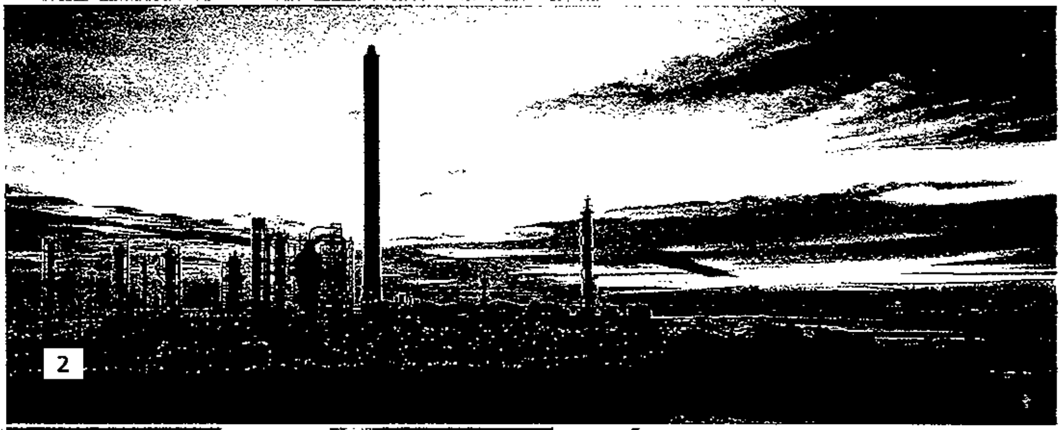
ord was set during the 12th Shell Eco-
n France. Most of the 134 competitors
their previous performances and achieved
consumption.

g culture in the Outback. The Darwin
Orchestra preparing for a performance in
ern Territory's Katherine Gorge. Shell Australia
cipal sponsor of the orchestra.

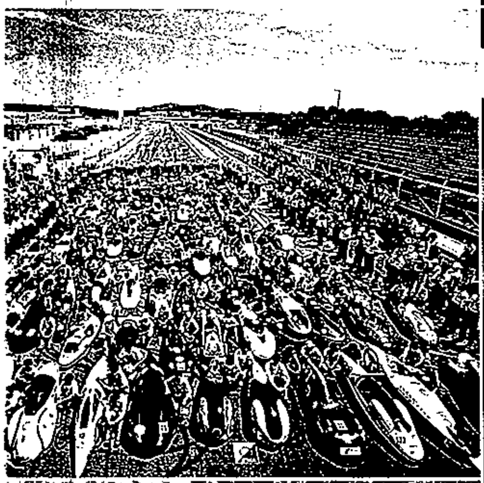
goven, mining technician, is ready to drive
ment crew underground at Dartbrook,
most modern coal mine, which is run with
t regard for the environment.

lishment of one of the world's largest trading
Shell International Trading and Shipping
in London was an important step forward in
ducts trading.

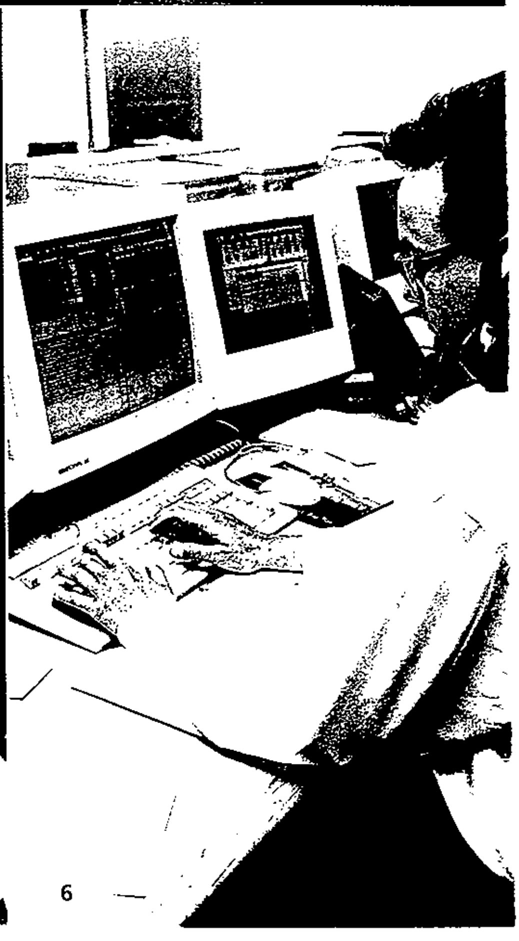
1



2



5



6

nd gas – Exploration and Production

gs were up 74% because of higher oil prices, more world-wide oil production, greater natural gas outside the USA and lower operating costs. Oil and gas reserves increased: 70% more oil ding natural gas liquids) and 181% more natural gas were added to the reserves than were produced.

igs for 1996 reached £3,245 million as a of higher oil prices, volume growth and lower ting costs.

utside the USA earnings rose by 57% to 5 million. These earnings included a special of £51 million from tax adjustments. (Earnings e the USA in 1995, in contrast, were ected by special items on a net basis.) ing special items, earnings were up 53% 1995. Crude oil price realisations rose in line he average Brent Blend spot price, whereas ice realisations increased more moderately. oil production was up 2% over 1995 levels; ses – mainly from Australia, Denmark and ay – more than offset the effect of asset sals in Colombia and Turkey in 1995. Natural ales were up 14%, with increases taking place Netherlands, the UK and Malaysia.

Vithin the USA 1996 earnings nearly tripled 1995 level, reaching £709 million on the th of the rise in the prices of crude oil and al gas and the increase in crude oil production. ding special items, US earnings for the year to £678 million. Equity oil production sed by 2%, with greater production from the deep waters of the Gulf of Mexico more than compensating for natural declines elsewhere.

In spite of the increased total production, operating costs outside the USA declined significantly during 1996. Major cost reductions were achieved in the UK and Nigeria. Group companies in other countries are also implementing cost-reduction and restructuring programmes. Within the USA production costs were up slightly because of greater oil production as well as higher energy costs.

Spot prices for internationally traded crude oils rose through 1996. Whereas the spot price of a barrel of Brent Blend averaged $18.60 in the first quarter of the year, in the last quarter it averaged $23.60 – its highest level since the Gulf War in 1991. The price increases reflected a stronger growth in demand and a slower build-up of non-OPEC production than anticipated by the market. Stocks remained low in a number of key consuming countries.

Capital expenditure outside the USA was £170 million less in 1996 than in 1995; however, exploration expense increased by £100 million, a 24% rise (mostly in acreage held in producing countries). In the USA capital expenditure increased from £1,848 million in 1995 to £2,107 million in 1996. This substantial increase was devoted mostly to production drilling and development in the Gulf of Mexico and the construction of gas pipeline facilities to accommodate the deep-water production. Exploration expense in the USA also increased (by 44%) in keeping with the aggressive spending programme in the Gulf of Mexico.

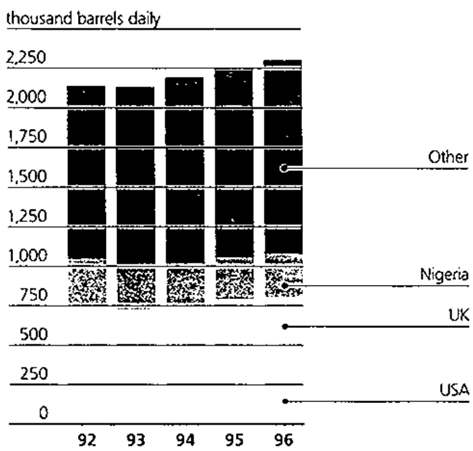
Net additions to proved reserves in 1996 were equivalent to 170% of the production of crude oil and natural gas liquids for that year and 281% of the natural gas production. In 1995 the corresponding figures were 88% and 59%. (Definitions of reserves, which have been modified from last year's, and figures for 1994-96 are given on pages 55 and 56.) Oil reserve additions were mainly achieved through new projects and better field recovery in the UK (particularly from the Brent field redevelopment) and through the incorporation of resource volumes in Venezuela (which now fall within the definition of reserves as clarified on page 55). The marked increase in gas reserves reflects a major expansion of the North West Shelf

d gas – Exploration and Production

	1996	1995	1994
			£ million
ed earnings			
utside USA	2,536	1,620	1,462
	709	246	76
	3,245	1,866	1,538
ge	*+74*	*+21*	*-23*
ion costs*	3,854	3,936	3,836
tion expense*†	713	553	669
*	3,547	2,039	1,551

ig associated companies
s depreciation and release of currency translation differences

Equity oil production*
(including natural gas liquids)
* Group companies, plus Group share of associated companies



	1996	1995	1994
			thousand barrels daily
Equity oil production	**2,305**	2,254	2,194
% change	***+2***	*+3*	*+3*
of which: USA	**451**	441	416
UK	**353**	349	348
Nigeria	**278**	268	256
			million cubic feet daily
Natural gas sales*	**8,354**	7,624	7,317
% change	***+10***	*+4*	*+1*
of which: Netherlands	**1,901**	1,635	1,674
USA	**1,859**	1,907	1,676
Canada	**734**	721	725

* From own production (including Group share of associated companies)

nd gas – Exploration and uction (continued)

in Australia, production-contract extensions aysia and new upstream gas ventures

utlook for crude oil prices is uncertain. Prices weaken during 1997 in view of the otion of Iraqi crude exports at the end of and the continued expansion of non-OPEC duction. Gas prices in Europe are expected to related to the price of oil products, much as ices in the Asia-Pacific region are expected to ue varying in step with crude oil prices. In America, where gas prices were very strong fourth quarter of 1996, future prices could y volatile and will be heavily influenced by al temperatures.

quity oil production is expected to grow over ort and medium term. The prime drivers of owth are the Gulf of Mexico deep-water opments – Mars, Ursa, Ram/Powell and Troika – er with new concessions in the UK sector of orth Sea. Gas production is also anticipated to se, driven not only by developments in the f Mexico and the UK North Sea but also by s other achievements: in 1997, the reaching imum production levels of the Troll field re Norway, and thereafter, the commissioning of LNG plants in Nigeria and Oman, the further development of the North West Shelf, and the development of the Obaiyed field in Egypt.

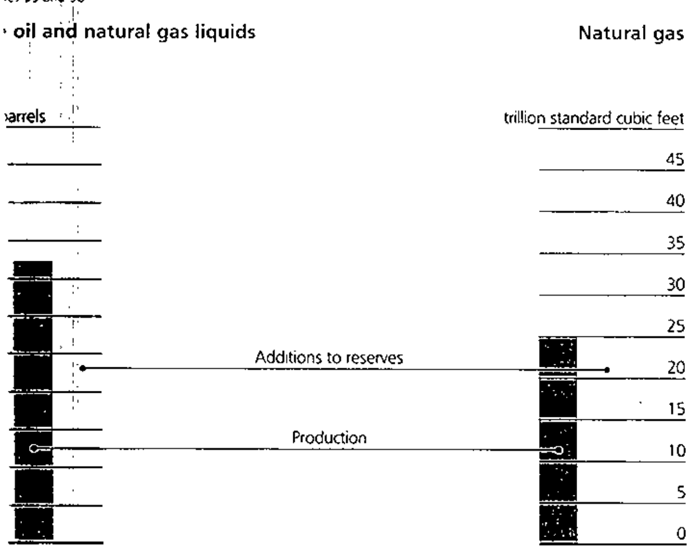
The overall strategy of Exploration and Production is to achieve sustained growth in long term value whilst maintaining satisfactory profitability and cash flow in the short and medium term. Fundamental to this strategy is the continued growth of reserves, which will be pursued by the exploration plans for the coming five years. Group companies' exploration expenditure will rise by about a third in 1997. Although some 80% of the exploration expenditure outside North America will be directed to sedimentary basins where Group companies already have established producing operations, Group companies are also searching elsewhere for oil and gas. Current areas of focus include the deep waters offshore West Africa, where expertise gained in the deep-water developments of the Gulf of Mexico can be applied.

In support of the growth objectives over the coming five years, the annual capital expenditure for development is expected to be some 50% greater than the 1996 level. Most of the increase will be earmarked for new projects in currently producing areas, such as those in support of the LNG plants in Nigeria and Oman. The high level of capital spending in the USA is also expected to continue through the decade as Gulf of Mexico projects are developed. Expenditure in new ventures will also play a key role in achieving growth. Examples include the development of the Camisea gas/condensate field in Peru and the Malampaya offshore gas field in the Philippines, both of which are contingent upon the successful outcome of current studies.

Research and development also have a role to play in the execution of the Exploration and Production strategy. They aim to improve the exploration success rates, increase hydrocarbon recovery, shorten lead times from discovery to production and reduce costs.

d gas reserves*†

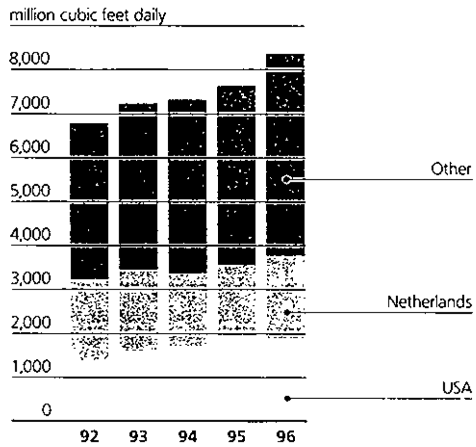
ompanies, plus Group share of associated companies
es 55 and 56



1987 to 1996

Natural gas sales*

* Group companies, plus Group share of associated companies



Refining and Marketing

... largely because the use in ... of ... holding ... the effect of volume growth ... pressure ...

... £2,219 million from ... 36 million ... holding ... of the increase in oil ... significantly higher ... mounted to £69 million. The ... special charges of £306 ... of refining and ... facilities in Europe. Of the ... million was due to asset ... £74 million was ... charges. (For ... charges in 199... which resulted from ... to refining assets ... as well as from the ... charges, partially ... an asset sale.) Excluding the ... the special items, total 1996 ... estimated CCS basis rose by 2% to amounting to £22 million.) On an estimated CCS basis, earnings rose ... £2 ... million. If special items are excluded from these 1996 estimated CCS earnings, then the amount to £1,490 million, which is similar to the corresponding 1995 earnings. Pressures on marketing margins offset the 6% growth in product sales volumes and the improvement in refining margins.

The strong demand for middle distillates supported industry refining margins outside the USA in 1996. In Europe, industry complex margins were on average some $0.35 per barrel higher than in 1995, and the strength of middle distillates more than offset the weakness of gasoline. Similarly, Asia-Pacific complex refining margins improved by over $1 per barrel compared with 1995. As in Europe, margins were supported by the strength of middle distillate prices, whereas gasoline prices came under increasing pressure in the second half of the year. Overall refinery intake, including a 50% share of operations of the Durban refinery in South Africa (whose volumes were included as of the first quarter of 1996) and the new joint venture refinery at Rayong in Thailand (which became operational during 1996), increased by 7% relative to 1995. Utilisation of conversion capacity was at a similar level to 1995, unit refining expenses were essentially unchanged from those of 1995.

Marketing continued to provide the main contribution to earnings. Inland product sales volumes grew in all regions – particularly in the Asia Pacific region, Latin America and Africa. However, rising product supply costs and competitive pressures – mainly in Europe and particularly in the UK – resulted in marketing earnings that were lower than in the previous year. Unit marketing costs were similar to last year's.

... USA earnings, at £1,772 million, ... than in 1995. These earnings ... holding gains of £388 million ... included a holding loss ...

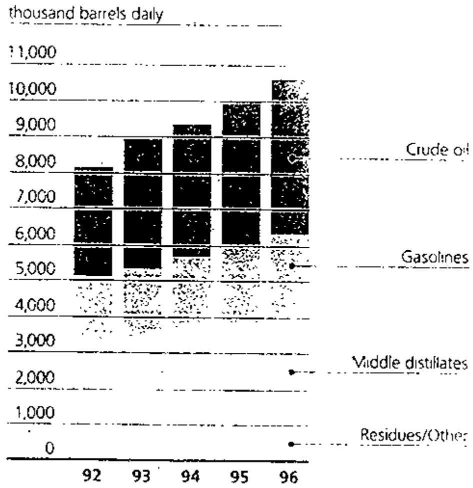
Within the USA earnings amounted to £264 million, a decline of 14% from the 1995 level. On an estimated CCS basis, however, US earnings were up 22%. Refined product margins, which were weak throughout the industry, improved slightly in 1996. Additionally fixed operating costs rose – primarily in marketing – whilst sales of branded automotive gasoline increased about 1%. The benefit of slightly higher refining margins was enhanced by a growth of 6% in product sales volumes.

Capital investment for the year, amounting to £3,270 million, was slightly lower than the 1995 level of £3,357 million. Across the refining portfolio, investments were continued to enhance asset utilisation and reduce environmental impact not only of the refineries but also of their products. Outside the USA major expenditure continued on the modernisation of the Pernis refinery in the Netherlands. Marketing investment was higher, the major portion being focused on the retail segment. Implementation of the new 'Retail Visual Identity' continued across some 100 countries together with increasing investment in convenience stores and high-quality customer facilities. Expenditures were also made to sustain Group companies' leading position in specialities (LPG, lubricants and

... Marketing

	1996	1995	1994
			£ million
	1,772	1,210	1,844
	264	307	241
	2,036	1,517	2,085
	+34	-27	+18
... estimated current cost of supplies			
	1,384	1,232	1,769
	264	216	241
	1,648	1,448	2,010
	+14	-28	+1
			thousand barrels daily
	4,915	4,655	4,443
	1,401	1,316	1,220
	6,316	5,971	5,663
	+6	+5	+5

Oil sales



and gas – Refining and Marketing ›ntinued)

men). Additionally, a growing proportion of the l investment programme is aimed at new and erging markets The Nigerian LNG project also ›unted for significant new investment. In the \ capital expenditures declined significantly from r 1995 levels, as the installation of new plant at Martinez refinery in California was completed 996.

outlook for 1997 does not hold the prospect ıny structural improvements in margins. In pe rationalisation of the industry's refining over-acity is proceeding slowly, and a continued lus of gasoline manufacturing capacity is seen. The year 1997 should see substantial litions to North Sea crude oil production, which l further lighten refinery diets. The increased duction, together with higher effective utilisation available conversion capacity as refiners seek proved operational performance, should match growth in light-product demand. Whilst the ınge, in October 1996, to an industry ecification for lower sulphur diesel fuel supported tomotive diesel prices, the benefit may prove to temporary.

Major capacity expansion in the Asia-Pacific jion in 1996, combined with progressive rements to capacity in existing refineries, will ntinue to put pressure on refining margins. In this jion, as in Europe, gasoline is likely to come der the most pressure. Because a significant are of the new additions is simple refining pacity, there may be downward pressure on fuel prices as well.

Developments in the UK retail market in 1996, d to a lesser degree in some other major arkets such as Japan and Australia, illustrate the rce competition that affects gross marketing argins for fuels. Even though conditions in the UK arket became less severe in the latter part of the ar and the pressures experienced in 1996 to cover supply cost increases may not re-occur in 197, gross retail fuels margins will remain under essure. The development of a growing revenue stream from non-fuel convenience retailing will progressively contribute to the overall performance of the retail segment

The overall strategy in Refining and Marketing is to increase the value of a managed portfolio of Oil Products businesses focused on Shell-branded sales and services. Twin objectives are to improve the sustainable rate of growth in the portfolio, whilst raising return on capital employed to a minimum of 15%. To meet these objectives, Group companies are setting into motion a number of major initiatives: to pursue growth opportunities in existing markets; to enter new markets in Eastern Europe, Latin America and the Asia-Pacific region; to rebalance the refining/marketing asset mix; and to establish a base of cost leadership.

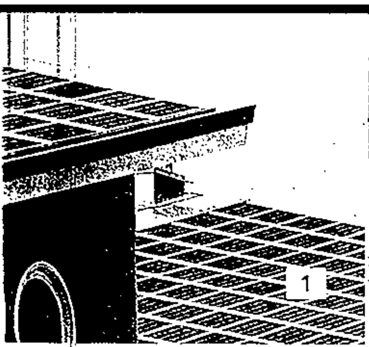
In refining, Group companies have launched a pace-setting programme based on internal and external benchmarking and extensive application of learning from best practice. Furthermore, in response to an overcapacity in refining relative to Shell-branded sales in Europe, it was announced (in December 1996) that the Cressier refinery in Switzerland is for sale and (in February 1997) that Government approval is being sought to significantly reduce throughput capacity at the Berre refinery in south-east France.

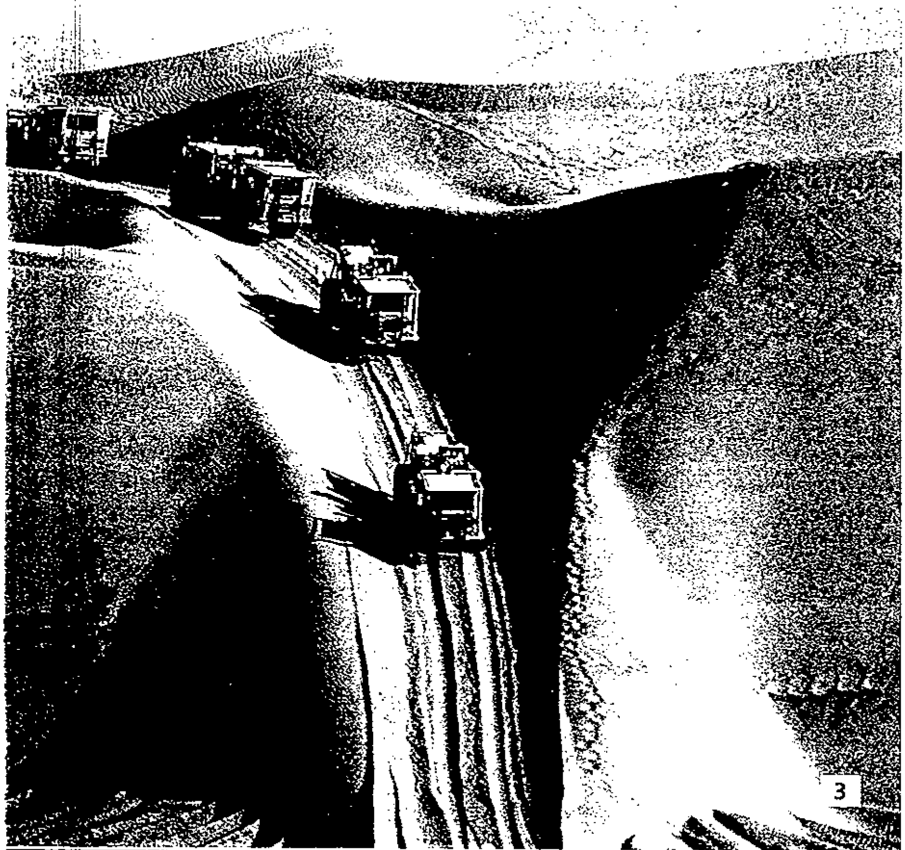
The co-ordination of supply and refining activities is increasingly being based on operational clusters, whilst crude oil and products are traded via a global network. There will be continuing integration of oil and freight trading operations. Further improvements to the operating performance of the tanker fleet are targeted, including a new international manning structure, which will be fully implemented in 1997, and a restructuring of demise charters for the five 'M' class Very Large Crude Carriers.

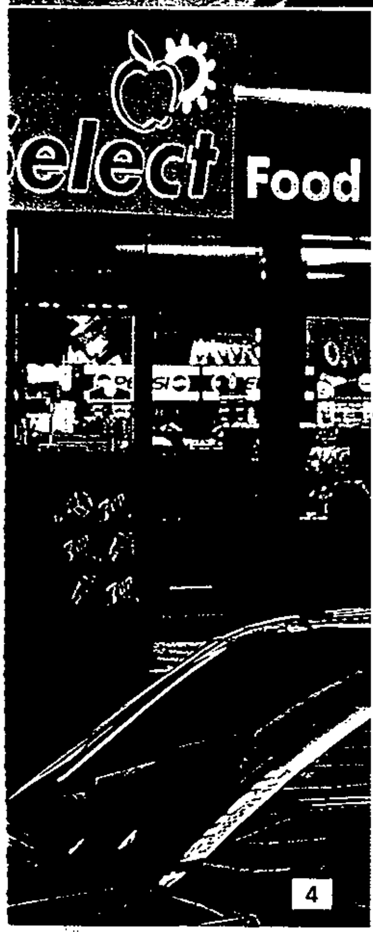
Marketing initiatives will see retail networks outside the USA upgraded to the new successful 'Retail Visual Identity' within two years. A major programme to expand convenience retailing at service stations will see the addition of some 7,000 new stores outside the USA, together with other high-quality customer services, by the year 2000. There will be a continuing drive to bring the benefits of extensive research and development programmes to the customer through new product launches, including reinforcement of the Group companies' leading position in LPG, lubricants and bitumen. Improved logistic performance through alliances will be pursued, and in north-west Europe major rationalisation of lubricant production facilities will be completed to create a more integrated operation. Across Europe major cost savings are being pursued through common business processes and common systems applications for activities which lie behind the customer interface. Similar opportunities will be sought in other regions. The clustering of smaller Operating Companies, focused on areas such as the Caribbean/Central America and Africa, seeks the benefits of synergy.

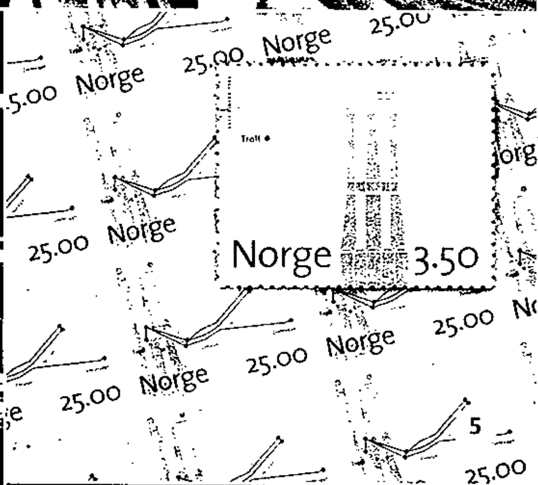
Shell Oil began discussions with Texaco, Inc. and Star Enterprises (a joint venture of Texaco and Saudi Aramco) regarding a possible joint arrangement involving US downstream operations. Although the companies are reviewing a range of options, the specific business activities under consideration are refining, marketing, transportation, trading and lubricants.

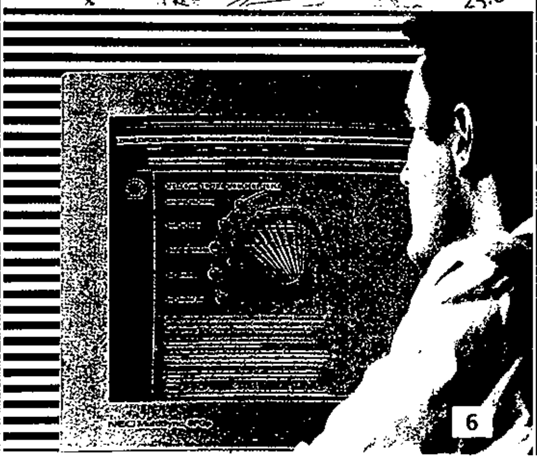
Further growth is expected in the downstream natural gas business as the LNG plants in Nigeria and Oman are commissioned. The industry is becoming increasingly competitive as more and more international players emerge, some with a background in gas distribution and others with a background in power generation. Nevertheless, new business opportunities in downstream natural gas, including potential investments in power generation and gas distribution, are being aggressively pursued. Further research and development will enable Group companies to build on the successful commercial-scale Shell Middle Distillate Synthesis (SMDS) plant in Bintulu, Malaysia. The SMDS process, which converts natural gas into premium-quality products (mainly gasoil, kerosine, naphtha and various waxes), puts Group companies in the leading position in gas-to-liquids conversion and opens an alternative route for commercialising remote natural gas resources.











1 Shell companies are committed to contributing to sustainable development. As part of that commitment, the Group allocates a percentage of its annual R&D budget to development of alternatives to fossil fuels. It invests millions each year to test the potential of such technologies as biomass and photovoltaics

2 Pilipinas Shell Foundation's Seed Dispersal Program introduced saline-resistant rice varieties in Bulacan.

3 Seismic trucks venturing into a forbidding desert in Oman, the country where a new LNG plant is being constructed after the completion of an agreement – in record time – with the Korea Gas Corporation for the largest-ever sales volume of gas. The plant, which is located on the coast near Sur, will have an annual production capacity of 6.6 million tonnes

4 The convenience food store at the Kingsland service station in Calgary, Alberta was the first of 350 across Canada to change its logos to 'Select', Shell's international convenience store brand.

5 Shell developed the large Troll gas field offshore Norway. To commemorate the official opening by King Harald of Norway, the national postage service issued two stamps.

6 Shell unveiled a new Internet 'site' (http://www.shell.com) to encourage openness and debate on issues relevant to society, the Group and the oil industry.

7 The 38-bed Egbema General Hospital was completely rebuilt and re-equipped by the Shell Petroleum Development Company of Nigeria. Government and company officials, as well as their families, attended the official commissioning.

nicals

ngs were substantially down, reflecting the difficult trading conditions which developed the first half of 1995.

ngs for 1996 of £762 million were down million from the 1995 earnings of £1,092 n, which included special charges of £37 n related to the Service Companies' cturing. Outside the USA earnings in 1996 nted to £493 million, including a special gain 4 million from the disposal of the fine icals businesses. Excluding special items, these ngs suffered a 48% decrease compared with Within the USA earnings in 1996 were 22% from the previous year.

The reduction in earnings is principally due to ontinuation of the unfavourable trading itions experienced in the latter part of 1995. reaching high levels in the first half of 1995, rofitability of the petrochemical industry fell ly in the fourth quarter of 1995, experiencing a modest recovery during 1996. Group panies' results reflect this pattern, although the tability of US operations suffered less than that erations in the rest of the world because of more robust performance of the US economy.

Rapid destocking, which started towards the of 1995, largely ceased by mid-1996. However, s for many products failed to recover in the of continuing uncertainty about levels of exports (particularly to China) and in anticipation of several substantial proposed capacity increases, notably in the USA. At the same time, energy and feedstock prices rose to the highest levels since the Gulf War. In Europe the effect was exacerbated by the weakening of the Deutschmark against the US dollar, in which most feedstocks are priced.

As a result of rising feedstock prices and flat product prices, margins for several key polymers and intermediates were squeezed. Ethylene cracker margins, both in the USA and Europe, remained depressed during 1996. A notable exception to the generally subdued price movements was polypropylene, Montell's primary business. The margins for polypropylene recovered well from the end-1995 trough because of the growth in product demand.

Further portfolio restructuring initiatives and a constant focus on cost control have ensured that, despite the difficult trading conditions, Chemicals performance was substantially better than during the 1992-94 downturn.

The outlook for 1997 is similar to that of the year before, since it is unlikely that the business environment will improve substantially during 1997. Economic growth in the USA and parts of the Asia-Pacific region may slow after a period of relatively rapid growth, and most European economies should improve only modestly at best on the relatively sluggish growth rates of 1996. These factors imply that petrochemical demand growth is unlikely to be sufficient to ensure high global plant loadings, particularly when planned additional capacity (mostly outside Europe) comes on stream later in 1997 and in 1998. Unless feedstock costs fall rapidly, industry margins and profitability will remain tight throughout the year. Nevertheless, there is scope for further industry restructuring, especially in Europe and Japan.

The overall strategy of Group companies is to build a portfolio of businesses which will achieve leadership on a global basis. The portfolio will also contain a limited number of core businesses with close links to Group companies' Oil Products activities.

Actions are being taken to ensure that the portfolio meets this aim. Existing leadership businesses are being strengthened through a major capital investment programme (some £4.7 billion over the next five years). Examples include the new styrene monomer/propylene oxide (SM/PO) facility, due on stream in Singapore in 1997, and the planned expansion of the Moerdijk SM/PO plant, which will be undertaken as a joint venture. In addition, several new products are being rapidly commercialised, and continuing research should lead to several more which will further enhance the portfolio.

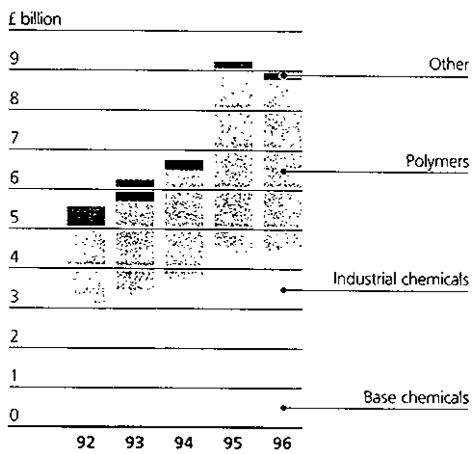
Plans to maximise value from businesses which do not currently enjoy leadership positions are being implemented. Increasingly, the establishment of joint ventures is seen as an effective way of transforming these businesses. In some cases those not sufficiently aligned with the strategy will be put up for sale, as was done with fine chemicals.

nicals

	1996	1995	1994
			£ million
rted earnings			
outside USA	493	747	280
	269	345	60
	762	1,092	340
nge	*–30*	*+221*	–
			thousand tonnes
volumes*			
chemicals	7,975	6,904	6,845
trial chemicals	5,295	4,984	5,136
ers	6,498	5,797	4,048

ree product categories account for virtually all chemical sales volumes up companies

Chemicals sales proceeds



industry segments and Corporate items

rnings were depressed by production difficulties in Australia and Venezuela
ate items included net losses of £59 million from movements in currency exchange rates.

rnings for 1996, at £24 million, benefited £25 million gain arising from the divestment of the shares held in Richards Bay Coal al in South Africa. Otherwise earnings were ly affected by production difficulties in a and Venezuela.
tighter market in the Atlantic rim resulted in spot prices for coal in the second half of n the Pacific rim demand rose, but supply ple and prices weakened. A further increase and in the region is projected for 1997, it is ed to be met mostly by additional supplies ustralia and Indonesia.
e metallurgical coal market remains firm. expected to continue throughout 1997, as JS capacity for quality coals is retired while d continues to increase.
Letter of Intent to sell Shell's South African terests in 1997 has been signed. These ts comprise a 50% shareholding in the ruit mine, remaining equity in Richards Bay erminal and mineral/surface rights.

earnings for 1996 came to a charge of illion, whereas in 1995 they amounted to illion. (The 1995 earnings included a gain arising from the disposal of a Group company's interest in the Collahuasi copper mine, partly offset by a write-down of real-estate property held for sale in the USA.)

Corporate items for 1996, before net special tax credits of £39 million, resulted in a charge to income of £232 million. In 1995 Corporate items amounted to a charge of £206 million before net special credits of £111 million.

Currency exchange rate movements resulted in losses of £59 million compared with gains of £163 million in 1995. During 1996 sterling strengthened against the US dollar, the major European currencies and the yen, whereas during 1995 it weakened against the major European currencies and was little changed against the US dollar.

Interest income and other items increased by £43 million to £477 million in 1996. Interest expense decreased by £111 million to £668 million.

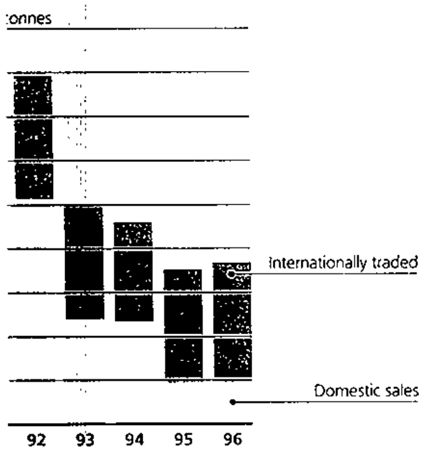
The income applicable to minority interests increased by £55 million to £171 million, mainly as a result of higher earnings in Montell and Shell Canada.

The new organisation of the Service Companies, as described in last year's Annual Report, was implemented early in 1996. The main benefits to be initially expected from a flatter, business-based organisation with clearer accountabilities and a sharper focus on customers have started to show. The behavioural changes expected from the new organisation in the longer term should yield additional benefits in the years to come. The Service Companies now employ some 5,150 people, 21% fewer than in 1995.

Overall, the number of employees in Group companies is expected to continue to decline over the next two to three years as the companies redouble their efforts to streamline operations. The decline, however, will not be uniform throughout Group companies: in certain activities and areas personnel numbers may well increase. Group Companies will still need to recruit many people every year around the world.

ales*

ompanies, plus Group share of associated companies



Corporate items

	1996	1995	1994
			£ million
Corporate income/(losses)	**(193)**	(95)	280
of which			
Currency exchange			
gains/(losses)	**(59)**	163	(103)
Interest income and other items	**477**	434	917
Interest expense	**(668)**	(779)	(708)
Taxation	**57**	87	174

ement of cash flows

flow generated by operations increased by
billion to £10.7 billion, mainly as a result of the
net income. Over £6.4 billion was reinvested
business. After payment of dividends of
billion to the Parent Companies, Royal Dutch
Shell Transport, there was a surplus before
cing of £1,037 million. (For comparison, in
there was a deficit of £23 million, and in
there was a surplus of £450 million.)

Within the cash flow generated by operations,
ng capital increased by £681 million,
ared with an increase of £92 million in 1995.

Capital expenditure and new investments in
iates increased by £230 million. Proceeds from
of assets and disposals of investments in
iates contributed £989 million to cash flow
995 such proceeds amounted to £863 million.)
was a net repayment of debt amounting to
million. Dividends paid to the Parent
panies increased by 11% to £3.2 billion. (The
entage increases in dividends in 1995 and
4 were respectively 16% and 7%.)

The net effect of this flow of funds for the
as a whole was an increase of £180 million in
and cash equivalents.

Financial condition

Liquidity remained strong. Cash, cash equivalents and short-term securities were £7.3 billion at the end of 1996, down £53 million from the comparable 1995 total, whilst the long-term and short-term debt at £7.0 billion was £1,285 million lower than a year ago. The total debt ratio decreased to 15.1% from 17.1% in 1995. Unused lines of credit available at the end of 1996 amounted to £5.1 billion, down from the £5.2 billion available at the end of 1995.

Net assets decreased by £793 million to £37.2 billion, largely reflecting currency translation effects.

As further discussed in Note 25 on page 54, Group companies, in the normal course of their business, use financial instruments of various kinds for the purposes of managing exposure to interest rate, currency and commodity price movements. Additionally, some Group companies operate as traders in crude oil and products and use commodity swaps and options as a means of managing price and timing risks arising from this trading. In effecting these transactions the companies operate within procedures and policies designed to ensure that risks, including those relating to the default of counterparties, are minimised.

ement of cash flows (see Note 17)
slated at average rates of exchange)

	1996	1995	1994
			£ million
flow provided by operating activities	10,653	9,424	7,638
nge	*+13*	*+23*	*+12*
ich: (increase)/decrease in net working capital	(681)	(92)	65
flow used in investing activities	6,412	6,557	4,692
nge	*−2*	*+40*	*−4*
ich: capital expenditure	7,039	6,951	6,171
flow provided by/(used in) financing activities	(368)	(313)	242
ends paid to Parent Companies	3,204	2,890	2,496
nge	*+11*	*+16*	*+7*
ase/(Decrease) in cash and cash equivalents	180	(261)	713

Financial condition
(translated at year-end rates of exchange)

Note: See Note 17 on page 47 for reconciliation of this information with that from the Statement of cash flows, discussed in the preceding section

	1996	1995	1994
			£ million
Net assets	37,177	37,970	35,988
Net current assets	5,927	4,773	4,991
of which cash, cash equivalents and short-term securities	7,282	7,335	7,436
Total debt*	6,971	8,256	7,443
of which short-term*	3,357	3,509	3,627
long-term*	3,614	4,747	3,816

* Including capitalised lease obligations

l expenditure and exploration se

›mpanies' capital expenditure and ›on expense, plus new investments in ›d companies, rose by almost £400 million ›illion but was 5% below last year's of £8.7 billion. Exploration and Production ›ure was the largest component at £3.9 o £519 million from the 1995 figure and Marketing expenditure decreased by ›llion to £2.8 billion. Chemicals expenditure d by 15%, from £788 million to ›llion.

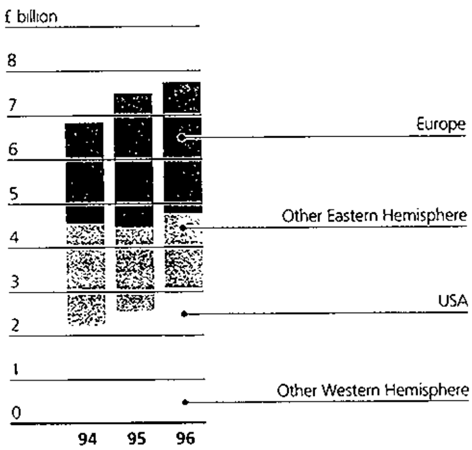
›997 capital expenditure and exploration › for Group companies, including new ents in associated companies, is expected ›se across all segments to £8.7 billion, with nately 51% attributable to Exploration and ›on, 35% to Refining and Marketing and Chemicals. Within the total, Shell Oil plans ›ased spending programme of £2.6 billion. ›stment programme is expected to be d largely from internally generated funds.

expenditure and exploration expense
›stry segment)

	1996	1995	1994
			£ million
›xpenditure	**7,039**	6,951	6,171
›ion expense†	**716**	552	680
	7,755	7,503	6,851
as:			
›ation and Production	**3,908**	3,389	3,154
›ng and Marketing	**2,766**	3,120	3,032
›s	**904**	788	474
	100	55	55
	77	151	136
›estments in ›ed companies‡	**492**	350	288

›n expense excludes depreciation and release of currency differences.
‡ on page 43 sets out 1995-1996 changes in investments in companies.

Capital expenditure and exploration expense
(by region)



VIRONMENTAL MATTERS

ıp companies operate in over 120 countries ughout the world and are subject to a number fferent environmental laws, regulations and ting requirements. It is the responsibility of ı Group company to implement a health, safety environmental management system that is ed to its particular circumstances.

The costs of prevention, control, abatement or ination of releases into the air and water and osal and handling of wastes at operating ties are considered to be an ordinary part of ness, and as such these amounts are not unted for separately. An estimate of the order agnitude of amounts incurred in 1996 for p companies in Europe and North America, d on allocations and managerial judgement, is 0 million. (In 1995 such an estimate amounted 870 million.) These estimates include the costs eformulating fuels in the USA.

Expenditures of a capital nature to limit or nitor hazardous substances or releases include remedial measures on existing plants and gral features of new plants. Whilst some ironmental expenditures are discrete and readily ntifiable, others must be reasonably estimated or cated based on technical and financial gements which develop over time. Consistent the preceding, estimated environmental capital enditures made by companies with major ital programmes during 1996 were £500 million 95: £670 million). Those Group companies are ected to incur environmental capital costs of at t £500-650 million per year during both 1997 1998. These estimates include costs related to rmulated fuels in the USA.

It is not possible to predict with certainty the gnitude of the effect of required investments in ting facilities on Group companies' future nings, since this will depend amongst other ngs on the ability to recover the higher costs n consumers and through fiscal incentives ered by governments. Nevertheless, it is icipated that over time there will be no material act on the total of Group companies' earnings. se risks are comparable to those faced by other npanies in similar businesses. Financing of the re capital programme largely from internally generated funds is expected to continue with no material effect on overall liquidity.

At the end of 1996, the total liabilities being carried for environmental clean up were £467 million (1995: £567 million), whilst additions to provisions in 1996 amounted to £61 million.

Provisions being carried for expenditures on decommissioning and site restoration, including oil and gas platforms, amounted to £1,408 million (1995: £1,359 million).

REPORT OF THE 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 36 to 54 of the Royal Dutch/Shell Group of Companies for the years 1996, 1995 and 1994. The preparation of financial statements is the responsibility of management. Our responsibility is to express an opinion on financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management in the preparation of financial statements, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Royal Dutch/Shell Group of Companies at December 31, 1996 and 1995 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1996 in accordance with generally accepted accounting principles in the Netherlands and the United States.

KPMG Accountants N.V., The Hague

Ernst & Young, London

Price Waterhouse LLP, New York

March 13, 1997

GROUP FINANCIAL/OPERATIONAL DATA

NANCIAL STATEMENTS

tement of income

	1996	1995	1994
			£ million
s proceeds	110,034	95,449	84,317
taxes, excise duties and similar levies	27,955	25,854	22,388
proceeds	82,079	69,595	61,929
of sales	63,610	54,182	48,605
ss profit	18,469	15,413	13,324
ng and distribution expenses	7,071	6,857	6,473
ninistrative expenses	472	758	509
oration	745	606	682
earch and development	449	483	437
erating profit of Group companies	9,732	6,709	5,223
e of operating profit of associated companies (Note 5)	1,234	1,201	1,046
erating profit	10,966	7,910	6,269
rest and other income (Note 6)	595	681	1,048
rest expense (Note 7)	668	779	708
ency exchange gains/(losses)	(26)	164	18
ome before taxation	10,867	7,976	6,627
ation (Note 8)	5,005	3,485	2,482
ome after taxation	5,862	4,491	4,145
ome applicable to minority interests	171	116	75
income for the year	5,691	4,375	4,070

atement of Parent Companies' interest in Group net assets

			1996	1995	1994
					£ million
rest at beginning of year			37,970	35,988	34,859
income for the year (Note 3)			5,691	4,375	4,070
			43,661	40,363	38,929
distributions to Parent Companies (Note 3)			3,226	3,161	2,645
rency translation differences for the year (Note 17)			(3,258)	768	(296)
rest at end of year (Note 4)			37,177	37,970	35,988
licable to:	Royal Dutch	(60%)	22,306	22,782	21,593
	Shell Transport	(40%)	14,871	15,188	14,395
			37,177	37,970	35,988

ment of assets and liabilities

		December 31 1996	December 31 1995
			£ million
ıssets	Tangible fixed assets (Note 9)	42,083	44,723
	Investments – associated companies (Note 5)	5,218	5,368
	– other (Note 12)	494	716
ixed assets		47,795	50,807
ıt assets	Inventories (Note 10)	4,849	4,883
	Accounts receivable – including £2,790 million (1995: £2,532 million) due after one year (Note 11)	13,321	12,940
	Short-term securities (Note 12)	2,750	2,983
	Cash and cash equivalents (Note 12)	4,532	4,352
:urrent assets		25,452	25,158
ıt liabilities: amounts due within one year			
	Short-term debt (Note 13)	3,357	3,509
	Accounts payable and accrued liabilities (Note 15)	10,865	10,869
	Taxes payable (Note 8)	3,542	4,112
	Dividends payable to Parent Companies	1,761	1,895
:urrent liabilities		19,525	20,385
ırrent assets		5,927	4,773
assets less current liabilities		53,722	55,580
term liabilities: amounts due after more than one year			
	Long-term debt (Note 13)	3,614	4,747
	Other (Note 16)	1,737	1,555
		5,351	6,302
;ions	Deferred taxation (Note 8)	5,245	5,164
	Pensions and similar obligations (Notes 19 and 20)	2,526	2,779
	Decommissioning and restoration costs	1,408	1,359
		9,179	9,302
p net assets before minority interests		39,192	39,976
	Minority interests	2,015	2,006
ıssets		37,177	37,970

tement of cash flows (see Note 17)

		1996	1995	1994
				£ million
ı flow provided by operating activities				
ıcome for the year		5,691	4,375	4,070
stments to reconcile net income to cash flow provided by operating activities				
eciation, depletion and amortisation (Note 9)		4,677	5,141	4,504
ements in:	inventories	(559)	9	(28)
	accounts receivable	(1,322)	(1,102)	(952)
	accounts payable and accrued liabilities	1,098	1,000	394
	taxes payable	(70)	22	779
	short-term securities	172	(21)	(128)
ciated companies: dividends more/(less) than net income (Note 5)		(64)	21	3
rred taxation and other provisions		760	(186)	(685)
j term liabilities and other		99	49	(394)
ne applicable to minority interests		171	116	75
ı flow provided by operating activities		**10,653**	9,424	7,638
ı flow used in investing activities				
tal expenditure (including capitalised leases) (Note 9)		(7,039)	(6,951)	(6,171)
eeds from sale of assets		868	682	1,204
/ investments in associated companies (Note 5)		(492)	(350)	(288)
osals of investments in associated companies		121	181	652
er investments		130	(119)	(89)
h flow used in investing activities		**(6,412)**	(6,557)	(4,692)
h flow provided by/(used in) financing activities				
g-term debt (including short-term part):				
	new borrowings	581	736	1,486
	repayments	(1,113)	(1,047)	(1,696)
		(532)	(311)	(210)
increase/(decrease) in short-term debt		4	(361)	271
ority interests		160	359	181
h flow provided by/(used in) financing activities		**(368)**	(313)	242
ıdends paid:	to Parent Companies	(3,204)	(2,890)	(2,496)
	to minority interests	(96)	(86)	(43)
ency translation differences relating to cash and cash equivalents		(393)	161	64
ease/(Decrease) in cash and cash equivalents		**180**	(261)	713
ı and cash equivalents at January 1		4,352	4,613	3,900
ı and cash equivalents at December 31		4,532	4,352	4,613

NOTES TO FINANCIAL STATEMENTS

1 The Royal Dutch/Shell Group of Companies

The Parent Companies, Royal Dutch Petroleum Company (Royal Dutch) and The "Shell" Transport and Trading Company, p.l.c. (Shell Transport) are holding companies which together own, directly or indirectly, investments in numerous companies known collectively as the Royal Dutch/Shell Group. Group companies are engaged in all principal aspects of the oil and natural gas business throughout the world. They also have substantial chemical and coal interests. These activities are conducted in more than 120 countries and are subject to changing economic, regulatory and political conditions.

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

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

2 Accounting policies

Nature of the financial statements

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

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

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

ency translation

ts and liabilities of non-sterling Group companies are translated to ng at year-end rates of exchange, whilst their statements of income and flows are translated at quarterly average rates. Translation differences g on aggregation are taken directly to a currency translation differences unt, which forms part of Parent Companies' interest in Group net assets. disinvestment or liquidation of a non-sterling Group company, lative currency translation differences related to that company are to income.

The sterling equivalents of exchange gains and losses arising as a result reign currency transactions (including those in respect of inter-company nces unless related to transactions of a long-term investment nature) ncluded in Group net income.

equivalents and short-term securities

t-term securities with a maturity from acquisition of three months or that are readily convertible into known amounts of cash are classified ash equivalents.

Short-term securities of a trading nature are carried at fair value. alised holding gains and losses on those securities are included in net me for the period. Short-term securities intended to be held to maturity tated at cost, unless permanently impaired, in which case they are carried value. Other short-term securities are regarded as available for sale and carried at fair value if significantly different from cost.

Cash flows resulting from movements in short-term securities of a ing nature are reported under Cash flow provided by operating activities e cash flows resulting from movements in other short-term securities eported under Cash flow used in investing activities as part of er investments.

ncial instruments

balance sheet financial instruments such as forward exchange contracts currency swaps used to hedge potential exchange rate exposure are ed at market with resulting gains and losses taken to income when the s and losses on the underlying hedged transactions are recognised. niums or discounts on financial instruments that are designated as hedges eflected as adjustments to interest income or expense. Gains and losses ng from the valuation at market of financial instruments that are not gnated as hedges are taken to income in the period in which they arise. rest differentials under swap arrangements and forward rate agreements d to manage interest rate exposure are recognised by adjustment to rest expense.

trading

rading contracts such as futures and forward contracts and swaps are ered into by some Group companies, generally in order to hedge exposure rice fluctuations which arise on purchases and sales of crude oil and oil ducts. Contracts designated as hedges are valued at market and resulting s and losses are taken to income when the gains and losses on the erlying hedged transactions are recognised. The gains and losses on tracts that are not designated as hedges are taken to income in the od in which they arise.

Inventories

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

Exploration costs

Group companies follow the successful efforts method of accounting for oil and gas exploration costs. Exploration costs are charged to income when incurred, with the exception that exploratory drilling costs are initially included in tangible fixed assets pending determination of commercial reserves; should the efforts be determined unsuccessful, they are then charged to income.

Interest capitalisation

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

Depreciation, depletion and amortisation

Tangible fixed assets related to producing activities are depleted 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.

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

Environmental expenditures

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

ımissioning and restoration costs

:ed decommissioning and restoration costs are based on current ments, technology and price levels. In respect of oil and gas producing ›s, the estimated cost is provided over the life of the proved developed ·s on a unit-of-production basis. For other activities, the estimated cost ded over the remaining life of a facility on a straight-line basis once an ion crystallises and the amount can be reasonably estimated. Changes ıates of costs are accrued on a prospective basis.

ed taxation

:d taxation is provided using the comprehensive liability method ıunting for income taxes based on provisions of enacted laws. ıition is given to deferred tax assets and liabilities for the expected tax consequences of events that have been recognised in the financial ents or in the tax returns. In estimating these tax consequences ›ration is given to expected future events. The measurement of ·d tax assets is reduced, if necessary, by a valuation allowance ›nting the amount of any tax benefits for which there is uncertainty sation.

›yee retirement plans

ıent plans to which employees contribute and many non-contributory ıre generally funded by payments to independent trusts. Where, due to ›nditions, a plan is not funded, a provision which is not less than the t value of accumulated pension benefits, based on present salary levels, ded in the financial statements. Valuations of both funded and led plans are carried out by independent actuaries. ›nsion cost primarily represents the increase in actuarial present value of ligation for pension benefits based on employee service during the year e interest on this obligation in respect of employee service in previous net of the expected return on plan assets.

›tirement benefits other than pensions

Group companies provide certain postretirement health care and life ıce benefits to retirees, the entitlement to which is usually based on the yee remaining in service up to retirement age and the completion of a ım service period. The expected costs of these benefits are accrued ıe periods employees render service to the Group. These plans are not 1. A provision is included in the financial statements which is sufficient ›r the present value of the accumulated postretirement benefit :ion based on current assumptions. Valuations of these obligations are I out by independent actuaries.

Group sales

›etween Group companies are based on prices generally equivalent to ercially available prices.

ıistrative expenses

istrative expenses are those which do not relate directly to the activities ngle business segment and include expenses incurred in the jement and co-ordination of multi-segment enterprises.

Research and development

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

Montell

With effect from April 1, 1995, the major part of the polyolefins businesses of Group companies and Montedison were merged into a new incorporated joint venture Montell, in which each party has a 50% shareholding. The accounts of Montell are included in the Group's financial statements.

In the Group's financial statements, net assets contributed to the venture by the Group have continued to be accounted for at historical amounts. Net assets contributed by Montedison were brought in at appraised fair values.

Reclassifications

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

›ivision of Group net income between the Parent Companies

›ivision of Group net income, in accordance with Note 1, is as follows:

	Total		Royal Dutch		Shell Transport
					£ million
› net income	**5,691**				
ndistributed net income	**2,465**				
istributions to Parent Companies	**3,226**		**2,104**		**1,122**
›ation tax credit referable					
t distributions accruing					
ell Transport (see Note 1)	**280**		**–**		**280**
ble for 60:40 purposes	**3,506**	(60%)	**2,104**	(40%)	**1,402**
›tributed net income	**2,465**	(60%)	**1,479**	(40%)	**986**

					£ million
› net income	4,375				
ndistributed net income	1,214				
istributions to Parent Companies	3,161		2,062		1,099
ation tax credit referable					
distributions accruing					
ell Transport (see Note 1)	275		–		275
ble for 60:40 purposes	3,436	(60%)	2,062	(40%)	1,374
stributed net income	1,214	(60%)	728	(40%)	486

					£ million
p net income	4,070				
ındistributed net income	1,425				
listributions to Parent Companies	2,645		1,725		920
›tation tax credit referable					
›t distributions accruing					
›ell Transport (see Note 1)	230		–		230
ible for 60:40 purposes	2,875	(60%)	1,725	(40%)	1,150
stributed net income	1,425	(60%)	855	(40%)	570

4 Parent Companies' interest in Group net assets

	1996	1995	1994
			£ million
Invested by Parent Companies	**447**	447	447
Profits capitalised by Group companies	**1,963**	1,958	1,942
Cumulative currency translation differences	**1,285**	4,543	3,775
Retained earnings of Group companies	**33,482**	31,022	29,824
Balance at December 31	**37,177**	37,970	35,988

Earnings retained by the subsidiary and associated companies of the Group Holding Companies (namely Shell Petroleum N.V., The Shell Petroleum Company Limited and Shell Petroleum Inc.) amounted to £18,693 million at December 31, 1996 (1995: £15,844 million; 1994: £15,618 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.

ociated companies

come

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

summarised statement of income, together with a segment analysis, spect to Group share of net income from associated companies, is set ow:

	1996	1995	1994
			£ million
eeds	**14,423**	14,980	13,715
sales	**11,793**	12,513	11,763
ofit	**2,630**	2,467	1,952
erating expenses	**1,396**	1,266	906
ng profit	**1,234**	1,201	1,046
and other income	**37**	42	95
expense	**145**	187	181
y exchange gains/(losses)	**14**	7	22
before taxation	**1,140**	1,063	982
	492	456	400
me for the year	**648**	607	582
by segment			
gas:			
ploration and Production	**186**	108	98
efining and Marketing	**403**	342	395
als	**140**	266	118
	(81)	(109)	(29)
	648	607	582

nvestments

	Shares	Loans	Total 1996	Total 1995
				£ million
ary 1	**4,963**	**405**	**5,368**	5,047
vestments	**258**	**234**	**492**	350
als and other movements	**(35)**	**(51)**	**(86)**	(155)
ome	**648**	**–**	**648**	607
ds	**(584)**	**–**	**(584)**	(628)
y translation differences	**(571)**	**(49)**	**(620)**	147
ember 31	**4,679**	**539**	**5,218**	5,368

A summarised statement of assets and liabilities, together with a segment analysis, with respect to Group share of investments in associated companies, is set out below:

	1996	1995
		£ million
Assets/Liabilities		
Fixed assets	**8,275**	8,988
Current assets	**3,147**	3,437
Total assets	**11,422**	12,425
Current liabilities	**3,123**	3,744
Long-term liabilities	**3,081**	3,313
Net assets	**5,218**	5,368
Investment by segment		
Oil and gas:		
Exploration and Production	**1,209**	1,290
Refining and Marketing	**2,482**	2,379
Chemicals	**1,372**	1,515
Other	**155**	184
	5,218	5,368

(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:

	1996	1995	1994
			£ million
Charges to associated companies	**7,679**	5,084	4,431
Charges from associated companies	**2,518**	1,931	1,913

Balances outstanding at December 31 in respect of the above transactions are shown in Notes 11 and 15.

6 Interest and other income

	1996	1995	1994
			£ million
Group companies:			
Interest income	**486**	579	437
Other income	**72**	60	516
	558	639	953
Associated companies	**37**	42	95
	595	681	1,048

Other income of Group companies in 1996 includes net unrealised holding losses on trading securities of £20 million (1995: £38 million gains; 1994: £15 million losses).

Other income of Group companies in 1994 includes £469 million in respect of the disposal of an interest in property in Hong Kong.

Interest expense

	1996	1995	1994
			£ million
·est incurred	**665**	757	637
interest capitalised	**142**	165	110
est expense of Group companies	**523**	592	527
·est expense of associated companies	**145**	187	181
	668	779	708

Taxation

Taxation charge for the year

	1996	1995	1994
			£ million
ent tax charge	**3,895**	3,319	3,037
rred tax charge/(credit)	**618**	(290)	(955)
ion charge of Group companies	**4,513**	3,029	2,082
tion charge of associated companies	**492**	456	400
	5,005	3,485	2,482

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

	1996	1995	1994
			£ million
›cted tax charge at statutory rates	**4,578**	3,170	2,653
ıstments of valuation allowance	**(7)**	(78)	(232)
ıstments in respect of prior years	**(228)**	(110)	(243)
›r	**170**	47	(96)
tion charge of Group companies	**4,513**	3,029	2,082

taxation charge of Group companies includes not only income taxes of ıeral application but also income taxes at special rates levied on income n oil and gas producing activities and various additional income and other ›s to which these activities are subject.

Taxes payable

	1996	1995
		£ million
·s on activities of Group companies	**1,901**	2,213
s taxes, excise duties and similar ›s and social law taxes	**1,641**	1,899
	3,542	4,112

(c) Provision for deferred taxation

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

	1996	1995
		£ million
Tangible fixed assets	**7,387**	7,844
Other items	**994**	822
Total deferred tax liabilities	**8,381**	8,666
Tax losses carried forward	**(1,692)**	(1,736)
Provisions:		
Pensions and similar obligations	**(516)**	(519)
Decommissioning and restoration costs	**(640)**	(611)
Environmental and other provisions	**(271)**	(329)
Other items	**(1,486)**	(1,756)
Total deferred tax assets	**(4,605)**	(4,951)
Asset valuation allowance	**1,469**	1,449
Net deferred tax assets	**(3,136)**	(3,502)
Net deferred tax liability	**5,245**	5,164

The Group has tax losses carried forward amounting to £4,685 million at December 31, 1996. Of these, £2,054 million can be carried forward indefinitely. The remaining £2,631 million expires in the following years:

	£ million		£ million
1997	122	2000	65
1998	182	2001-2005	936
1999	469	2006-2011	857

ıgible fixed assets by industry segment

ˈe fixed assets are classified, consistent with oil and gas industry e, according to operating activities. Such a classification, rather than one ıng to type of asset, is given in order to permit a better comparison ther companies having similar activities.

	Oil and gas: Exploration and Production	Oil and gas: Refining and Marketing	Chemicals	Other industry segments	Total Group 1996	Total Group 1995
						£ million
ary 1	41,917	32,273	12,007	2,614	88,811	80,927
expenditure	3,195	2,766	904	174	7,039	6,951
etirements ner ents	(1,132)	(168)	(115)	(962)	(2,377)	(1,469)
y translation	(3,372)	(3,573)	(1,272)	(156)	(8,373)	2,402
ember 31	40,608	31,298	11,524	1,670	85,100	88,811
ciation						
ary 1	22,716	14,883	5,203	1,286	44,088	40,461
iation, on and sation charge year*	2,595	1,660	627	92	4,974	5,104
etirements ner ıents	(826)	(126)	(111)	(630)	(1,693)	(2,836)
cy translation	(1,873)	(1,785)	(619)	(75)	(4,352)	1,359
ember 31	22,612	14,632	5,100	673	43,017	44,088
996	17,996	16,666	6,424 (1)	997	42,083	
995	19,201	17,390	6,804 (1)	1,328		44,723

; includes £2,329 million (1995: £2,566 million) in respect of Montell.

et balances at December 31 include:

	1996	1995
		£ million
lised costs in respect of assets not yet used in operations:		
ved properties	1,158	1,036
l properties under development and other le fixed assets in the course of construction	4,650	6,201
	5,808	7,237

*Depreciation, depletion and amortisation are included within the following expense headings in the Statement of income.

	1996	1995	1994
			£ million
Cost of sales	3,858	4,211	3,654
Selling and distribution expenses	695	767	693
Administrative expenses	49	74	82
Exploration	14	19	3
Research and development	61	70	72
Included within the Statement of income	4,677	5,141	4,504
Profit/(Losses) on disposals	297	(37)	(33)
	4,974	5,104	4,471

1996 includes £113 million (1995: £486 million) relating to the impairment of tangible fixed assets.

10 Inventories

	1996	1995
		£ million
Inventories of oil, chemicals and coal	4,290	4,222
Inventories of materials	559	661
	4,849	4,883

Of the total inventories, £556 million at December 31, 1996 (1995: £618 million) wholly in North America are valued by the LIFO method. The excess of FIFO cost over the carrying amount of such LIFO inventories was £607 million at December 31, 1996 (1995: £431 million).

11 Accounts receivable

	1996	1995
		£ million
Trade receivables	7,133	6,925
Amounts owed by associated companies	929	1,085
Other receivables	2,499	2,275
Amounts due from Shell Transport in respect of UK advance corporation tax	122	111
Deferred charges and prepayments	2,638	2,544
	13,321	12,940

Provisions for doubtful items deducted from accounts receivable amounted to £124 million at December 31, 1996 (1995: £140 million). Amounts of £716 million at December 31, 1996 (1995: £559 million) included under Other receivables and £2,074 million (1995: £1,973 million) included under Deferred charges and prepayments are due after more than one year.

Short-term securities

Investments – other and Short-term securities

ɔded in Investments – other and Short-term securities at December 31, '6 are securities with a carrying amount of £404 million 95: £290 million), which are not of a trading nature nor intended to be to maturity and are, therefore, defined as being available for sale; for e securities the estimated fair value is not significantly different from carrying amount. There are no securities (1995: £199 million) which are nded to be held to maturity.

Listed short-term securities

rt-term securities, including those reported as cash equivalents, listed on ɔgnised stock exchanges amounted to £4,200 million at December 31, '6 (1995: £3,378 million).

Debt

Short-term debt

	1996	1995
		£ million
entures and other loans	**737**	520
ɔunts due to banks and other credit institutions	**2,593**	2,967
	3,330	3,487
italised lease obligations	**27**	22
ɔrt-term debt	**3,357**	3,509
long-term debt due within one year	**1,268**	1,065
rt-term debt excluding long-term debt due within one year	**2,089**	2,444

· following relates only to short-term debt excluding long-term debt due hin one year:

	1996	1995
		£ million
ximum amount outstanding at the end of any quarter	**3,227**	3,079
rage amount outstanding	**2,833**	2,701
ounts due to banks and other credit institutions	**1,688**	1,808
ısed lines of short-term credit	**4,393**	4,459
ɔroximate average interest rate on:		
average amount outstanding	**6.4%**	7.0%
amount outstanding at year end	**6.9%**	8.0%

(b) Long-term debt

	1996	1995
		£ million
Debentures and other loans	**991**	1,393
Amounts due to banks and other credit institutions	**2,435**	3,150
	3,426	4,543
Capitalised lease obligations	**188**	204
Long-term debt	**3,614**	4,747
add long-term debt due within one year	**1,268**	1,065
Long-term debt including long-term debt due within one year	**4,882**	5,812

The 1996 total includes £800 million (1995: £1,185 million) in respect of Montell.

Pledges of assets have been given, mainly in respect of bank loans, to the extent of £879 million at December 31, 1996 (1995: £1,000 million).

Unused lines of long-term credit amounted to £673 million at December 31, 1996 (1995: £758 million).

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

Long-term debt denominated in US dollars amounted to £3,344 million at December 31, 1996 (1995: £4,300 million). The weighted average interest rate in 1996 for US dollar debt was 6.9% and 7.2% for total debt.

The aggregate maturities of long-term debts are:

	£ million		£ million
1997	1,241	2001	462
1998	677	2002-2006	728
1999	800	2007-2016	9
2000	735	2017 and after	15

·mmitments

asing arrangements

ıre minimum lease payments under operating leases and capital leases, · present value of net minimum capital lease payments at December 31, ·ere as follows:

	Operating leases	Capital leases
		£ million
	814	38
	601	33
	482	31
	379	24
	306	22
d after	1,375	142
ıimum payments	3,957	290
:utory costs and interest		75
·alue of net minimum		
·ase payments		215

·ral, the above future minimum operating lease payments are :ed on a time basis. The figures represent minimum commitments ȷ at December 31, 1996 and are not a forecast of future total ·xpense.

tal rental expense for all operating leases was as follows:

	1996	1995	1994
			£ million
n rentals	**1,208**	1,093	1,008
ent rentals	**113**	136	89
·e rentals	**(152)**	(145)	(129)
	1,169	1,084	968

·ng-term purchase obligations

companies have unconditional long-term purchase obligations ıted with financing arrangements. The aggregate amount of payments d under such obligations at December 31, 1996 is as follows:

	£ million
	116
	118
	113
	91
	86
ıd after	279
	803

·reements under which these unconditional purchase obligations arise ·nainly to the transportation of crude oil and natural gas by pipeline and rchase of chemical feedstock.

ctual payments under these agreements, which include additional sums ·epending upon actual quantities of supplies, amounted to £102 million 6 (1995: £121 million).

15 Accounts payable and accrued liabilities

	1996	1995
		£ million
Trade payables	**5,432**	4,779
Amounts due to associated companies	**483**	728
Pensions and similar obligations	**162**	185
Other payables	**2,075**	2,635
Accruals and deferred income	**2,713**	2,542
	10,865	10,869

16 Long-term liabilities – Other

These amounts are mainly in respect of environmental and redundancy liabilities, deposits and deferred credits. They include £300 million at December 31, 1996 (1995: £293 million) which do not fall due until more than five years after the respective balance sheet dates.

17 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 sterling 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-sterling Group companies to sterling 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.

	Movements arising from currency translation	Movements from Statement of cash flows	Major non-cash movements	Movements derived from Statement of assets and liabilities
1996				£ million
Tangible fixed assets	**(4,021)**	**1,473**	**(92)**	**(2,640)**
Deferred taxation and other provisions	**883**	**(760)**	**–**	**123**
Inventories	**(593)**	**559**	**–**	**(34)**
Accounts receivable	**(1,265)**	**1,322**	**324**	**381**
Accounts payable and accrued liabilities	**1,102**	**(1,098)**	**–**	**4**
Taxes payable	**500**	**70**	**–**	**570**
Long-term debt	**368**	**832**	**(67)**	**1,133**
Short-term part of long-term debt	**97**	**(300)**	**–**	**(203)**
Short-term debt	**292**	**(4)**	**67**	**355**
Cash and cash equivalents	**(393)**	**573**	**–**	**180**
Short-term securities	**(98)**	**(135)**	**–**	**(233)**
Other	**(130)**	**(67)**	**(232)**	**(429)**
	(3,258)	**2,465**	**–**	**(793)**

Employee emoluments and numbers

Emoluments

	1996	1995	1994
			£ million
uneration	**3,562**	3,457	3,346
il law taxes	**336**	334	298
ions and similar obligations (Notes 19 and 20)	**131**	164	259
	4,029	3,955	3,903

Average numbers

	1996	1995	1994
			thousands
nd gas:			
Exploration and Production	**18**	17	18
Refining and Marketing	**55**	54	55
nicals	**23**	21	17
r industry segments, including Corporate	**5**	12	16
	101	104	106

995, a provision of £225 million was made for the restructuring of Service Companies out of which £180 million was spent in 1996. The ucturing charges included costs related to redundancies, organisational ews and staff relocations.

As a direct result of the restructuring, 864 employees left Group loyment in 1996 and more staff are now directly associated with ness segments.

Employee retirement plans

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

Pension cost for the year represents:

	1996	1995	1994
			£ million
ease in present value of the obligation for pension efits based on employee service during the year	**394**	413	489
est on the obligation for pension benefits in ect of employee service in previous years	**1,257**	1,312	1,112
al return on plan assets	**(2,941)**	(2,705)	314
rence between the actual and ected return on plan assets	**1,332**	1,043	(1,790)
total of other components	**(34)**	–	16
of defined benefit plans	**8**	63	141
ients to defined contribution plans	**72**	74	69
ion cost for the year	**80**	137	210

The status of the funded employee retirement plans is as follows:

	1996	1995
		£ million
Present value of pension benefits based on present salary levels	**14,048**	15,110
Present value of the effect of estimated projected remuneration growth	**1,621**	1,655
Obligation for pension benefits based on employee service to date	**15,669**	16,765
Plan assets held in trusts at fair value	**20,170**	19,795
Plan assets in excess of the present value of obligation for pension benefits	**4,501**	3,030
Consisting of:		
Unrecognised net gains remaining from the adoption of current method of determining pension costs	**287**	309
Unrecognised net gains/(losses) since adoption	**3,218**	1,999
Unrecognised prior service cost	**(225)**	(283)
Prepaid pension costs	**1,221**	1,005

Vested benefits included in the present value of pension benefits based on present salary levels are £13,592 million at December 31, 1996 (1995: £14,629 million). Prepaid pension cost, which is included in the Statement of assets and liabilities, represents the surplus of accumulated contributions made in excess of the cumulative pension costs.

The obligation for pension benefits at December 31, 1996 in respect of unfunded plans was £1,981 million (1995: £2,186 million) of which £1,807 million (1995: £1,958 million) related to vested benefits. The excess of the obligation for pension benefits over the provision for pension obligations at December 31, 1996 was £129 million (1995: £172 million) and will be recognised in future pension expense.

Plan assets principally comprise marketable securities and property holdings.

Discount rates, projected rates of remuneration growth and expected rates of return on plan assets vary for the different plans as they are determined in the light of local conditions. The weighted averages applicable for the principal pension plans in the Group for 1996 and 1995 are:

	1996	1995
Discount rate	**7.1%**	7.1%
Projected rate of remuneration growth	**4.9%**	4.6%
Expected rate of return on plan assets	**8.3%**	8.9%

stretirement benefits other than pensions

roup companies have established unfunded defined benefit plans to provide certain postretirement health care and life insurance benefits to their retirees, tlement to which ... ually based on the employee remaining in service up to retirement age and the completion of a minimum service period.
anges in accumulated postretirement benefit obligation are as follows:

	USA	Other	Total 1996	USA	Other	Total 1995
						£ million
for postretirement benefit obligation at January 1	**655**	**202**	**857**	639	181	820
ment benefit cost for the year	**30**	**21**	**51**	11	16	27
ayments made during the year	**(27)**	**(12)**	**(39)**	(27)	(9)	(36)
translation effects/other movements	**(58)**	**(33)**	**(91)**	32	14	46
for postretirement benefit obligation at December 31	**600**	**178**	**778**	655	202	857

on for postretirement benefit obligation

	USA	Other	Total 1996	USA	Other	Total 1995
						£ million
ated postretirement benefit obligation:						
irees	**266**	**158**	**424**	384	168	552
y eligible participants	**37**	**61**	**98**	34	31	65
er active participants	**177**	**9**	**186**	226	50	276
plans	**480**	**228**	**708**	644	249	893
nised prior service (cost)/credit	**10**	**(2)**	**8**	8	(2)	6
nised net gain/(loss)	**110**	**(48)**	**62**	3	(45)	(42)
for postretirement benefit obligation at December 31	**600**	**178**	**778**	655	202	857

ptions used in calculating the accumulated postretirement benefit obligation

	USA	Other 1996	USA	Other 1995
discount rate	**7.5%**	**6.8%**	7.0%	6.9%
are cost trend rate in reporting year	**8.5%**	**3.7%**	9.0%	3.9%
are cost trend rate in year after reporting year	**7.5%**	**3.6%**	8.3%	3.9%
health care cost trend rate	**5.0%**	**3.2%**	5.0%	3.4%
mate health care cost trend rate is applicable	**2002**	**2002**	2002	2002

fect of a one percentage point increase in the annual rate of increase in the assumed health care cost trend rates would be to increase annual tirement benefit cost by approximately £10 million and the accumulated postretirement benefit obligation by approximately £94 million.

Information by geographical area and by industry segment

Geographical area

	Excluding inter-area	Inter-area	Net proceeds Total	Earnings from operations	Identifiable assets
6					£ million
pe	38,681	3,551	42,232	2,290	24,831
r Eastern Hemisphere	15,039	3,770	18,809	1,980	17,406
	18,576	425	19,001	1,212	16,625
r Western Hemisphere	9,783	268	10,051	577	5,920
nation of inter-area					
eeds/unallocated	–	(8,014)	(8,014)	(4)	71
Group	82,079	–	82,079	6,055	64,853

	Excluding inter-area	Inter-area	Net proceeds Total	Earnings from operations	Identifiable assets
1995					£ million
Europe	32,704	2,539	35,243	1,807	24,500
Other Eastern Hemisphere	13,197	2,984	16,181	1,401	17,931
USA	15,372	433	15,805	846	16,580
Other Western Hemisphere	8,322	299	8,621	551	5,992
Elimination of inter-area					
proceeds/unallocated	–	(6,255)	(6,255)	(19)	279
Total Group	69,595		69,595	[illegible]	65,282

Industry segment

	Total Group	Oil and gas: Exploration and Production	Oil and gas: Refining and Marketing	Chemicals	Other industry segments
					£ million
parties	82,079	7,922	65,558	8,978	521
inter-segment		[illegible]	[illegible],828	553	–
proceeds	82,079	15,407	67,386	9,531	521
ations before taxation:					
p companies(1)	9,882	6,605	2,354	922	1
p share of					
ciated companies	1,234	506	563	167	(2)
	11,116	7,111	2,917	1,089	(1)
ion	5,061	3,866	881	327	(13)
ings from operations	6,055	3,245	2,036	762	12
orate items(2)	(193)				
ne applicable to					
rity interests	171				
income for the year	5,691				
tifiable assets	64,853	22,158	30,941	10,588	1,166
orate assets	8,394				
fixed and					
nt assets	73,247				

	Total Group	Oil and gas: Exploration and Production	Oil and gas: Refining and Marketing		Other industry segments
1995					£ million
Sales: third parties	69,595	5,493	54,135	[illegible],239	728
inter-segment		6,761	1,443	280	–
Net proceeds	69,595	12,254	55,578	9,519	728
Earnings from					
operations before taxation:					
Group companies(1)	6,957	3,797	1,772	1,30[illegible]	85
Group share of					
associated companies	1,201	284	576	335	6
	8,158	4,081	2,348	1,638	91
Taxation	3,572	2,215	831	546	(20)
Earnings from operations	4,586	1,866	1,517	1,092	111
Corporate items(2)	(95)				
Income applicable to					
minority interests	116				
Net income for the year	4,375				
Identifiable assets	65,282	22,271	30,586	11,233	1,192
Corporate assets	10,683				
Total fixed and					
current assets	75,965				

fully consolidated amounts of Montell, of which Group companies own o, have been included since April 1, 1995. This treatment is in accordance legal requirements in the Netherlands, having regard to the nature of up companies' interests in the joint venture. It is at variance with ounting requirements in the United States although the amounts involved not material to the Group's financial statements as a whole. The following ounts related to the venture are included in the Chemicals numbers:

	1996	1995
		£ million
proceeds	2,427	1,759
ngs from operations before taxation:		
Group companies	220	73
Group share of associated companies	30	23
ion	89	25
ngs from operations	161	71
tifiable assets	3,200	3,491

	Excluding inter-area	Inter-area	Net proceeds Total	Earnings from operations	Identifiable assets
					£ million
	28,540	2,064	30,604	1,613	20,635
stern Hemisphere	12,074	2,778	14,852	1,580	17,069
	13,564	471	14,035	218	14,881
stern Hemisphere	7,751	415	8,166	485	5,744
on of inter-area s unallocated	–	(5,728)	(5,728)	(31)	291
oup	61,929	–	61,929	3,865	58,620

	Total Group	Oil and gas: Exploration and Production	Oil and gas: Refining and Marketing	Chemicals	Other industry segments (3)
					£ million
ird parties	61,929	4,774	49,095	6,764	1,296
ter-segment		6,164	1,399	280	–
oceeds	61,929	10,938	50,494	7,044	1,296
s from					
ns before taxation:					
ompanies(1)	5,475	2,991	2,415	383	(314)
hare of					
ted companies	1,046	258	639	145	4
	6,521	3,249	3,054	528	(310)
1	2,656	1,711	969	188	(212)
gs from operations	3,865	1,538	2,085	340	(98)
ate items(2)	280				
applicable to					
y interests	75				
come for the year	4,070				
fiable assets	58,620	22,215	27,067	7,847	1,491
ate assets	10,515				
ixed and					
t assets	69,135				

des certain items included in Corporate which form part of Operating profit in the Statement of and includes certain currency exchange gains/losses which are allocated to the appropriate segment.

orate includes currency exchange losses of £59 million in 1996 (1995: gains of £163 million; sses of £103 million).

major portion of metals assets was disposed of during 1994.

Oil and gas exploration and producing activities

Capitalised costs

ıggregate amount of tangible fixed assets of Group companies relating to ıd gas exploration and producing activities and the aggregate amount of elated depreciation, depletion and amortisation at December 31, are vn in the table below:

	1996	1995	1994
			£ million
d properties	38,001	39,525	37,443
ved properties	1,357	1,222	1,339
rt equipment and facilities	1,250	1,170	1,055
	40,608	41,917	39,837
eciation			
d properties	21,672	21,797	19,924
ved properties	220	210	260
ort equipment and facilities	720	709	600
	22,612	22,716	20,784
capitalised costs	**17,996**	19,201	19,053

share of associated companies' capitalised costs:
oup share of net capitalised costs was £1,542 million at December 31, 1996 (1995: £1,251 million; £1,744 million).

Costs incurred

s incurred by Group companies during the year in oil and gas property ıisition, exploration and development activities, whether capitalised or ged to income currently, are shown in the table below. Development costs ude costs of acquiring support equipment and facilities, but include reciation thereon.

	Europe	Eastern Hemisphere Other	USA	Western Hemisphere Other	Total
6					£ million
ıisition of properties:					
proved	–	**11**	**111**	**135**	**257**
unproved	**3**	**14**	**90**	**19**	**126**
oration	**232**	**273**	**380**	**63**	**948**
lopment	**1,208**	**394**	**737**	**91**	**2,430**
5					£ million
ıisition of properties:					
proved	–	1	9	122	132
unproved	7	–	39	10	56
oration	204	240	280	52	776
lopment	1,148	554	661	95	2,458
4					£ million
ıisition of properties:					
proved	5	6	52	67	130
unproved	3	15	16	12	46
oration	153	267	249	54	723
lopment	960	726	471	85	2,242

ıp share of associated companies' costs incurred:
roup share of costs incurred was £260 million in 1996 (1995: £233 million; 1994: £277 million).

(c) Earnings

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

	Europe	Eastern Hemisphere Other	USA	Western Hemisphere Other	Total
1996					£ million
Sales: third parties	**3,372**	**904**	**1,064**	**624**	**5,964**
intra-Group	**1,499**	**4,492**	**1,864**	**350**	**8,205**
Net proceeds	**4,871**	**5,396**	**2,928**	**974**	**14,169**
Production costs(1)	**1,167**	**1,735**	**734**	**218**	**3,854**
Exploration expense	**241**	**224**	**195**	**53**	**713**
Depreciation, depletion and amortisation	**785**	**768**	**802**	**180**	**2,535**
Other income/(costs)	**(55)**	**(13)**	**(209)**	**(184)**	**(461)**
Earnings before taxation	**2,623**	**2,656**	**988**	**339**	**6,606**
Taxation	**1,250**	**1,824**	**320**	**153**	**3,547**
Earnings from operations	**1,373**	**832**	**668**	**186**	**3,059**
1995					£ million
Sales: third parties	2,877	772	683	507	4,839
intra-Group	1,264	3,691	1,491	315	6,761
Net proceeds	4,141	4,463	2,174	822	11,600
Production costs(1)	1,252	1,733	698	253	3,936
Exploration expense	165	212	135	41	553
Depreciation, depletion and amortisation	793	750	911	205	2,659
Other income/(costs)	(113)	(224)	(154)	(164)	(655)
Earnings before taxation	1,818	1,544	276	159	3,797
Taxation	765	1,149	56	69	2,039
Earnings from operations	1,053	395	220	90	1,758
1994					£ million
Sales: third parties	2,390	717	629	483	4,219
intra-Group	1,191	3,297	1,359	317	6,164
Net proceeds	3,581	4,014	1,988	800	10,383
Production costs(1)	1,185	1,639	729	283	3,836
Exploration expense	172	262	193	42	669
Depreciation, depletion and amortisation	677	700	959	254	2,590
Other income/(costs)	(27)	26	(201)	(95)	(297)
Earnings before taxation	1,520	1,439	(94)	126	2,991
Taxation	522	1,093	(150)	86	1,551
Earnings from operations	998	346	56	40	1,440

(1) Includes certain royalties paid in cash amounting to £868 million in 1996 (1995: £714 million; 1994: £642 million).

Group share of associated companies' earnings:
The Group share of associated companies' earnings was £186 million in 1996 (1995: £108 million; 1994: £98 million) after deducting taxation of £320 million in 1996 (1995: £176 million; 1994: £160 million).

ock options and Parent Companies' shares held by companies

Group companies have outstanding stock options granted to ves and other key employees of those and other Group companies. ions are granted, according to the particular option plan, for periods of re than five or ten years at prices not less than the market value at the granting the option.

e Senior Executive Stock Option Scheme has been in operation for 30 years providing stock options to the most senior executives of the from time to time. Beginning in 1995, options were granted to a larger of over 900 managers. This enlargement of an otherwise unchanged was part of a move to performance-related pay for the wider ement cadre of the Group which, by aligning remuneration with older interest, is intended to support the drive for improved s performance.

e following table shows, in respect of these plans, the options ed and options granted during the year, and the number of shares option at December 31, 1996.

	Exercised	Granted	Under option
tch ordinary shares	**220,025**	**532,200**	**1,072,075**
nsport ordinary shares	**1,251,550**	**3,464,440**	**8,625,680**
nada common shares	**264,034**	**87,700**	**433,688†**

d

nection with certain of these plans 1,057,875 shares of Royal Dutch and 380 shares of Shell Transport were held at December 31, 1996 at an gate cost of £164 million.

addition, 8,400 shares of Royal Dutch were held by Group companies. ne Shell Petroleum Company Limited operates a savings-related share scheme under which options are granted over shares of Shell Transport es not less than the market value on a date not more than 30 days the date of the grant of option and are normally exercisable after etion of a three or five year contractual savings period. At December 31, options were outstanding over an aggregate of 12,723,049 shares of ansport. Shares to back these options have been purchased by a Group ny at a cost of £73 million. During 1996, options over 1,827,926 shares exercised and options over 2,432,087 shares granted.

24 Contingencies and litigation

Two production joint ventures, in which the Group has an interest and which are based in the Netherlands and in Germany respectively, have co-operated to extract gas on an equal basis from a common border area. In the process of the final redetermination of gas reserves in the common area it has emerged that the German joint venture has in good faith received considerable quantities of gas in excess of its entitlement. In 1991 the two joint ventures reached an agreement on the quantification of the excess, and this was subsequently approved by the respective governments. Due to differences of opinion between the parties involved relating to compensation in respect of the over-delivery, arbitration proceedings were commenced and are on-going in Zurich under the rules of the International Chamber of Commerce with respect to that issue.

Apart from the issue subject to arbitration proceedings, there are other substantive issues which remain outstanding: in particular, the recovery of royalties paid in respect of the over-delivery and governmental levies on any compensation.

Since the ultimate Group interest in the ventures and the tax regimes applicable to them are different, this over-delivery could lead to a net cost to the Group. During 1996 an interim award was made by the arbitrators: the terms of the award did not result in any changes, during the year, to the provisions already made in respect of this matter. However, at this time, the ultimate cost cannot be established with reasonable certainty.

Since 1984 Shell Oil has been named, along with other co-defendants, in numerous product liability cases, including class actions, involving the failure of plumbing systems in the United States constructed with polybutylene plastic pipe. Shell Oil provided the resin to make this pipe. During 1995, Shell Oil entered into a class settlement which should resolve most of the residential plumbing claims. Certain claims, primarily those involving municipal water districts and parties electing not to participate in the class settlement, remain to be resolved, as does the allocation of costs among certain of the defendants. Until these matters, as well as the number of claimants in the class, are known, the ultimate costs cannot be reasonably determined.

Group companies are subject to a number of other loss contingencies arising out of litigation and claims brought by governmental and private parties. Certain other contingent liabilities of Group companies, arising mainly from guarantees for customs duties and third party indebtedness, amounted to £953 million at December 31, 1996 (1995: £1,073 million).

In the judgement of the Directors of the Group Holding Companies no losses, in excess of provisions made, which are material in relation to the Group financial position are likely to arise in respect of the foregoing matters, although their occurrence may have a significant effect on periodic results.

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

Financial instruments

ıp companies, in the normal course of business, use various types of ıcial instruments which expose the Group to market or credit risk. These de those recognised in the Statement of assets and liabilities ('on-balance t') and 'off-balance sheet' financial instruments. To the extent that financial ıments are used to manage exposures, estimated fair values of these ıments will offset, and be recognised concurrently with, gains and losses cated with the underlying transactions.

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

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

On-balance sheet financial instruments

ncial instruments in the Statement of assets and liabilities include cash, equivalents, short-term securities, trade receivables, short-term and -term debt. The estimated fair values of these instruments approximate carrying amounts.

The remainder of this note relates to off-balance sheet financial uments.

Interest rate risk

e Group companies use derivatives, and in particular interest rate swaps/ ard rate agreements and interest rate caps, to manage their exposure to ements in interest rates and thus to help achieve target levels of interest me or expense. The effect of these derivatives is reflected, as appropriate, ıterest expense or interest income.

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

	Contract/ notional amount	Estimated fair value	Contract/ notional amount	Estimated fair value
		1996		1995
				£ million
est rate swaps/forward rate ements and interest rate caps	**3,932**	**(16)**	4,545	10

amount of hedging gains or losses on these instruments which had n deferred at December 31, 1996 and at December 31, 1995 in respect of commitments was not significant.

(c) Foreign exchange risk

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

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

	Contract/ notional amount	Estimated fair value	Contract/ notional amount	Estimated fair value
		1996		1995
				£ million
Forward exchange contracts	**3,458**	**79**	4,808	15
Currency swaps/options	**596**	**(1)**	653	(20)

The amount of hedging gains or losses on these instruments which had been deferred at December 31, 1996 and at December 31, 1995 in respect of firm commitments was not significant.

(d) Commodities

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

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

	Contract/ notional amount	Estimated fair value	Contract/ notional amount	Estimated fair value
		1996		1995
				£ million
Trading purposes:				
assets	**392**	**27**	379	28
liabilities	**538**	**(33)**	343	(26)
Not for trading purposes	**219**	**113***	124	(5)

*Includes deferred gains of £116 million on certain commodity swaps, the results of which will be matched against the related hedged transactions.

The average fair values of commodity swaps/options used for trading purposes during 1996 were: assets of £31 million and liabilities of £32 million (1995: net liability of less than £1 million). Trading losses of £7 million arising on commodity swaps/options were included in 1996 income (1995: gains of £3 million).

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

PLEMENTARY INFORMATION – OIL AND GAS

rves

ıantities of proved oil and gas reserves are shown in the tables on this and the following page. Proved reserves are the estimated quantities of oil and gas geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic ɔerating conditions. Proved developed reserves are those reserves which can be expected to be recovered through existing wells with existing equipment ɔerating methods. The reserves reported exclude volumes attributable to oil and gas discoveries which are not at present considered proved. Such reserves included when technical, fiscal and other conditions allow them to be economically developed and produced. Proved reserves are shown net of any ties of crude oil or natural gas that are expected to be taken by others as royalties in kind but do not exclude certain quantities related to royalties ted to be paid in cash or those related to fixed margin contracts. Commencing in 1996, proved reserves include certain quantities of crude oil or natural gas will be produced under arrangements which involve Group companies in upstream risks and rewards but do not transfer title of the product to those ınies.

)il and gas reserves cannot be measured exactly since estimation of reserves involves subjective judgement and arbitrary determinations. Therefore imates are subject to revision.

oil and natural gas liquids

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 ɔnies at the end of the year, and the changes in such reserves during the year are set out below.

	Eastern Hemisphere		Western Hemisphere			Eastern Hemisphere		Western Hemisphere			Eastern Hemisphere		Western Hemisphere		
	Europe	Other	USA	Other	Total 1996	Europe	Other	USA	Other	Total 1995	Europe	Other	USA	Other	Total 1994
					million barrels					million barrels					million barrels
d developed and undeveloped reserves															
companies:															
ing of year	**1,236**	**4,812**	**2,018**	**412**	**8,478**	1,317	4,731	2,040	481	8,569	1,308	4,736	2,203	497	8,744
ns and reclassifications	**207**	**353**	**(8)**	**255**	**807**	65	323	(34)	47	401	47	187	(111)	7	130
ed recovery	**–**	**64**	**82**	**2**	**148**	48	89	16	1	154	108	89	7	9	213
ons and discoveries	**198**	**50**	**81**	**68**	**397**	1	68	173	18	260	45	114	87	3	249
ses of minerals in place	**–**	**4**	**43**	**–**	**47**	–	7	2	–	9	–	–	6	19	25
f minerals in place	**(1)**	**–**	**(16)**	**(1)**	**(18)**	–	(20)	(18)	(87)	(125)	–	(25)	–	–	(25)
tion	**(204)**	**(396)**	**(165)**	**(45)**	**(810)**	(195)	(386)	(161)	(48)	(790)	(191)	(370)	(152)	(54)	(767)
year	**1,436**	**4,887**	**2,035**	**691**	**9,049**	1,236	4,812	2,018	412	8,478	1,317	4,731	2,040	481	8,569
iated companies – Group share:															
ing of year					**368**					376					380
ditions, revisions and reclassifications					**51**					25					29
tion					**(33)**					(33)					(33)
year					**386**					368					376
					9,435					8,846					8,945
d developed reserves of Group companies															
ing of year	**581**	**2,200**	**1,287**	**316**	**4,384**	612	2,202	1,322	374	4,510	508	2,269	1,422	410	4,609
year	**740**	**1,899**	**1,318**	**327**	**4,284**	581	2,200	1,287	316	4,384	612	2,202	1,322	374	4,510
ity interests' share of proved reserves of Group companies															
year	**–**	**78**	**–**	**69**	**147**	–	57	–	69	126	–	61	–	67	128

ural gas

ıp 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 ıe year, and the changes in such reserves during the year are set out below.

These quantities have not been adjusted to standard heat content.

	Eastern Hemisphere Europe	Eastern Hemisphere Other	Western Hemisphere USA	Western Hemisphere Other	Total 1996
		thousand million standard cubic feet			
ed developed and undeveloped reserves					
p companies:					
ning of year	**24,905**	**9,985**	**5,382**	**2,601**	**42,873**
ons and reclassifications	**667**	**4,405**	**212**	**(224)**	**5,060**
ved recovery	**–**	**941**	**6**	**–**	**947**
sions and discoveries	**876**	**34**	**594**	**159**	**1,663**
ases of minerals in place	**8**	**1**	**144**	**–**	**153**
of minerals in place	**(3)**	**(1)**	**(420)**	**(39)**	**(463)**
ction	**(1,323)**	**(535)**	**(658)**	**(240)**	**(2,756)**
f year	**25,130**	**14,830**	**5,260**	**2,257**	**47,477**
ciated companies – Group share:					
ning of year					**4,734**
dditions, revisions and reclassifications					**1,048**
ction					**(232)**
f year					**5,550**
					53,027
ed developed reserves of Group companies					
ning of year	**11,024**	**4,367**	**3,464**	**2,027**	**20,882**
f year	**11,869**	**3,727**	**3,272**	**1,684**	**20,552**
rity interests' share of proved reserves of Group companies					
f year	**–**	**181**	**–**	**460**	**641**

	Eastern Hemisphere Europe	Eastern Hemisphere Other	Western Hemisphere USA	Western Hemisphere Other	Total 1995
		thousand million standard cubic feet			
ed developed and undeveloped reserves					
p companies:					
ning of year	25,005	10,536	5,546	2,673	43,760
ons and reclassifications	827	(115)	(76)	112	748
ved recovery	69	28	–	39	136
sions and discoveries	114	9	731	7	861
ases of minerals in place	–	–	7	–	7
of minerals in place	(9)	(4)	(182)	–	(195)
ction	(1,101)	(469)	(644)	(230)	(2,444)
f year	24,905	9,985	5,382	2,601	42,873
ciated companies – Group share:					
ning of year					4,947
dditions, revisions and reclassifications					17
ction					(230)
f year					4,734
					47,607
ed developed reserves of Group companies					
ning of year	11,038	3,479	3,646	1,936	20,099
f year	11,024	4,367	3,464	2,027	20,882
rity interests' share of proved reserves of Group companies					
f year	–	–	–	528	528

	Eastern Hemisphere Europe	Eastern Hemisphere Other	Western Hemisphere USA	Western Hemisphere Other	Total 1994
		thousand million standard cubic feet			
ed developed and undeveloped reserves					
p companies:					
ning of year	25,879	11,687	4,911	2,781	45,258
ons and reclassifications	(186)	(788)	(69)	21	(1,022)
ved recovery	73	26	1	4	104
sions and discoveries	358	46	1,200	102	1,706
ases of minerals in place	–	–	73	3	76
of minerals in place	(1)	(2)	–	–	(3)
ction	(1,118)	(433)	(570)	(238)	(2,359)
f year	25,005	10,536	5,546	2,673	43,760
ciated companies – Group share:					
ning of year					5,195
dditions, revisions and reclassifications					(33)
ction					(215)
f year					4,947
					48,707
ed developed reserves of Group companies					
ning of year	11,427	2,727	3,712	2,133	19,999
f year	11,038	3,479	3,646	1,936	20,099
rity interests' share of proved reserves of Group companies					
f year	–	–	–	545	545

MMARISED FINANCIAL DATA

ome data

	1996	1995	1994	1993	1992	1996	1995	1994	1993	1992
					£ million					US$ million (1)
proceeds										
d gas	**100,149**	84,957	75,769	75,203	65,091	**156,542**	134,118	116,027	112,977	114,295
icals	**9,364**	9,740	7,221	6,724	5,963	**14,609**	15,385	11,069	10,102	10,499
	408	393	347	380	686	**638**	620	531	570	1,212
	113	359	980	1,441	1,373	**175**	567	1,482	2,165	2,414
proceeds	**110,034**	95,449	84,317	83,748	73,113	**171,964**	150,690	129,109	125,814	128,420
taxes, excise duties and similar levies	**27,955**	25,854	22,388	20,398	18,087	**43,651**	40,818	34,279	30,641	31,795
roceeds	**82,079**	69,595	61,929	63,350	55,026	**128,313**	109,872	94,830	95,173	96,625
ngs by industry segment										
d gas: Exploration and Production	**3,245**	1,866	1,538	2,000	1,862	**5,083**	2,947	2,363	3,000	3,227
Refining and Marketing	**2,036**	1,517	2,085	1,762	1,243	**3,166**	2,398	3,193	2,648	2,202
nicals	**762**	1,092	340	(409)	(223)	**1,186**	1,731	534	(618)	(367)
r industry segments	**12**	111	(98)	(48)	(72)	**18**	178	(139)	(71)	(129)
ings from operations	**6,055**	4,586	3,865	3,305	2,810	**9,453**	7,254	5,951	4,959	4,933
orate items	**(193)**	(95)	280	(295)	285	**(300)**	(150)	433	(447)	490
rity interests	**(171)**	(116)	(75)	(10)	(31)	**(267)**	(185)	(117)	(15)	(54)
income for the year (2)	**5,691**	4,375	4,070	3,000	3,064	**8,886**	6,919	6,267	4,497	5,369

he cost of sales of the volumes sold in the period is based solely on the average cost of supplies incurred in the same period (instead of using the first-in first-out (FIFO) method of inventory accounting used by most companies) and allowance is made for the estimated tax effects, earnings on this estimated current cost of supplies basis would be as follows:

	1996	1995	1994	1993	1992	1996	1995	1994	1993	1992
d gas: Refining and Marketing	**1,648**	1,448	2,010	1,989	1,284	**2,554**	2,292	3,082	2,989	2,272
icals	**762**	1,092	340	(409)	(206)	**1,186**	1,731	534	(618)	(337)
ngs on an estimated current cost of supplies basis	**5,303**	4,306	3,995	3,227	3,122	**8,274**	6,813	6,156	4,838	5,469

ets and liabilities data (at year end)

	1996	1995	1994	1993	1992	1996	1995	1994	1993	1992
fixed and current assets	**73,247**	75,965	69,135	67,453	66,328	**124,140**	117,602	107,852	99,830	100,819
urrent assets	**5,927**	4,773	4,991	4,563	4,454	**10,045**	7,389	7,786	6,753	6,770
debt	**6,971**	8,256	7,443	7,798	8,073	**11,816**	12,782	11,610	11,541	12,270
nt Companies' interest in Group net assets	**37,177**	37,970	35,988	34,859	34,113	**63,006**	58,781	56,142	51,591	51,851
rity interests	**2,015**	2,006	1,205	1,056	874	**3,415**	3,106	1,880	1,563	1,329
tal employed	**46,163**	48,232	44,636	43,713	43,060	**78,237**	74,669	69,632	64,695	65,450

h flow data

and 1993 restated in 1994)

	1996	1995	1994	1993	1992	1996	1995	1994	1993	1992
flow provided by operating activities	**10,653**	9,424	7,638	6,832	7,124	**16,619**	14,873	11,718	10,272	12,543
al expenditure (including capitalised leases)	**7,039**	6,951	6,171	5,558	5,240	**11,023**	10,965	9,482	8,355	9,104
flow used in investing activities	**6,412**	6,557	4,692	4,901	4,523	**10,049**	10,338	7,199	7,363	7,906
flow provided by/(used in) financing activities	**(368)**	(313)	242	(74)	465	**(604)**	(467)	321	(81)	763
dends paid	**3,300**	2,976	2,539	2,375	2,212	**5,149**	4,711	3,890	3,608	3,874
ease/(Decrease) in cash and cash equivalents	**180**	(261)	713	(574)	1,256	**943**	(459)	1,425	(1,022)	775

ner statistics

	1996	1995	1994	1993	1992
ncome as a percentage of average net assets	**15.1%**	11.8%	11.5%	8.7%	9.7%
rn on average capital employed (3)	**13.2%**	10.6%	10.4%	7.9%	9.0%
debt ratio (4)	**15.1%**	17.1%	16.7%	17.8%	18.7%

turn on average capital employed is calculated as follows: net income plus minority interests plus total interest expense, less tax on the st expense as a percentage of average capital employed.

al debt ratio is calculated as follows: total debt as a percentage of capital employed.

dardised measure of discounted future cash flows

States accounting principles require the disclosure of a standardised measure of discounted future cash flows, relating to proved oil and gas reserve ties. In order to prepare the information a number of arbitrary assumptions are prescribed about the future, despite political, technical and economic ainty. As a result the information so calculated does not provide a reliable measure of future cash flows from proved reserves, nor does it permit a realistic rison to be made of one entity with another because the assumptions used cannot reflect the varying circumstances within each entity. In addition a ntial but unknown proportion of future real cash flows from oil and gas producing activities is expected to derive from reserves which have already been ered, but which cannot yet be regarded as proved.

		Eastern Hemisphere	Western Hemisphere				Eastern Hemisphere	Western Hemisphere				Eastern Hemisphere	Western Hemisphere		
	Europe	Other	USA	Other	Total 1996	Europe	Other	USA	Other	Total 1995	Europe	Other	USA	Other	Total 1994
					£ million					£ million					£ million
cash inflows	55,197	71,892	37,247	8,128	172,464	50,723	53,520	26,501	5,329	136,073	47,715	45,154	23,878	6,546	123,293
production and development costs	15,858	20,132	10,306	2,351	48,647	17,333	17,791	10,611	1,871	47,606	19,802	16,069	11,288	2,550	49,709
tax expenses	18,408	36,317	8,822	2,024	65,571	14,942	24,481	4,549	1,202	45,174	12,459	19,394	3,452	1,373	36,678
net cash flows	20,931	15,443	18,119	3,753	58,246	18,448	11,248	11,341	2,256	43,293	15,454	9,691	9,138	2,623	36,906
of discounting cash flows at 10%	9,200	6,415	7,199	1,544	24,358	9,029	4,803	4,597	933	19,362	7,492	4,197	4,008	1,096	16,793
ardised measure of discounted cash flows	11,731	9,028	10,920	2,209	33,888	9,419	6,445	6,744	1,323	23,931	7,962	5,494	5,130	1,527	20,113
ted companies – Group share:					1,629					887					939
y interests	–	116	–	219	335	–	108	–	184	292	–	74	–	209	283

e in standardised measure of discounted future cash flows

	1996	1995	1994
			£ million
anges in prices and production costs	17,363	7,055	3,801
ions, discoveries and improved recovery	4,669	2,383	2,106
ses and sales of minerals in place	(145)	(602)	37
ns of previous reserve estimates	5,791	1,939	715
pment cost related to future production	(721)	(1,388)	(1,751)
nd transfers of oil and gas, net of production costs	(10,284)	(7,640)	(6,523)
pment cost incurred during the year	2,430	2,458	2,242
ion of discount	4,185	3,553	2,531
ange in income tax	(13,331)	(3,940)	(1,218)
change in standardised measure during the year	9,957	3,818	1,940

l expenditure and exploration expense

stry segment

	1996	1995	1994	1993	1992	1996	1995	1994	1993	1992
					£ million					US$ million(1)
xpenditure(5)										
as: Exploration and Production	**3,195**	2,836	2,485	2,476	2,470	**4,995**	4,477	3,811	3,723	4,321
Refining and Marketing	**2,766**	3,120	3,032	2,497	2,018	**4,344**	4,920	4,666	3,751	3,495
s	**904**	788	474	407	522	**1,409**	1,243	728	612	893
	97	54	54	41	64	**152**	85	84	62	113
	77	153	126	137	166	**123**	240	193	207	282
	7,039	6,951	6,171	5,558	5,240	**11,023**	10,965	9,482	8,355	9,104
tion expense (excluding depreciation and of currency translation differences)	**716**	552	680	776	733	**1,122**	870	1,042	1,164	1,283
pital expenditure and exploration expense*	**7,755**	7,503	6,851	6,334	5,973	**12,145**	11,835	10,524	9,519	10,387
sing										
	2,974	3,035	2,297	2,194	2,138	**4,665**	4,786	3,532	3,295	3,731
astern Hemisphere	**1,701**	1,919	2,352	2,260	1,872	**2,664**	3,027	3,605	3,396	3,252
	2,302	1,983	1,740	1,370	1,319	**3,595**	3,131	2,675	2,061	2,284
/estern Hemisphere	**778**	566	462	510	644	**1,221**	891	712	767	1,120
	7,755	7,503	6,851	6,334	5,973	**12,145**	11,835	10,524	9,519	10,387

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

terly income data

	1996 Quarters 4th	3rd	2nd	1st	1995 Quarters 4th	3rd	2nd	1st	1994 Quarters 4th	3rd	2nd	1st
				£ million				£ million				£ million
ceeds(6)	**22,127**	**20,390**	**20,375**	**19,187**	18,329	17,115	17,745	16,406	16,157	15,841	15,163	14,768
sales	**17,252**	**15,857**	**15,985**	**14,516**	14,878	13,421	13,512	12,371	12,511	12,358	12,274	11,462
rofit	**4,875**	**4,533**	**4,390**	**4,671**	3,451	3,694	4,233	4,035	3,646	3,483	2,889	3,306
ing profit	**2,825**	**2,652**	**2,491**	**2,998**	1,120	1,949	2,424	2,417	1,821	1,719	953	1,776
come	**1,436**	**1,329**	**1,183**	**1,743**	768	1,053	1,281	1,273	1,645	815	673	937
deducting sales taxes, excise duties and similar levies of:	7,030	7,049	7,023	6,853	6,618	6,525	6,475	6,236	5,771	5,776	5,431	5,410

US dollar figures have been derived as follows:

			1996	1995	1994	1993	1992
; and liabilities data	are translated from sterling at each year's respective end exchange rate: £1 = US$		**1.6948**	1.5481	1.5600	1.4800	1.5200
e data, cash flow data and l expenditure and exploration expense	are the sum of quarterly dollar figures translated from sterling at quarterly average exchange rates: £1 = US$	Quarter 4	**1.6367**	1.5607	1.5800	1.4900	1.5800
		Quarter 3	**1.5539**	1.5741	1.5500	1.5000	1.9000
		Quarter 2	**1.5238**	1.5976	1.5000	1.5400	1.8100
		Quarter 1	**1.5308**	1.5833	1.4900	1.4800	1.7700

ERATIONAL COMPARISONS 1992-1996

	1996	1995	1994	1993	1992
le oil supply					thousand barrels daily
pe	**3,193**	2,841	2,555	2,519	1,931
a	**777**	888	874	810	906
lle East	**1,796**	1,653	1,754	1,840	1,696
Pacific	**495**	462	415	400	397
	1,606	1,375	1,323	1,168	1,240
da	**320**	279	281	285	250
r Western Hemisphere	**353**	326	299	288	261
	8,540	7,824	7,501	7,310	6,681
					million tonnes a year
ic equivalent	*427*	*391*	*375*	*366*	*334*
ales					thousand barrels daily
lines	**2,218**	2,155	2,001	1,911	1,819
sines	**664**	628	611	556	510
Diesel oils	**1,860**	1,722	1,635	1,510	1,442
oil	**748**	725	720	740	725
products	**826**	741	696	657	613
oil products	**6,316**	5,971	5,663	5,374	5,109
e oil	**4,305**	4,004	3,678	3,615	3,032
oil sales	**10,621**	9,975	9,341	8,989	8,141
					million tonnes a year
ic equivalent	*531*	*499*	*467*	*449*	*407*
nery processing intake					thousand barrels daily
e oil	**3,771**	3,494	3,493	3,493	3,418
stocks	**193**	190	176	190	220
	3,964	3,684	3,669	3,683	3,638
pe	**1,675**	1,595	1,608	1,617	1,550
r Eastern Hemisphere	**995**	873	833	815	772
	970	887	905	917	972
r Western Hemisphere	**324**	329	323	334	344
	3,964	3,684	3,669	3,683	3,638
					million tonnes a year
ic equivalent	*198*	*184*	*183*	*184*	*182*
er and dry cargo fleets					number of ships
ed/demise-hired and time-chartered, at year end)					
nkers	**75**	76	84	99	100
bulk carriers	**–**	–	–	–	4
carriers	**7**	8	3	3	4
					million deadweight tonnes
nkers	**8.2**	8.4	8.5	10.6	10.3
bulk carriers	**–**	–	–	–	0.6
					thousand cubic metres
carriers	**358**	447	197	197	275

ures shown in these tables represent the totals reported by Group companies, reflecting their dealings hird parties and with associated companies; natural gas and coal sales, however, include the Group of these associated companies. Crude oil supply, oil sales and refinery processing intake figures include l gas liquids.

	1996	1995	1994	1993	1992
Natural gas sales					million cubic feet daily
(including Group share of associated companies)					
Europe	**3,409**	2,869	2,911	3,083	3,061
Other Eastern Hemisphere	**2,296**	2,087	1,965	1,861	1,657
USA	**1,859**	1,907	1,676	1,565	1,361
Other Western Hemisphere	**790**	761	765	719	705
	8,354	7,624	7,317	7,228	6,784
					billion cubic metres a year
Metric equivalent	*82*	*74*	*71*	*71*	*66*
Chemicals sales: net proceeds					£ million
Europe	**4,133**	4,243	3,035	2,741	2,807
Other Eastern Hemisphere	**942**	1,058	832	823	667
USA	**3,401**	3,409	2,476	2,302	1,767
Other Western Hemisphere	**502**	529	421	434	364
	8,978	9,239	6,764	6,300	5,605
Coal sales					million tonnes
(including Group share of associated companies)					
Internationally traded	**13.8**	13.0	11.4	12.9	13.9
Domestic sales	**4.7**	4.7	11.7	11.9	25.7
	18.5	17.7	23.1	24.8	39.6
Employees (average numbers)					thousands
Europe	**40**	42	43	51	56
Other Eastern Hemisphere	**25**	26	26	25	26
USA	**23**	23	22	24	28
Other Western Hemisphere	**13**	13	15	17	17
	101	104	106	117	127
					£ million
Remuneration	**3,562**	3,457	3,346	3,588	3,401
Social law taxes	**336**	334	298	311	273
Pensions and similar obligations	**131**	164	259	240	376
	4,029	3,955	3,903	4,139	4,050

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

Auditors: Ernst & Young
Bankers: Lloyds Bank Plc

Financial Calendar

Financial year ends			December 31, 1996
Announcements			
Full year results for 1996			February 13, 1997
First quarter results: 1997			May 1, 1997*
Second quarter results: 1997			August 7, 1997*
Third quarter results: 1997			November 6, 1997*
Dividends – Ordinary shares			
1996	Final:	– Proposed dividend announced	February 13, 1997
		– Ex-dividend date (London)	April 14, 1997
		– Record date	April 18, 1997
		– Payment date	May 21, 1997
1997	Interim:	– Announced	September 11, 1997*
		– Payment date	November, 1997*
Dividends – Preference shares: Payment dates			
5½% First Preference shares			April 1 and October 1
7% Second Preference shares			February 1 and August 1
Report and accounts			
Publication			April 11, 1997
Annual General Meeting			May 14, 1997

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

Capital gains tax

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

	April 6, 1965	March 31, 1982
Ordinary shares of 25p each:		
Registered	27.50p	125.00p
Bearer	27.71p	126.33p
First Preference shares of £1 each	78.75p	37.50p
Second Preference shares of £1 each	97.81p	49.50p

N.B. All values are adjusted to reflect capitalisation issues between the relevant dates and March 10, 1997. If the proposed 2 for 1 capitalisation issue is approved at the Annual General Meeting the above values for Ordinary shares will require further adjustment from June 30, 1997.

Enquiries

Share Registration

Enquiries concerning shareholdings in Shell Transport such as change of address, dividend payments and share certificates should be addressed to the Registrar:
Lloyds Bank Registrars,
The Causeway, Worthing,
West Sussex BN99 6DA
Telephone: 01903-833397 Fax: 01903-833012

New York Shares

All enquiries concerning the New York Shares should be addressed to the Depository:
The Bank of New York
101 Barclay Street,
New York NY 10286
Telephone: 800-524 4458 Fax: 212-571 3050

Investor Relations (Institutional Shareholders)

Please contact Group Investor Relations:
Shell International Limited
FTC Division
Shell Centre, London SE1 7NA
Telephone: 0171-934 3856 Fax: 0171-934 3702

Group Enquiries

Enquiries relating to activities of companies in the Royal Dutch/Shell Group may be sent to the Shareholder Relations Office, Shell Centre, London SE1 7NA.
Telephone: 0171-934 6535 Fax: 0171-934 6625

For matters not mentioned above please write to: The Company Secretary, The "Shell" Transport and Trading Company, p.l.c., Shell Centre, London SE1 7NA.
Telephone: 0171-934 3363 Fax: 0171-934 5153

Publications

More detailed financial and statistical information about the Royal Dutch/Shell Group of Companies is given in the booklet ***Financial and Operational Information 1992-1996***. Copies are available from Group Investor Relations, London, at the address shown above.

A version of this Annual Report, together with other information about the Royal Dutch/Shell Group of Companies, can be accessed at the following World Wide Web address: http://www.shell.com

The general principles on which the conduct of the affairs of Royal Dutch/Shell Group Companies is predicated are detailed in the ***Statement of General Business Principles***, available from Shell International Limited, SLBPA Division, Shell Centre, London SE1 7NA. Telephone: 0171-934 5293 Fax: 0171-934 5555

Designed by The Jenkins Group · Type origination by Wordwork plc
Reproduced by Wace Corporate Imaging · Printed in England by Wace Corporate Print, Poole

The paper used in this Report is manufactured by the Enso Group in Finland. Timber obtained from sustainably managed forests in Finland and western Russia forms the base pulp which is treated by the most advanced oxygen bleaching process. The energy used is produced wholly from the incineration of waste products with excess energy being fed to the local electricity grid.
The manufacturer is accredited with ISO 9002 Quality Assurance and is working to the ISO 14001 Environmental Management System currently in preparation by the International Organization for Standardization. The paper has been awarded the Nordic Swan environmental label for low emissions during manufacture.