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## Shell's Top Executive Is Forced to Step Down

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The top executive of the Royal Dutch/Shell Group, the world's third-largest oil company, was forced to resign on Wednesday after an internal investigation into the company's surprise disclosure in January that it had overstated its oil and natural gas reserves by 20 percent.

The chairman of the company, Sir Philip Watts, stepped down less than a month after insisting that he would stay on despite a firestorm of criticism from investors over how the company handled the restatement.

Walter van de Vijver, the chief executive of the exploration and production business and once seen as Sir Philip's successor, also stepped down on Wednesday.

The extraordinary shake-up at the British-Dutch giant, a company known for its conservative approach to business and its byzantine corporate structure, comes amid a formal investigation by the United States Securities and Exchange Commission. But it was a review of the restatement by Shell's audit committee and outside advisers that led to the executives' ouster, a spokeswoman for the company said on Wednesday. She declined to elaborate on what the inquiry uncovered, but said that the findings would be forwarded to the S.E.C. and other regulatory agencies.

The ousters are certain to raise more questions about Shell. An analyst with Deutsche Bank in London, J.J. Traynor, in a research note asked "whether these departures are the result of shareholder and credit rating pressure" or "if there is real evidence of malpractice."

Still, he and other analysts and investors hailed the shake-up, and the shares rose 2 percent on Wednesday. "We've seen some decisive action from the board, and one has to read that as positive," said Ivor Pether, a fund manager with Royal London Asset Management, an investor in Shell's British component company. "But I was surprised to see Walter go as well as Phil," he added, noting that it was Mr. van de Vijver who had pushed for a review of the way the company estimates its reserves.

Sir Philip, 58, who began at Shell as a seismologist in 1969, will be succeeded by Jeroen van der Veer, president of Royal Dutch Petroleum, who has been with the company since 1971. Malcolm Brinded, who ran the gas and power division, will take over Mr. van de Vijver's duties.

The boards of the two publicly traded companies that make up Shell -- Royal Dutch Petroleum of the Netherlands and Shell Trading and Transport of Britain -- met separately in The Hague on Wednesday, and then directors from both boards, known in Shell's parlance as "the conference," held a regularly scheduled meeting where they decided the executives' fates, a person briefed on the situation said.

The January restatement was troubling to many investors and analysts because it shed light on the sometimes murky ways that energy companies estimate how much oil and gas they have that can be extracted. While hardly an exact science, many analysts take these estimates as an indicator of the companies' future prospects. The Securities and Exchange Commission requires companies in the United States to record reserves when they think they can commercially extract the oil or gas.

Still, since Shell's restatement, only the El Paso Corporation among major energy companies has recently recalculated its reserves, cutting its proven natural gas reserves by 41 percent and taking a \$1 billion charge.

Shell has hired a team of Debevoise & Plimpton lawyers, led by Ralph C. Ferrara, a former general counsel to the S.E.C., to advise it during the commission's investigation.

Mr. Ferrara was in the Netherlands and could not be reached late Wednesday evening, his secretary said.

Shell's change to its reserves had its roots in a companywide review and centralization plan conducted last year that was intended to make Shell a more transparent and flexible company despite its two-headed structure.

Indeed, within Shell, impatience with its stodgy and sometimes opaque corporate ways is said to be increasing. Executives at the company have said privately that they are frustrated by a decision-making process that sometimes seems less efficient than that of rivals. The complexity inherent in Shell's ownership is one reason investors say the company has been less aggressive than its peers in growing through large acquisitions. In recent years, Exxon Mobil and BP have leaped ahead of Shell in size and influence.

But Shell's review served primarily to swing a harsh spotlight on Sir Philip's tenure at the company. The Gorgon natural gas project off the coast of Australia, which was in development while Sir Phillip was head of exploration and production, accounted for a large part of the company's reclassification of reserves. Shell classified oil there as "proven" much earlier than its other partners and long before the Australian government had signed off on the project.

Sir Philip was head of exploration and development from 1996 to 2001, when he became chairman and was succeeded by Mr. van de Vijver.

The recalculation was also a result of overstating reserves in Nigerian on-shore oil projects. Analysts and investors said that was unusual because estimating on-shore reserves is generally a much more exact science than determining those off shore. Sir Philip was chief executive of Shell's Nigerian operations from 1991 to 1994.

Investors were surprised by the Jan. 9 restatement, and were angry in particular at the way the company handled the disclosure.

Sir Philip was not present at the announcement, and the company refused to meet with investors to provide any additional information until its fourth-quarter earnings were announced on Feb. 5.

Shell subsequently reported a 19 percent decline in fourth-quarter net income, and issued disappointing oil and gas production forecasts. Investors have now been calling for more radical changes, including an overhaul of the two-company structure.

Shares of Shell's component companies rose on Wednesday. Shares of Shell Transport and Trading, which owns 40 percent of the Shell group, rose 2 percent, to 383.5 pence in London. In trading in Amsterdam, shares of Royal Dutch Petroleum, which owns 60 percent, rose 60 cents, or 1.5 percent, to 41.36 euros. The American shares of Royal Dutch -- each representing one share of the Dutch component company -- rose \$1.01, to \$50.65, on the New York Stock Exchange. Still, the stock is down 4 percent since the Jan. 9 announcement.