

People, planet and profits
The Shell Report 2001



The objectives of the Royal Dutch/Shell Group of Companies are to engage efficiently, responsibly and profitably in the oil, gas, power, chemicals, renewables and other selected businesses and participate in the research and development of other sources of energy. Shell companies are committed to contribute to sustainable development.

This report documents the actions we have taken in 2001 to meet our economic, environmental and social responsibilities and describes how we are striving to create value for the future.

OUR BUSINESS ACTIVITIES

Exploration and Production

Searches for, finds and produces oil and gas. Builds the infrastructure needed to deliver hydrocarbons to market.

Gas & Power

Commercialises natural gas, supplies liquefied natural gas, develops markets and infrastructures, markets and trades natural gas and electricity, develops power plants and converts Gas to Liquids.

Oil Products

Sells and markets transportation fuels, lubricants and speciality products. Refines, supplies, trades and ships crude oil and petroleum products. Provides consultancy services to third parties based on Shell technology and experience gained in Shell operations.

Chemicals

Produces and sells base chemicals, petrochemical building blocks and polyolefins globally.

Renewables

Generates "green" electricity and provides renewable energy solutions. Develops and operates wind farms, manufactures and markets solar systems and grows sustainably managed forests.

Other activities

Other business activities include: Shell Hydrogen, Shell Capital, Shell Trading, Shell Consumer and Shell Internet Works.

You told Shell

Comments under this heading are a selection of those sent to "Tell Shell", our web and reply-card facility created to encourage people to dialogue with us. For additional comments see our uncensored forum at www.shell.com/tellshell.

Verification symbols used in this report

Three symbols indicate information that has been independently verified:



For a full explanation see page 46.

CONTENTS

Message from the Chairman	2-3	Managing resources	
		Energy	30
		Water	30
Strategy	4-9	Waste	31
The world we live in – now and in the future	4	Eco-efficiency	32
Strategic direction	6	Legacies	32
Managing our business	10-15	Social	34-45
Living our values		Respecting and safeguarding people	
Human rights	10	Health	34
Diversity and inclusiveness	11	Safety	34
Security	11	Working hours and wages	35
Health, safety and environment	11	Unions and staff forums	35
Climate change	12	Shell People Strategy	35
Biodiversity	12	Diversity and inclusiveness	37
Engagement and benchmarks	14	Child labour	38
Embedding sustainable development	14	Security	38
Key performance indicators	14	Benefiting communities	
Our performance	16-45	Managing social performance	39
Sustainable development principles		Employment	39
		Community development and social investment	40
Economic	18-25	Working with stakeholders	
Generating robust profitability		Promoting our Principles	42
Profits and growth	18	Listening and responding	43
Assets	18	International engagement and partnerships	44
Dividends and shareholder return	19	World Summit on Sustainable Development	44
Investment and divestment	19	The Shell Foundation	45
Tax	21	Verification	46
Doing business with integrity	21	Data tables	47
Political payments	22	Basis of reporting	48
Competition	22	Our Business Principles	49
Delivering value to customers			
Meeting customer expectations	23		
Innovation and product development	24		
Environmental	26-33		
Protecting the environment			
Emissions	26		
Effluents	29		
Spills	29		
Fines and liabilities	29		

Our performance – at a glance

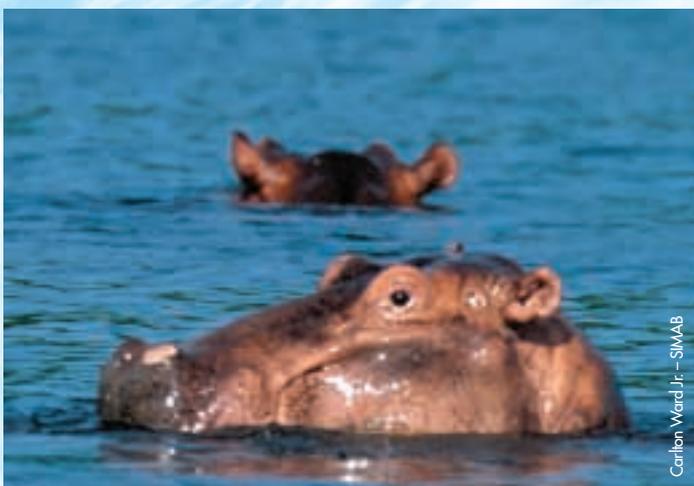


Managing our business

- Strong framework of values, standards and assurance
- Implementing a new Diversity and Inclusiveness Standard
- Over 95% of major installations certified to ISO14001
- Independent review of community development in Nigeria
- Greater focus on security, diversity and engagement following September 11

Economic

- Second highest earnings ever in difficult market conditions
- Cost improvements of \$5.1 billion, ahead of target
- Return on average capital employed (ROACE) of 19.2%
- Motorists rank Shell top brand for fifth year running
- Commitment to fair competition, no bribes and no political payments – zero tolerance policy



Environmental

- Greenhouse gas emissions up, but still on track to meet 2002 reduction target
- Significant increase in spill volumes
- Fresh water usage reported for the first time

Social

- Best ever safety performance
- Minimum Health Management Standards adopted
- Slow progress towards gender target – focused programme to accelerate diversity
- Incompatibility with Shell Business Principles – 100 contracts terminated
- Reaching out to an ever wider range of stakeholders

Committee of Managing Directors



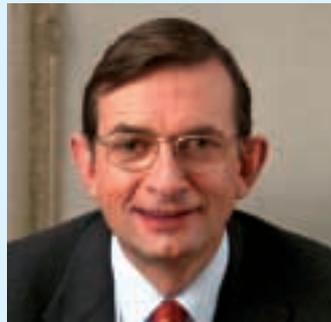
“Leadership is about communicating a vision and making it happen. Our commitment to sustainable development is today being integrated into the way Shell makes decisions. For example, I do not approve new investments unless they address the key sustainable development aspects of the project.”

Philip Watts



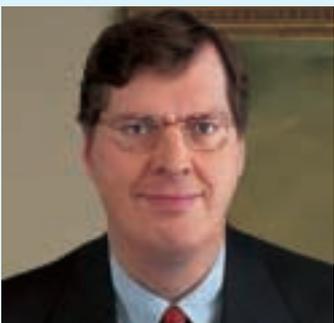
“Shell people are citizens of their communities and countries, as well as employees. We see our rich diversity as a strength that connects us to the cultures and aspirations of the people and countries where we operate. Strong relationships are critical to building trust and shared success.”

Harry Roels*



“I see climate change as a real global challenge, which is also generating new business opportunities. Grasping these will be key to Shell’s ‘licence to grow’.”

Jeroen van der Veer



“The key challenge for Shell is to maintain our robust profitability in a turbulent world, whilst fulfilling our responsibilities to shareholders by delivering top economic, environmental and social performance. The eyes of the world are on us.”

Walter van de Vijver



“Shell cares deeply about its customers, its partners and all our other stakeholders. Our goal is to deliver better products and services to our customers, in ways that continuously reduce environmental impact. That’s why innovation is at the centre of our thinking.”

Paul Skinner

* Group Managing Director July 1999 to June 2002

Message from the Chairman

In a troubled and unsettled world, we delivered our second best ever earnings in 2001. Our returns were among the best in the industry and we have met the challenging promises we made to our shareholders three years ago. We continue to focus on delivering robust profitability, while leveraging our competitive edge to grow value.

At the same time we are striving to fulfil our commitments to society, based on our strong Business Principles. This includes using the principles of sustainable development in all our operations – taking account of their social and environmental consequences as well as the economic dimension. We believe long-term competitive success depends on being trusted to meet society's expectations.

Being profitable – through serving our customers – is a vital element of what we contribute to society. This goes together with creating jobs, enhancing skills, delivering investment – nearly \$12 billion in 2001 – developing knowledge and paying taxes. The Malampaya development in the Philippines is a good example of sustainable development in action.

Shell companies delivered our best ever safety performance in 2001. The broadest safety measure was 9% better than in 2000. This is a very welcome advance. But the death of three staff and 39 contractors is 42 human tragedies too many. We are determined to keep on improving.

Introducing minimum standards for managing occupational health – which all Shell companies are expected to implement by the end of next year – was an important step.

Increases in oil spills and gas flaring were disappointing. We are resolved to improve. We are still on track to meet our target of reducing greenhouse gas emissions by 10% from the 1990 level by the end of this year, despite significant expansion in activities over this period. Environmental management system certification of major installations is virtually complete.

The terrible events of September 11 and its aftermath demonstrated both the tensions of globalisation and the reality of our connectedness. Our latest 20-year scenarios explore how people's reactions to globalisation may shape the future and inform our strategy.

New energy scenarios to 2050 consider how energy systems may develop and halt rising carbon dioxide emissions while still meeting the pressing need to improve living standards, especially in the developing world. Shell companies are contributing to this development and see many opportunities for technological innovation and offering new choices to our customers.

One example quoted in this report is the Shell process for turning gas into ultra-clean liquid fuels. Early this year Shell Pura Diesel – using these components to deliver significant emissions reductions – was launched in Thailand.

Our achievements depend on the efforts of Shell people all around the world. Their expectations drive our commitments. I thank them all.

Our diversity is a major competitive advantage. It requires a working environment in which diversity is valued and all feel included. We have adopted a new Group global standard on diversity and inclusiveness, making clear our expectations of every Shell business. Progress will be reported in future Shell Reports.

We hold respect for people as one of our key Shell values – underpinning how we treat each other inside our worldwide family, meet the needs of our customers and respond to those touched by our activities.

These are challenging aspirations. Preparing the Shell Report helps us understand how we are progressing. We hope it demonstrates the reality of our commitments. We have responded to what readers have asked for – saying more about our view of the world, our strategic direction, our values, standards and assurance processes, and our performance in pursuing sustainable development.

I believe we are well equipped to go forward – building on firm foundations to deliver continuing strong returns and value growth for shareholders, while contributing to the planet and its people. We look forward to hearing what you think.



Philip Watts
Chairman of the Committee
of Managing Directors

The world we live in – at a glance

- Scenarios address possible futures in a world of dramatic change
- Meeting society's expectations is key to long-term success
- Consumer demand for clean, convenient and reliable energy
- The world's dependency on hydrocarbons to remain for decades
- Gas to be the fuel of the century and bridge to a hydrogen economy
- Renewables to provide up to 7% of primary energy by 2020 and up to a third by 2050

The world we live in – now and in the future

Business is facing unprecedented scrutiny, risks and challenges as dramatic change sweeps the world. To continue our history of profitable growth, we must respond to a range of issues that define the world we live in now and the forces that will shape the future. Being trusted to meet society's expectations is key to our long-term success.

Shell has long experience developing scenarios that help us plan for a wide range of uncertainties. We have recently developed scenarios that describe how the world may evolve over the coming 20 years. These have helped inform our strategic direction (pages 6–9).

The powerful forces of globalisation, liberalisation and advances in technology dominated the late 20th century. They brought rapid change and advancement, but the scale and speed of the impacts are posing deep questions and exposing dilemmas and threats as they push the boundaries of natural and man-made systems, ethics and even humanity itself (take, for example, human cloning).

These global forces, which shape the economic and political environment, will remain strong, but there will be increased questioning of the consequences. The ethical dilemmas that technology poses may call for serious restraints on implementation of certain technologies. We may see different rules slowing the pace of globalisation and regulations to temper unrestricted market growth.

"The terrible events of September 11 and their aftermath have demonstrated the geopolitical uncertainties surrounding the energy supplies the world depends on. They have also made manifest both the tensions of globalisation and the reality of our global interconnectedness. Greater connectivity has fundamentally altered the dynamics of human society, providing individuals with many more ways of expressing their values and of joining others to pursue causes. This can be powerfully liberating. But the events of September 11 were a dreadful reminder of the other side of this capacity."

Philip Watts
Chairman of the Committee of
Managing Directors

We identified two potentially dominant types of interactions between people and developed Global Scenarios on how these might impact the future over the next 20 years: one called *Business Class* and the other, *Prism*:

Business Class assumes a high level of connectedness and shared values between people of a global elite, that crosses national boundaries and moves the world to greater economic integration. There is a willingness to tackle selected problems on a global scale. Established authorities face continual challenge with power diffusing from states to other institutions. Key in this world is individual freedom of choice.

ISSUE



Responding to September 11

The events of September 11 in the USA triggered crisis planning to ensure the safety of our people and security of installations worldwide. A source of strength was our network of Country Chairs* who in themselves represent a rich diversity of race, culture, religion and experience. They helped us see the world through the eyes of people of different cultures, governments and local authorities. This global network ensured rapid gathering of on-the-ground insights and exchange of emergency procedures, communications and travel advice. Scenarios were developed to help consider different possible outcomes that informed our contingency planning and explored the medium-term business implications. They also provided an opportunity for further engagement with governments across the globe to share learning and build relationships. No Shell personnel were directly affected, but our thoughts are with those who were less fortunate. The events underlined the importance of respect for people of all nations and our commitments to diversity and engagement.

* One manager acts as the senior representative of the Group and is called the "Country Chair" in a country or group of countries, whether or not he or she is actually chairman of the local companies.

Sir Shridath Ramphal

Former Secretary General for the Commonwealth

“Ever since Shell first launched its Global Scenarios, I have been greatly impressed by the candour and professionalism that characterises them. The scenarios have been unique in their outreach from one of the world’s major multinationals and have already made a contribution to global thinking. I hope they continue to be produced.”

Prism assumes interactions between people within nations and cultures predominate. People question the value of global integration and spurn it in favour of a world of diversity and local allegiance. Over time, this leads to a world of regional groupings.

Implications for energy

In the globally connected and highly innovative *Business Class* world, consumers drive energy markets with their demands for more convenient and flexible energy services. Gas becomes increasingly important and

provides the backbone for new energy services and, longer-term, a bridge to a hydrogen economy. Oil production peaks in the 2020s with the rise of gas and as innovation delivers radical new technologies such as fuel cells for both stationary heat and power and mobility services. Ultra-clean gasoline and diesel fuels (page 6) initially provide fuel for fuel cell vehicles. During this period there is intense and highly uncertain experimentation, with difficult technology choices to be confronted.

In the more diverse world of *Prism*, the emphasis is on ensuring secure, reliable and clean energy. Indigenous resources such as coal and renewables are favoured. Gas plays an important but lesser role due to the complexity of cross-border infrastructure and concerns over security of supply. Innovation focuses on improvements to existing technologies that increase efficiency and cleanliness and slow the move from hydrocarbons. The peak in oil production is deferred by some 20 years or more. Highly efficient internal combustion, diesel and hybrid vehicles run on conventional fuels often with biofuel blends. There is great demand for local adaptation of brands, products and services.

In both scenarios, wind becomes a competitive source of power generation in some markets, but more particularly in *Prism*. New solar technologies extend the range of applications but contribute little to the overall energy scene. New renewables comprise 4%–7% of primary energy supply by 2020.

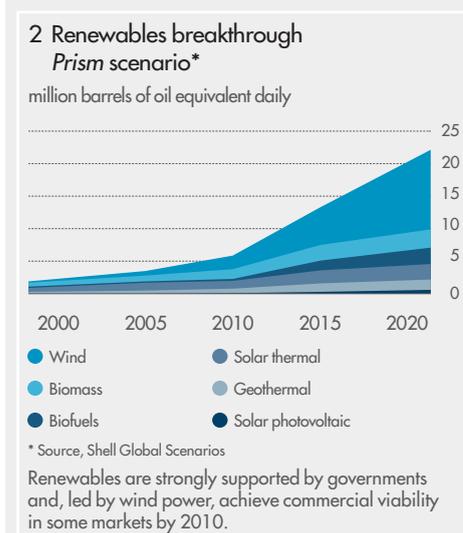
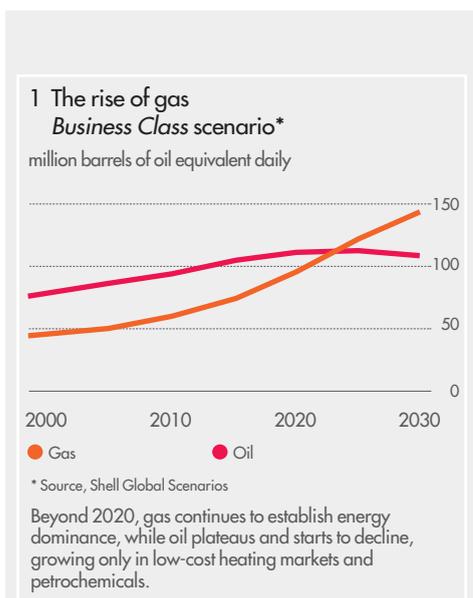
In our Long Term Energy scenarios – that explore the future of energy over a 50 year period – we can see rapid economic growth in the developing world, and be on track in 2050 to achieve a fully sustainable energy mix and stable climate. Sustained economic growth would bring the 2.5 billion people of India and China to a standard of living comparable to Europe in the 1990s – while the atmosphere would be heading towards stabilisation of carbon dioxide (CO₂) levels at 550 parts per million. This is about twice pre-industrial levels and considered by many to be a realistic limit to acceptable

climate change – recognising current uncertainties. The amount of energy needed to support this will be two to three times greater than now. Gas will play an important bridging role while new technologies mature, with renewables comprising up to a third of primary energy supply by 2050.

Both sets of scenarios pose considerable challenges for energy companies that will need to make choices of technologies and markets, and need to work out how to meet society’s expectations of corporate responsibility. The world’s dependency on hydrocarbons will remain for decades to come.

Scenarios bring value to Shell by providing insights into future trends and discontinuities, vital to developing business strategies that are robust against a wide range of uncertainties.

For further details on both sets of our scenarios visit: www.shell.com/scenarios. If you would like to receive the information in book form write to us using the “Tell Shell” reply card enclosed or contact us at the address on the back cover.



Strategic direction – at a glance

- **Aiming to be world leaders in energy and petrochemicals**
- **Strategy to grow the value of Shell by maintaining robust profitability and leveraging competitive edge**
- **Clear business case for sustainable development**
- **Explorer and innovator of new energy solutions**

Strategic direction

Our aim is to be world leaders in energy and petrochemicals. We will grow the value of Shell by delivering robust profitability and leveraging our competitive edge. Our success will ensure highly competitive returns to shareholders and give us the financial flexibility to take advantage of new commercial opportunities. Profits are also a vital part of our ability to contribute to society and meet the economic, environmental and social requirements of sustainable development.

To achieve our aim we must continue to get the business basics right at all times. This means:

- Capital discipline – investment proposals must compete for internal funding and be resilient to low oil prices
- Portfolio management – being in the right businesses at the right time by constantly challenging assumptions and staying alert to opportunities
- Operational excellence and cost leadership – maximising value from all assets through professionalism and reliability, delivering both industry-leading unit costs and outstanding health, safety and environmental performance
- Personal accountability – ensuring all leaders are accountable and empowered to deliver results and develop talent.

These four themes have been the successful drivers of our performance improvement over the last three years as we have moved up to delivering one of the highest returns on capital employed among major integrated energy companies – a clear measure of capital efficiency and operating excellence. To continue to grow value, we need to refine, develop and leverage our areas of competitive edge. These include:

- Constantly innovating to meet changing customer needs, for example specially tailored fuels (pages 24 and 25)
- World-class technology, for example deepwater exploration and ultra-clean fuels from natural gas (case study right)
- The strongest brand in our industry and a reputation built by acting consistently on a foundation of strong Business Principles (page 10)
- Our extensive global reach
- Our ability to attract people of the highest calibre and diversity to reflect our global presence and to develop, motivate and retain top talent.

We believe that how we succeed is as important as what we achieve. We have a long-standing commitment to our Business Principles and the necessary assurance processes to ensure strong governance.

CASE STUDY



Ultra-clean fuels from natural gas

Turning gas into ultra-clean liquid fuels is an expanding part of our business, using the Shell Middle Distillate Synthesis (SMDS) process. SMDS fuels are entirely free from aromatic and sulphur components, leading to greatly reduced exhaust emissions (page 25). Gas to Liquids represents a new means of exploiting gas in remote reserves by converting it into a range of products for use in conventional transport and other markets. Our SMDS plant in Malaysia has been operating for eight years and larger scale plants are proposed around the world. Although SMDS products may be ultra-clean, we wanted to be sure that the process was also environmentally beneficial compared with other processes. Experts from PricewaterhouseCoopers carried out a Life Cycle Analysis which compared potential environmental impacts of SMDS with a modern refinery and found SMDS superior over the whole life cycle. The study was peer reviewed and carried out to international standards.

YOU TOLD SHELL

“Shell, I think, is a company trying to break into a new century of operations on a platform of confidence and compassion. I see a company which realises its shortcomings and is committed to ensuring that its previous mistakes do not blot its good intentions.”

Nigeria

CASE STUDY



Shell in China

Coal provides about 70% of China’s energy, much of which is burned in old, inefficient power stations that have contributed to the country’s considerable pollution problems – eight of the world’s 10 most polluted cities are in China. The government is committed to a sustainable expansion of the fast-growing economy and increasing the use of clean energy, including gas and clean coal technologies. Shell in China is contributing to the country’s sustainable development by providing clean technologies and products by:

- Developing gas reserves to help meet the country’s target to increase gas from 2% to 8% of its energy mix by 2010. Shell has agreements and options to explore or develop reserves in three of the country’s major gas basins and is in talks to participate in a 4,000 km gas pipeline and to market the gas in east China
- Introducing Shell’s clean coal gasification technology. The first joint venture was formed in 2001. More joint venture projects are planned and Shell is also licensing the technology
- Helping develop renewable energy in west China – Shell solar photovoltaic panels are being used in a project to supply electricity to 78,000 homes
- Marketing quality products and services. A lubricants sales network is growing in 250 cities throughout China and a joint venture with a state-owned energy company starts in 2002 with 500 retail stations in Jiangsu Province
- Participating in a joint venture to build and operate a world-class petrochemicals plant at Nanhai using modern efficient technologies and ensuring widespread benefits for industry and the community (see photograph of geotechnical work for the Nanhai site above and page 44)
- Working jointly with the government’s Energy Research Institute to help develop long term energy scenarios and plans for China.

The Principles embody our commitment to contribute to sustainable development, which is increasingly a key part of our competitive edge.

These commitments, backed by a growing record of achievements, give our customers, staff, investors, partners and neighbours confidence that we will conduct our business with integrity and be ever mindful of our environmental, safety and social responsibilities.

The business case for sustainable development

The benefits of a strategy informed by sustainable development are clear. Business value is created by:

Attracting and motivating top talent – it is clear that our commitment to sustainable development is an important factor in people’s decision to join and stay and that alignment between personal values of staff and corporate values is a powerful motivator.

CASE STUDY

New asphalt to trap road dust

Particulates, whether from dust or vehicle exhausts, are a factor contributing to air pollution, but may be reduced by a revolutionary new road surfacing jointly developed by Shell and Applied Plasma Physics. The new “Active Asphalt”, being tested in Norway, should attract the particulates – in much the same way as dust sticks to a television screen – and they remain on the road surface until washed away by rain, thereby reducing air pollution.

YOU TOLD SHELL

"I would be much less sceptical of Shell's stunning public image creation if there were a greater demonstrated commitment to non-fossil fuel renewables. I would suggest that the level of funding of research and development for renewables be an incremental percentage of your primary exploration budget."

Unknown

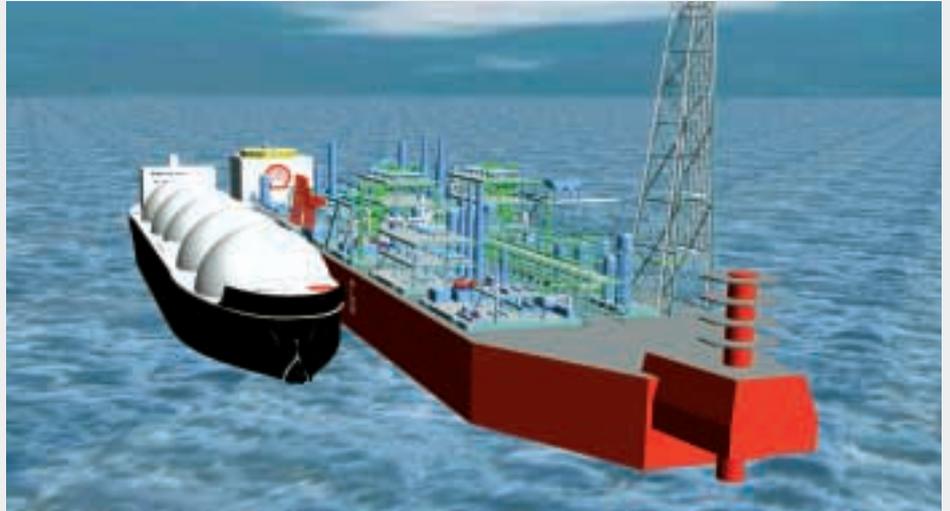
CASE STUDY



Extracting energy from hot rocks

Generating electricity from heat deep beneath the earth's surface – geothermal energy – has the potential to become more widespread with Shell's hot fractured rock technology pilot project in El Salvador. Tapping conventional geothermal energy involves drilling deep into the rock and extracting naturally occurring steam (above), but it is rare to find rock formations where this is present. The new technology unlocks a virtually unlimited resource by drilling into hard rocks and then pumping water in under pressure. This expands natural cracks and the hot rock acts as a boiler. The steam from this pilot will then be extracted and used to generate between two to five megawatts of power for supply to the El Salvador electricity grid, enough to power 9,000 homes. This technology builds upon experience in the USA, Japan and Europe and offers large potential for the future. Costs are currently high, but Shell believes that with time, these can be brought down to levels competitive with conventional energy sources.

CASE STUDY



Proposed floating liquefied natural gas facility

Pioneering Shell technology that liquefies gas at sea could be used in the proposed development of the Sunrise gas fields in the Timor Sea, off Australia. Central to the plan is the world's first floating liquefied natural gas (LNG) facility (above) located at the field site. This makes it possible, by eliminating the need to compress and pipe the gas to shore, to develop gas reserves that would otherwise be uneconomic using traditional LNG technologies. Floating LNG is also being considered as a way to develop a field offshore of Namibia.

Reducing costs through eco-efficiency – in the short-term, by doing more with less energy and materials; adopting cleaner technologies; reducing exposure to current and future costs of emissions such as CO₂; decommissioning and waste disposal. Longer-term, by turning waste into saleable products.

Reducing risk – understanding what our stakeholders perceive as responsible behaviour, meeting these expectations and achieving recognition from financial institutions and investors and customer preference for doing so.

Influencing options and evolving portfolios – anticipating new markets driven by societal and customer desires for a cleaner, safer, more sustainable world, and evolving business portfolios and supply chain relationships to match. Gaining competitive positions through achieving and maintaining a "licence to operate" for major projects.

Influencing product and service innovation – through differentiation of existing products and by providing more services to customers that reflect changes in life styles and values.

Attracting more loyal customers and enhancing the brand – providing products and services built on sustainability thinking to create customer loyalty and market share.

Enhancing reputation – by being seen and being credible as a good corporate citizen whose performance matches its words. In doing so, becoming the organisation of first choice for customers, staff, investors, suppliers, partners and the communities in which we operate.

The way forward

We use sustainable development thinking and the broad perspective of possible futures painted by our scenarios to optimise our current businesses, gain new business and, by sowing the seed for radical departures, to break new ground.

YOU TOLD SHELL

"Your Hydrogen section carries lots of our hopes, and all non-polluting energies too. It may be a good idea if you can be the first non-polluting energy provider."

France

CASE STUDY



Iceland hydrogen economy

Shell is part of a consortium planning to enable Iceland to become the first country in the world to replace traditional fossil fuels with hydrogen. Fuel cells turn hydrogen into electricity. As their only emission is water, they are being considered as potential for clean replacements for the internal combustion engine. Fuel cell technology, although well established for specialist uses such as space travel, is only now being applied to vehicles. There is a need for hydrogen production and distribution systems to support them. The consortium, which includes the automotive group DaimlerChrysler and Norsk Hydro, will work with the Icelandic authorities to test the technologies and distribution systems. The hydrogen will be made by electrolyzing water using electricity generated from renewable energy. Three hydrogen buses will be introduced in 2003 and tested in the capital, Reykjavik. Re-fuelling will be at a Shell station, using a hydrogen fuel plant supplied by Norsk Hydro. If the trial is successful, other buses will be converted and eventually all Iceland's transport systems, including its large fishing fleet, could use hydrogen. The programme is funded by consortium partners, the Icelandic government and the European Union.

In doing so, we aim to use money, materials and energy ever more efficiently to create value, reduce costs and minimise environmental impact. We do this by lowering the capital and material intensity of our businesses by adding more services, and we expect gradually to decrease the carbon content of our products.

Optimising current businesses – our core business is strong and we have a clear strategy to make more use of natural gas, the cleanest fossil fuel, that is set to provide the bridge between the current energy mix and a fully sustainable energy future over the next century. Gas is often found far away from markets. Our innovative floating liquefied natural gas facility (left) will help reduce the cost of producing remote gas and enable us to develop reserves that would otherwise be uneconomic.

Gaining new business – Shell's plans to expand in China offer new business opportunities in one of the world's fastest-growing markets and will enable us to contribute to the country's sustainable development (page 7). Environmentally aware markets are creating many opportunities for more sustainable mobility and demands for cleaner transport fuels. The Shell Middle Distillate Synthesis process (page 6) that converts natural gas into ultra-clean fuels is designed to meet this need.

Breaking new ground – we are exploring new ways of producing energy. For example, in El Salvador (page 8), Shell is using its innovative technology and vast drilling experience to tap into the heat deep below the Earth's surface, an alternative source of energy of great potential. And in Iceland (above) Shell is involved in a project to turn the country into the first economy powered by hydrogen.

The transition to new energy sources will involve many competing technologies and influences. We plan to build on previous investments and have committed to investing a further \$0.5–1 billion in renewables over the next five years. We will maintain our position as an explorer and innovator of new energy solutions and, where it is economically viable, we will commit our expertise and financial strength to growing in these areas.

We believe that our strategic direction, when implemented with imagination and rigour, can deliver excellent returns for shareholders, while contributing to the planet and its people.

Managing our business – at a glance

- **Strong framework of values, standards and assurance**
- **Implementing a new Diversity and Inclusiveness Standard**
- **Over 95% of major installations certified to ISO14001**
- **Independent review of community development in Nigeria**
- **Greater focus on security, diversity and engagement following September 11**

Living our values

We operate in over 135 countries and employ some 91,000 people. Our core values of honesty, integrity and respect for people are at the heart of the way we manage our business. They are embodied in our Business Principles (page 49) that describe the behaviour expected of every Shell employee in all business activities. The Principles, which include our commitments to human rights and sustainable development, set the same global standards wherever we operate.

Words are no good without action. Group policies, standards and guidelines provide a framework for a common approach to addressing risks and opportunities across Shell. We set tough targets to drive improvement knowing that we still have much to achieve. The framework is underpinned by management systems and rigorous assurance procedures that provide the necessary confirmation that the Principles are being taken seriously and the policies are working.

We go to great lengths to ensure our Business Principles are implemented in all wholly-owned Shell companies, and nearly all those in which we have a minority and/or non-operating interest. In ventures where our interest is less than 20%, our ability to do this is more limited. In some cases, national laws – which the Principles commit us to uphold – and customs do not allow joint ventures to comply with certain clauses of the Principles. In such cases, we make a judgement on whether our presence in the venture will be positive in

promoting high standards and can, over time, bring the venture closer to our Principles. If this fails, we will find other partners who can meet our standards. For our performance in promoting our Principles with staff, contractors and business partners see page 42.

Our framework of policies, standards and guidelines covers areas such as financial control and accounting, information management and use of the brand. It includes the Group policies of no bribes, no political payments and our commitment to fair trade and competition. For details of our performance in these areas see pages 21 and 22. Other key components of the framework are detailed below.

Human rights

To better understand our responsibilities to human rights we developed the “map” shown above right. The inner circles identify our clear responsibilities to staff, security and local communities. In the outer circles, where the responsibilities are mainly the province of government, our role is more diffuse, but includes contributing to public policy debate and supporting international codes. First shown in the 1999 Shell Report, the map has helped structure our actions. Progress in integrating human rights into our policies and processes is summarised below. Details on performance are shown on pages 34–45.

Employee rights

We believe in respecting people, equal opportunities and valuing diversity. Our health, safety and environment (HSE) management system is designed to protect

people from harm from our activities. We support the ILO Declaration of Principles and Rights at Work and are implementing a Group Diversity and Inclusiveness Standard.

Security

Shell helped in developing the Voluntary Principles on Security and Human Rights, an initiative of the US and UK governments with oil and mining companies, human rights groups and a trade union.

Community rights

Addressing the rights of communities and indigenous people is now standard practice when planning and carrying out new projects. For examples see pages 14, 40, and 44. We are working hard to bring this approach to those existing operations where our performance has not been satisfactory. We have set up a new social performance management unit to identify and promote good practice across operations. The unit draws on advice from human rights experts.

National rights

We support and are guided by the UN Global Compact, OECD Guidelines for Multinational Enterprises and the Global Sullivan Principles when making foreign direct investments. We are saddened by the untimely death of Rev. Sullivan and are committed to seeing his work continue and upholding his principles in our operations. Human rights feature in our screening of investment proposals. This includes reviewing the human rights situation before investment decisions are taken and consulting with governmental and non-governmental organisations (NGOs).

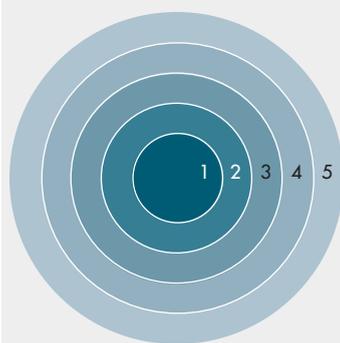
YOU TOLD SHELL

"It does seem to me that transnational corporations have a really important role to play in ensuring that human rights are respected in the countries in which they operate. I see this as not only of critical importance for the people living in those countries, but also for the long-term future of Shell. Clearly if it is to operate profitably in these countries in the future, it must have the support of local communities in which its operations are carried on."

UK

HUMAN RIGHTS AND BUSINESS RESPONSIBILITIES MAP

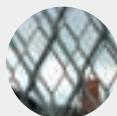
How we structure our actions in support of human rights



Values/Mindset/Engagement



1 Employee rights
Health and safety
Equal opportunity
Freedom of association
Pay and conditions
Personal development
ILO Declaration
Diversity and inclusiveness



2 Security
Policy/Standards/
Training



3 Community rights
Indigenous people
Local people
Local HSE quality
Social equity
Right to development



4 National rights
Foreign direct investment/UN Global Compact/Sullivan Principles
Social equity/capital development
Force for good by example



5 Advocacy
Speaking out
Silent diplomacy
Education/training
Identifying and sharing issues, engaging stakeholders

Stay or leave?

Human rights are taken into account when considering entering or re-entering countries. Where UN sanctions are in force the situation is clear and we abide by them. Where there are differences in international opinion we have to decide whether through our activities we can be a "force for good" by bringing investment and high standards and encouraging a more open society. The nature of business is long term and we make commitments to a country and its people, not just to the situation of the day. That is why we stayed in South Africa during the apartheid years.

We believe we can be a force for good – promoting equal opportunities, reducing environmental impacts and contributing to economic stability. We keep alert and responsive to changing situations in existing businesses. Decisions on entry or withdrawal from countries, joint ventures and other business relationships are based both on economic considerations and on whether we can uphold our Business Principles in these dealings. Sometimes we do have to exit from a business or limit our activities. These are not easy decisions and although we believe in transparency wherever possible, in some cases we judge the benefits are greater all round if this is done without public fanfare.

Advocacy

We have made public commitments to human rights in our Business Principles, the Shell

Report and speeches by Group Managing Directors. With the help of experts, we have developed management primers on human rights and child labour and a CD-rom training toolbox. Dialogue continues with a range of human rights experts including Amnesty International, Pax Christi, the Danish Centre of Human Rights, church groups and human rights departments of leading universities and business schools. Local Shell companies promote high standards. For example, Shell Sudan held a conference on corporate responsibility with government, academics, NGOs and local business. We participate in discussions on the role of business in zones of conflict through dialogues set up by the UN Global Compact.

Diversity and inclusiveness

We have a Group Diversity and Inclusiveness Standard. All Shell companies must assure that they have a systematic approach to managing diversity. We believe that by attracting and developing the best people of all backgrounds and experience we uphold our value of "respect for people" and improve our ability to form relationships and compete in diverse cultures and markets.

Security

We must, like every organisation, protect our employees and safeguard shareholders' investments. We expect forces of law and order to give us appropriate protection in line with international law enforcement standards. Where this is inadequate, managers may

seek authority, or be required by law, to employ security personnel. The Group Security Standard defines the way that Shell companies manage security. Armed security may only be used where it is a legal or government requirement to do so, or where there is no acceptable alternative to manage the risk. Our guidelines on the use of force emphasise that in all situations, guards must respect the human rights and dignity of all people and that in every case, only the minimum force proportionate to the threat should be used.

In the aftermath of the attacks in the USA (page 4), significant efforts were made to protect Shell employees and assets against potential new threats. For details on security in Shell companies see page 38.

Health, safety and environment

We take a rigorous and systematic approach to managing HSE. All Shell-operated companies worldwide must adhere to the Group HSE Policy and Procedure.

Our health and environmental expectations set minimum standards worldwide, which form the platform for further improvement. All of our operations are required to have certifiable HSE management systems in place and over 95% of major installations have had the environmental element of these systems externally certified to international standards, such as ISO14001 and EMAS.

YOU TOLD SHELL

“Our family fully supports your stand on the Kyoto protocol. Even though scientists are unsure about the exact cause of global warming, it is reassuring to think that we are all making an effort.”
USA

Climate change

Climate change is one of the most important environmental issues of our time. We are acting to reduce our own greenhouse gas (GHG) emissions, helping our customers, partners and suppliers to reduce theirs and playing an active role in public policy debate. We have a target to cut our GHG emissions in terms of global warming potential by 10% below 1990 levels by the end of 2002.

We continue to include the cost of carbon in the economics of new investments and have strengthened their impact on such investments. This helps us invest in the most efficient technologies, improves our competitiveness and prepares for a time when there will be a financial penalty for carbon use.

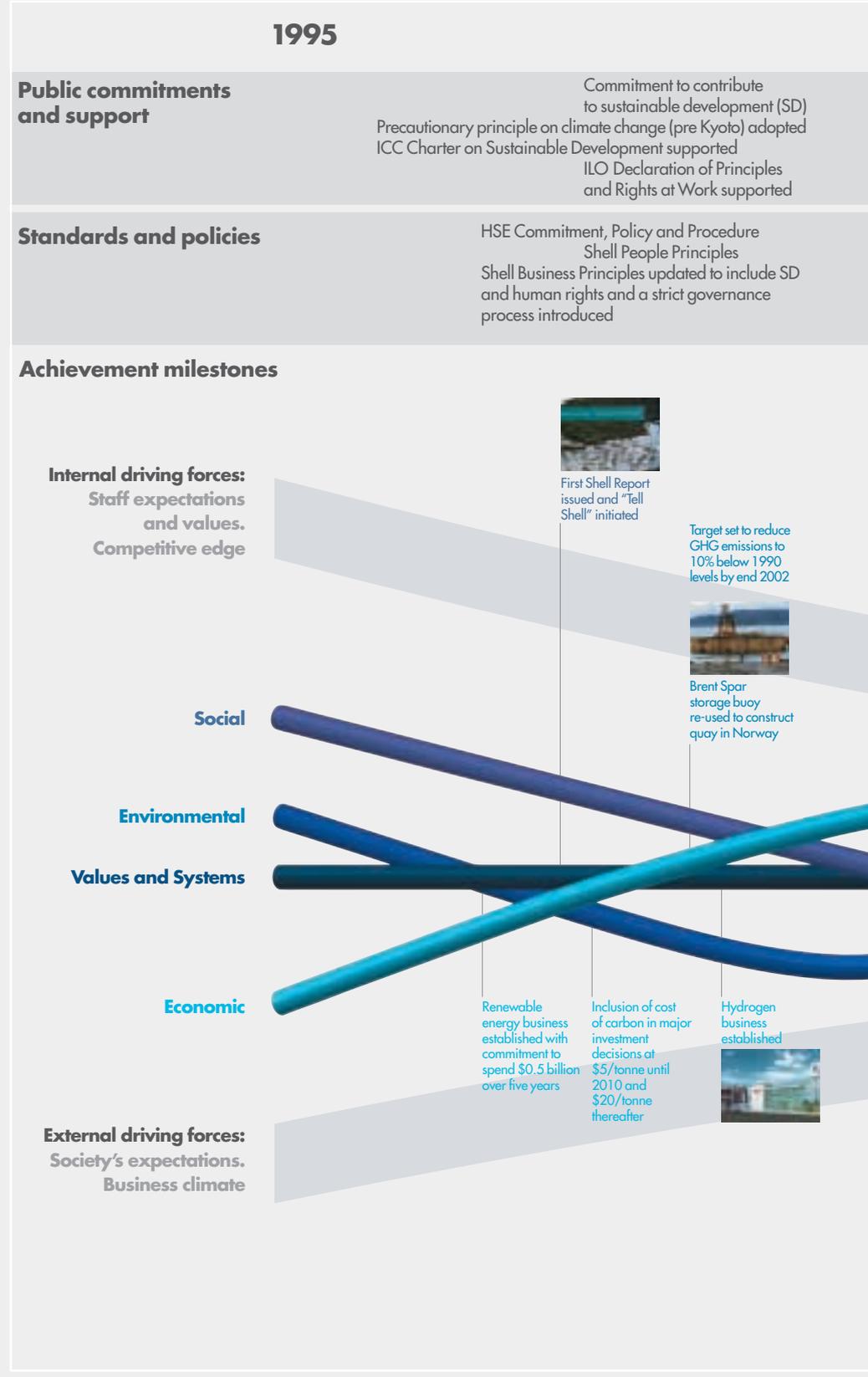
We are growing an environmental products trading business to make full and early use of emerging carbon market mechanisms and building on our energy efficiency programmes (page 32). Longer-term, we continue to develop new technologies and cleaner fuels to help our customers reduce their GHG emissions. These actions ensure that the Group is competitively placed to create value in a world where CO₂ emissions have a cost, as well as fulfilling our responsibilities to society.

Biodiversity

We are committed to work with others to maintain ecosystems, respect the concept of protected areas and make a positive contribution to the conservation of global biodiversity. Our Biodiversity Standard makes it clear how all Shell companies are expected to address biodiversity by:

- Conducting environmental assessments, including potential impacts on biodiversity, prior to all new activities and significant changes to existing ones
- Paying special attention to managing activities in internationally recognised “hot spots”, including identifying and consulting with key stakeholders. We operate an early warning system to inform stakeholders if we intend to work in sensitive environments.

A strong commitment to Business Principles and sustainable development



YOU TOLD SHELL

"More than anything, I would like to see honesty. If Shell makes a mistake, I would like them to take responsibility and make the changes necessary to avoid the same mistake in the future."
Unknown

2000

2005

2010 +

OECD Guidelines for Multinational Enterprises supported

UN Global Compact supported
 Voluntary Principles on Security and Human Rights supported
 Global Sullivan Principles supported

Animal Testing Standard
 Security Standard
 HIV/AIDS guideline
 Diversity and Inclusiveness Standard
 Biodiversity Standard
 Health Management Standards

The Shell Foundation endowed with \$250 million

Award for pioneering efforts addressing child labour in Brazil

90% of major installations certified to independent environmental standards (e.g. ISO14001 or EMAS)



K11 oil platform 98% recycled upon decommissioning

Independent review of community development projects in Nigeria



Diversity target: Capability to cover 100% of country chair positions with nationals



Environmental target: Gas disposal by continuous venting eliminated



Diversity target: 20% women in senior executive positions



Environmental target: Gas disposal by continuous flaring eliminated

Global employee share purchase plan initiated

Acquisition of Texaco assets in the USA to become leading fuel retailer agreed

Commercial scale wind energy – 138MW capacity achieved

Share buyback scheme launched

Malampaya start up, ahead of schedule and under budget

Top of energy sector in Dow Jones Sustainability Index

Financial targets set in 1998 achieved

3% unit cost reduction targeted

Commitment to invest in new energy technologies reaffirmed

Fourth largest solar photovoltaic business globally



YOU TOLD SHELL

"I think Shell should forge an international alliance with the UN environmental protection institutions in order to persuade other industrial institutions and organisations in a fight against global warming and environmental degradation and pollution to enhance environmental sustainability."
Uganda

CASE STUDY



Delivering social and environmental benefits in Malampaya

Sustainability considerations have been integral to planning and designing the Malampaya Project that was recently completed and is now operated by Shell Philippines Exploration (SPEX). The project – which extracts and treats gas from deep below the sea and pipes it over 500 km to onshore power plants – will enable the Philippines to reduce its dependency on imported fuels. Thousands of local jobs have been created during construction and the project will continue to provide employment throughout its 20-year life. Government revenues are expected to be about \$8–10 billion over two decades.

Detailed social and environmental studies were conducted and stakeholders consulted before construction. This led, for example, to re-routing of the pipeline to avoid

environmentally and culturally sensitive areas. SPEX also agreed to plant 10 trees for every one felled to clear the construction site of the concrete gravity structure, which was built in the Philippines, creating employment for more than 2,000 local workers. Reforestation included planting 20 hectares of fruit trees to provide food for endangered fruit bats.

Several development programmes have been initiated in partnership with others. For example, SPEX is working with the Pilipinas Shell Foundation, a non-government organisation specialising in developing skills, to stimulate local enterprise. A fish farm in Sitio Agusuhin (above) set up under the programme is already producing enough milkfish to pay back its initial investment within six months. Likewise, in Palawan, SPEX is helping to improve health care by sharing its emergency medical treatment facilities with the local community. To oversee its activities, SPEX has established a Sustainable Development Council that includes people from outside Shell. It has also funded a professorial chair at a local university to raise the profile of sustainable development in the country. More at www.malampaya.com

We identify key local, national and international stakeholders with whom we discuss projects. We are integrating biodiversity considerations into our decision-making and looking for opportunities to protect biodiversity and enhance community development. For details of our commitment in action, see case study top right.

Engagement and benchmarks

Our standards are not set in isolation. Engagement and partnerships are crucial to understanding and responding to changes in society's expectations and keeping abreast of developments in other companies.

We support selected international initiatives that provide benchmarks against which we measure our Principles, policies and performance. We work with industry associations and others to encourage corporate responsibility and share good practice (page 44).

Embedding sustainable development

Each element of our framework adds value, but real strength comes through integration – see the diagram, pages 12–13. Taken together, these elements represent a strong commitment to our Business Principles and sustainable development and form

a key part of our strategic direction. Our Sustainable Development Management Framework and related tools bring consistency in aligning systems and processes and increasing levels of staff awareness and competence.

To further integrate sustainability considerations into our businesses, we have defined seven principles of sustainable development for use in action planning: generating robust profitability; delivering value to customers; protecting the environment; managing resources; respecting and safeguarding people; benefiting communities; and working with stakeholders. We present our performance data under these headings in this Report.

Each of our businesses is learning how to use sustainable development principles to create value through reducing costs and risk, and driving customer focused innovation (pages 23–24). All major business proposals must include social and environmental factors, and the cost of carbon in the economics. We are taking a systematic approach to applying sustainable development thinking in training, leadership development and communications.

Key performance indicators 📊

We are developing a set of key performance indicators (KPIs) to measure and drive progress in critical areas of economic, environmental and social performance. We see KPIs as the logical basis for targets and milestones and for developing standards of reporting and verification.

We identified an initial list of 16 KPIs with our stakeholders, five of which we already report ("ROACE"*; "Total Shareholder Return", "critical Environmental data", "critical Health and Safety data" and "Greenhouse gas emissions"). We have common definitions and systems in place for these KPIs and data is verified and reported regularly.

Efforts over the last two years to test the practicality of the remaining 11 have led us to conclude that these fall into two basic groups. The first are those where measurement can largely and meaningfully be achieved by

* Return on average capital employed

Achim Steiner,
 Director General, IUCN – The World Conservation Union

“Shell has demonstrated leadership by seriously engaging in efforts to address biodiversity issues. Their Biodiversity Standard establishes an important Group policy, but the challenge management now faces is its practical and transparent application across its global operations. This should yield important lessons for all of us.”

ISSUE



Carlton Ward Jr. – SIMAB

Applying our Biodiversity Standard

We are making good progress in applying our Biodiversity Standard. Our planners can now consult a database that identifies sensitive and protected regions, including World Heritage Sites, Ramsar sites, the World Conservation Union (IUCN) Categories I-VI, the WWF Global 200 Ecoregions and Conservation International’s “hot spots”. We are also adapting our environmental and social impact assessments to more systematically address biodiversity considerations; ecological information collected through these assessments will be made publicly available through the United Nations Environment Programme – World Conservation and Monitoring Centre.

Shell through its Foundation (see page 45) is working in partnership with the Smithsonian Institution to study the impacts of oil and gas operations in sensitive environments. The first of these projects is underway in Gabon, West Africa (above). The project will explore the links between industry, development and biodiversity and focuses on building scientific information and in-country capacity through research, training, biodiversity assessments and monitoring. Shell is also part of the Energy and Biodiversity Initiative, a group of five energy companies and five conservation organisations, which is looking at ways to integrate biodiversity into business decision-making. A Shell biodiversity adviser was appointed in May 2001, supported by an IUCN secondee, to oversee these activities.

survey and the results from local or other levels can be aggregated (“Reputation”, “Brand performance”, “Acceptability of environmental performance”, “Integrity”, “Staff feelings on how they are treated with respect” and “Diversity and inclusiveness in the workplace”). Good progress has been made in defining ways of implementing these indicators prior to use.

The second are those that can usefully be developed by a “learning by doing” approach. Examples include: “Stakeholder perception of the quality of engagement”, “Social performance” and “Acceptability of environmental performance at the local level”. Pilot studies are continuing to develop tools and approaches in a range of operational and cultural contexts for these KPIs: Norco Chemical plant, Louisiana, USA; the Liquefied Natural Gas project in Oman; and Athabasca oil sands project, Canada.

Each study involves external experts and extensive consultation with local communities and other stakeholders to seek their views

of our performance, identify areas for improvement and work towards agreeing local performance indicators. Early indications are that these studies have the potential to enhance the social performance of business units and inform Shell’s overall approach.

In addition, a review by KPMG, of the internal management systems of the Shell Nigeria Community Development programme was complemented by a study of the performance outcomes by an independent stakeholder panel, which included individuals from UNICEF, ProNatura, the World Bank and Nigerian Government agencies (page 41).

From these experiences, and the testing of a human rights assessment tool in Shell South Africa (page 38), we are developing the view that a new model of assurance is appropriate for this second group of KPIs where aggregation of performance data is unlikely to be meaningful. This would involve independent expert appraisal of the

effectiveness of our management systems in combination with stakeholder perception of our performance. For these KPIs, we advocate reporting performance at the corporate level on a hot spot or case study basis aligned to international stakeholder interest, and local reporting elsewhere.

Further progress has been made in developing and applying a tool for self-assessing the degree of alignment of business processes with sustainable development. The tool has been used widely in Chemicals and Exploration and Production to heighten awareness and identify actions for improvement. In both businesses, we have been capturing learning to continue the development and application of the tool.

Our performance

To contribute to sustainable development we must approach our business in a way that helps to meet the needs of the present without compromising the ability of future generations to meet their own needs – the Brundtland Commission definition.

Our approach is to integrate economic, environmental and social considerations into decision-making, balance short-term priorities with longer-term needs and engage with stakeholders. Our challenge is to embed these considerations into our daily operations. We have defined the following seven principles of sustainable development for use in action planning, which when taken together, will enable us to progress. We present our performance data under these headings.

Economic 18–25



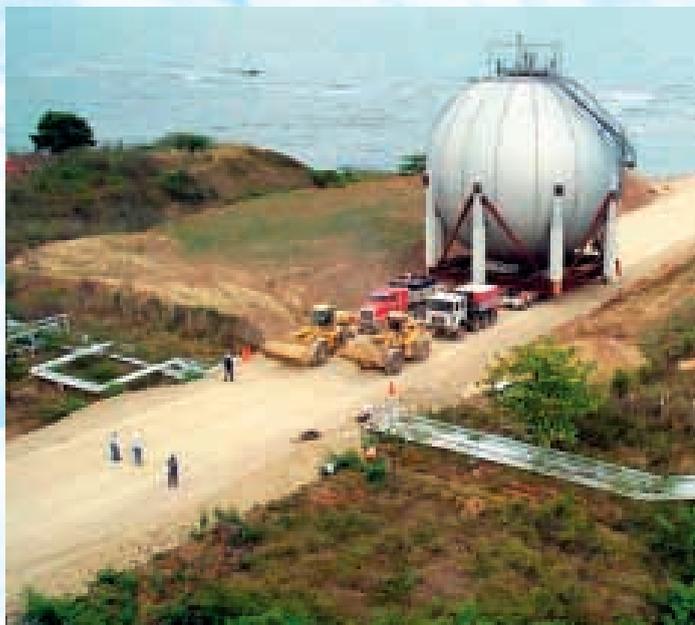
Generating robust profitability

Successful financial performance is essential to our sustainable future and contributes to the prosperity of society. We use recognised measures to judge our profitability. We seek to achieve robust profitability by, for example, reducing costs, improving margins, increasing revenue and managing working capital effectively.

Delivering value to customers

Customers are the lifeblood of our business. We seek constantly to strengthen existing customer relationships and develop new ones. We strive to meet and exceed customer expectations by designing and delivering highly attractive and innovative products and services.

Environmental 26–33



Protecting the environment

The natural environment supports all human activity. We continually look for new ways to reduce the environmental impact of our operations, products and services throughout their life.

Managing resources

Efficient use of natural resources – for example, energy, land, water – reduces our costs and respects the needs of future generations. We constantly look for ways to minimise their use.

Social 34–45



Respecting and safeguarding people

We aim to treat everyone with respect. We strive to protect people from harm from our products and operations. We aim to respect and value personal and cultural differences and try to help people realise their potential.

Benefiting communities

Wherever we work we are part of a local community. We will constantly look for appropriate ways to contribute to the general wellbeing of the community and the broader societies who grant our licence to operate.

Working with stakeholders

We affect – and are affected by – many different groups of people, our stakeholders. We aim to recognise their interest in our business and to listen and respond to them.

Economic – at a glance

- **Second highest earnings ever in difficult market conditions**
- **Cost improvements of \$5.1 billion, ahead of target**
- **Return on average capital employed (ROACE) of 19.2%**
- **Motorists rank Shell top brand for fifth year running**
- **Commitment to fair competition, no bribes and no political payments – zero tolerance policy**

Generating robust profitability

Successful financial performance is essential to our sustainable future and contributes to the prosperity of society. We use recognised measures to judge our profitability. We seek to achieve robust profitability by, for example, reducing costs, improving margins, increasing revenue and managing working capital effectively.

Profits and growth

Full year adjusted earnings (on an estimated current cost of supplies (CCS) basis excluding special items) of \$11,984 million were the second highest ever, 9% lower than the record results of 2000. The effects of higher hydrocarbon production, higher marketing margins and cost improvements were more than offset by lower crude oil prices, and lower refining and chemicals margins.

Cost improvements of \$5.1 billion mean that we exceeded our target of \$5 billion by the end of 2001 (relative to 1998 levels).

Return on average capital employed (ROACE) – how much return is made on the capital invested – is a measure of how well a company uses its capital and assets. In 2001 we achieved a ROACE of 19.2%, shown in graph 10, which compares us to other oil majors.

Total hydrocarbon production increased by 2% compared with 2000, with a 10% increase in gas production partly offset by a 2% decline in oil production. Total oil and gas production for the five year period from

a 2000 baseline is expected to grow at an average annual rate of some 3%. Total Oil Products sales volumes in 2001 were 3% higher than in 2000 and while Chemicals experienced very difficult market conditions, volumes were essentially unchanged.

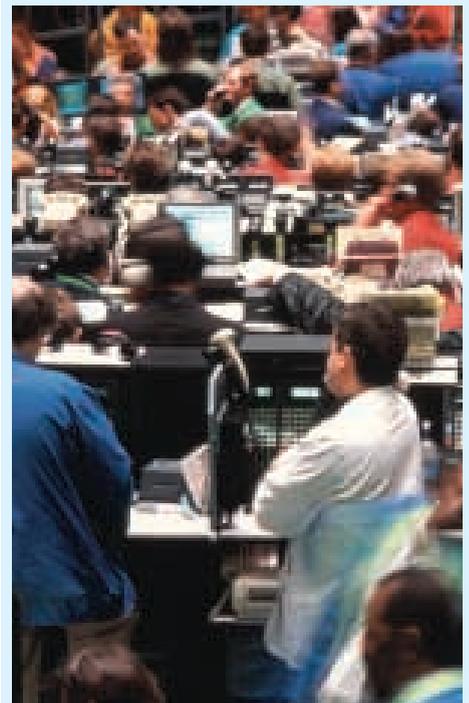
Assets

Cash and other readily accessible funds (cash equivalents and short-term securities) were \$6.7 billion at the end of 2001, down \$4.8 billion on 2000. The total gross debt ratio (gearing) at the end of the year was 8.9%. Net assets decreased by \$0.9 billion to \$56.2 billion during the year. Fixed and other long-term assets increased by \$4.5 billion to \$81.1 billion.

The proved hydrocarbon reserves replacement ratio for 2001 was 74%. The proved hydrocarbon reserves replacement ratio before the effects of divestment and acquisition is 52% and the three-year rolling average (including oil sands) now stands at 101%. Proved reserves are equivalent to more than 14 years of current production.

The additions to proved reserves arose mainly from discoveries and extensions in the USA and the UK, acquisitions in New Zealand, the USA and Brunei, improved recovery in Denmark and Oman and revisions in existing fields in the Netherlands and Nigeria, offset by negative revisions in Canada and Egypt.

ISSUE



Socially responsible investments

Shell was included in the UK's FTSE4Good index launched in 2001 and was rated first in the energy sector of the global Dow Jones Sustainability Index. These indices include companies that meet criteria on social and environmental performance. There has been rapid growth in socially responsible investments (SRI) funds in recent years; in 2001 they were worth some \$3 trillion in the USA alone. This shows the growing importance that investors are giving to considering not just how much profit is made, but how it is generated.

Alois Flatz

Head of research, Sustainable Asset Management

“Shell’s commitment to sustainability has increasingly gained credibility as key strategic decisions have been made to back up their high profile communications on this subject. Moreover, the clear links between business principles and performance indicators establishes Shell’s reporting on sustainability as being best in class.”

For information about our economic performance, please visit www.shell.com/economic

Dividends and shareholder return

The aim of the two Parent Companies (Royal Dutch Petroleum Company and The “Shell” Transport and Trading Company, p.l.c) is to deliver dividends that increase at least in line with inflation averaged over a period of years. In 2001, we succeeded in delivering on this commitment, but earnings per share fell slightly in 2001 (graphs 5 and 6).

Both Parent Companies continued a share buyback programme started in February 2001. The Supervisory Board and Board of Management of Royal Dutch and the Board of Shell Transport have each approved the continuation, subject to renewal of shareholder approval and prevailing conditions, of their buyback programmes. Shares can be purchased from time to time at prevailing market prices.

In 2000, Shell announced a worldwide employee share option scheme. This is helping to build a sense of global unity and affiliation, and enable employees to benefit from any Shell success. By the end of 2001, 60 countries were participating.

Investment and divestment

Effective allocation of capital remains a key focus – ensuring funds only go where the prospect of sufficient returns and sustainable performance justifies the investment.

All Shell companies in 114 countries, where major project investment and divestment decisions are made, operate a procedure to incorporate social and environmental considerations. In 106 of these, decisions take the full life cycle of the project into account.

In 2001, Shell companies invested a total of \$1.8 billion through capital expenditure, exploration expense, new investments in associated companies and other investments. Significant actions included:

Exploration and Production – acquisitions of Fletcher Challenge Energy (FCE) in New Zealand and McMurry Energy Company (McMurry) in the USA. FCE will strengthen the Group’s presence in Asia-Pacific, while the purchase of McMurry, which has

CASE STUDY



Shell in the Middle East

Building partnerships and helping to develop economies have always been important to Shell in the Middle East, where we have long-standing joint ventures in Egypt, Iran, Oman, Saudi Arabia, Syria and the United Arab Emirates. We make clear our reputation for principled business and commitment to sustainable development as we work with national oil companies to develop new opportunities and cement relationships. For example in Iran, Shell is working on behalf of the National Iranian Oil Company in the northern Gulf to redevelop the Soroosh and Nowrooz oil fields, seriously damaged during the Iran/Iraq war. Soroosh started production on schedule in November 2001.

In Kuwait, we continue to build our presence and reputation for when the country chooses partners to help further develop its energy resources. In Saudi Arabia, Shell was last year awarded the leadership role in prospective gas projects around Shaybah, and a participating role in those in South Ghawar. Shell has been active in the Kingdom since the 1940s and invested over \$7 billion with its partners. We seek to build on these relationships in the new ventures. As elsewhere, Shell companies understand the importance of respecting diversity and local cultural standards in our operations.

proved gas reserves in the Rocky Mountains, will underpin Group expertise in tight gas sands technology.

Gas & Power – the portfolio of liquefied natural gas (LNG) supply projects continues to grow, consolidating Shell’s leadership position in the expanding industry. Expansions of the Nigeria and Malaysia LNG plants are under construction and further expansion of the North West Shelf project was approved. Four new power plants in the USA, UK, Australia and China were commissioned by InterGen – in which Shell has a 68% interest – during the year. InterGen reached agreement to sell its subsidiary, Tejas Gas, which owns a gas pipeline system in Texas, an example of ongoing portfolio management in the business.

Oil Products – the potential for significant performance improvement in the USA was enhanced by the agreements with Texaco and Saudi Refining Inc.(SRI), regarding the Motiva and Equilon refining and marketing joint ventures. In February 2002, Shell acquired Texaco’s 44% interest in Equilon to become the sole owner and Shell and SRI will acquire Texaco’s interest in Motiva and become joint owners on a 50:50 basis. Regulatory approval was received for a new joint venture with RWE-DEA in Germany, Europe’s largest oil products market. The joint venture promises a step change in Shell’s downstream presence in Germany.

YOU TOLD SHELL

"Your commitment in favour of sustainable development is very important for the survival of both the planet and the company. As a shareholder, I appreciate to have got a report in which this aspect is clearly underlined."

Belgium

3 Total oil and gas reserves*
billion barrels of oil equivalent

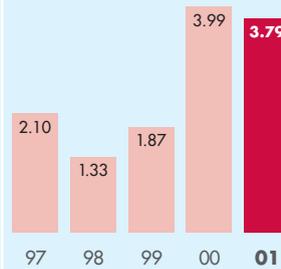


* Crude oil, natural gas liquids and natural gas (excluding oil sands). 5,800 million cubic feet of natural gas = 1 million barrels of oil equivalent.

4 Operating profit
\$ billion



5 Royal Dutch Petroleum Company Adjusted CCS earnings* (proforma)
€ per share



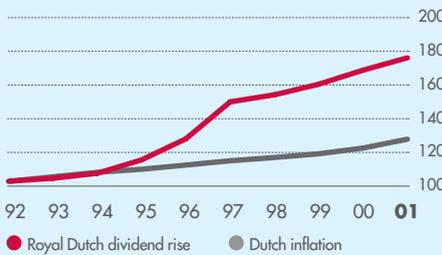
* Earnings on an estimated current cost of supplies (CCS) basis, excluding special credits/(charges).

6 The "Shell" Transport and Trading Company, p.l.c. Adjusted CCS earnings* (proforma)
pence per 25p Ordinary share



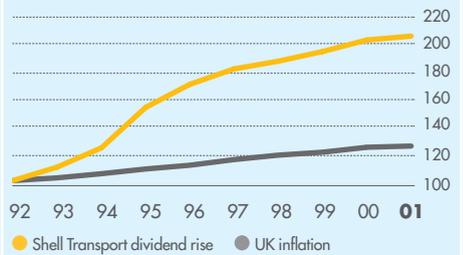
* Earnings on an estimated current cost of supplies (CCS) basis, excluding special credits/(charges).

7 Royal Dutch Petroleum Company dividend 1992 to 2001
relative to 1992 values %



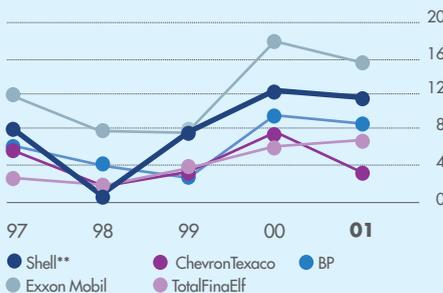
● Royal Dutch dividend rise ● Dutch inflation

8 The "Shell" Transport and Trading Company, p.l.c. dividend 1992 to 2001
relative to 1992 values %



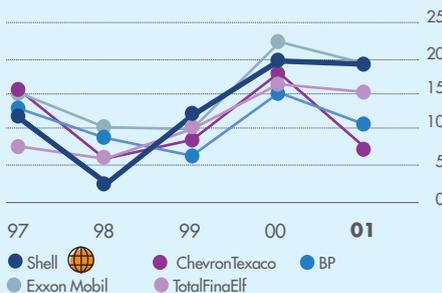
● Shell Transport dividend rise ● UK inflation

9 Net income for oil majors*
\$ billion



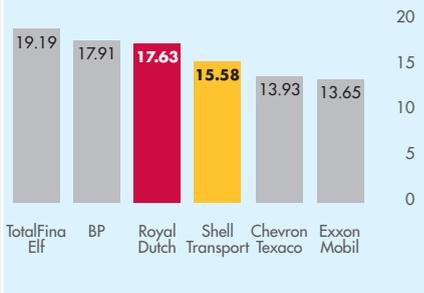
* From 1997 to 2001 there have been significant changes to the portfolios of some of the other oil majors shown. ** Reported net income for Shell is on a current cost of supplies basis. This is used to show a representative comparison with other oil majors who are using slightly different accounting principles.

10 Return on average capital employed (ROACE) for oil majors*
%



* Shell ROACE figures are calculated as CCS earnings plus the Group share of interest expenses after tax, as a percentage of the Group share of average capital employed. The figures for other oil majors are Shell estimates based on publicly available information, which may have been prepared on a different accounting basis and have not been verified.

11 Total shareholder return* 1992-2001
%



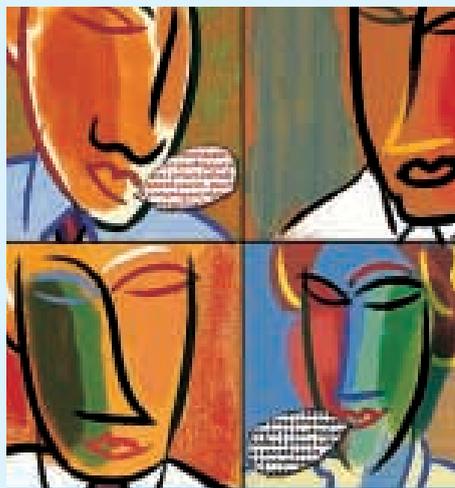
* Total shareholder return is calculated as the total of stock appreciation and yield from reinvested dividends before taxes. The figures above are based on quarterly reinvestment of gross dividends expressed in dollars. Data for TotalFinaElf, ChevronTexaco and ExxonMobil before the effective date of their respective mergers were replaced by data from the acquiring entities. Source: Bloomberg.

YOU TOLD SHELL

“As a shareholder, it is crucial to me that you continue to pursue the values and aims set out in the Report. I want to be proud of holding your shares, not embarrassed. It is bound to be difficult to tackle head on the issues you raise; press on, don’t back off.”

UK

CASE STUDY



Ethics and Compliance
Helpline

questions
concerns

Code of Conduct

Implementing Business Principles

Nine employees have been dismissed and eight contractors removed from suppliers lists after Shell companies in Nigeria introduced a policy in 2000 encouraging staff and stakeholders to report unethical behaviour (anonymously if necessary). In the USA, a 24-hour, seven-days-a-week Ethics and Compliance Helpline is open to Shell people who have a query on legal and ethical conduct, or who want to report concerns or violations. These are two examples of how seriously Shell companies take the Business Principles. The US helpline is part of a programme to ensure that all employees are aware of the Group’s Business Principles and Code of Conduct in the USA, which includes key policies unique to the USA. A Corporate Ethics and Compliance Officer supports this effort.

Chemicals – The large-scale divestment programme announced in 1998, which has led to a radical restructuring of the Chemicals business and a reduction in capital employed from \$12.7 billion to \$8.5 billion, was completed in early 2001. However, portfolio actions have continued.

Renewables – in April 2001, a joint venture was formed between Shell Solar and Siemens Solar to pursue opportunities in the solar photovoltaic market. The combined business is ranked number four in the world. With the acquisition of two new wind farm projects in the USA – Rock River in Wyoming and White Deer in Texas – Shell significantly expanded its business during 2001 from 8MW capacity to more than 130MW. These wind farms generate enough “green” electricity to meet the needs of some 60,000 US households.

In summary, these portfolio actions – together with Shell’s leadership in technology – result in the strengthening of a very robust portfolio at both high and low oil prices.

Tax

Tax is one of the ways in which corporations play a role as an “economic engine” for society. In 2001, taxes generated by Shell companies were more than \$49.8 billion, of which \$42.1 billion was sales taxes, excise duties and similar levies.

Doing business with integrity

Corruption is a global problem that can occur at any level, putting our staff under continuous pressure. In some countries the payment of bribes and facilitation payments to low-level government officials is common practice – and sometimes intermediaries or agents are used to speed up or arrange services more easily than would otherwise be possible.

Our Business Principles state that “the direct or indirect offer, payment, soliciting and acceptance of bribes in any form are unacceptable practices.” We do not pretend that implementing this policy is easy and nor are we saying that we are perfect. But we believe that by making our policy clear to

those inside and outside of Shell, and publishing information on our progress each year, we can make a positive contribution.

Shell companies provide an annual assurance on this “no bribes” policy designed to ensure that all of our staff know and understand our Principles and that we act in accordance with them in every country where we operate.

We report only the number of proven cases, but investigate many more suspected incidents; even when not proven, thorough investigations make it clear that we mean what we say with “no bribes”.

In 2001, Shell companies reported 13 cases (four in 2000) in which bribes were offered to Shell staff or they were detected soliciting and/or accepting bribes directly or indirectly. The total financial value was estimated to be some \$26,000.

In nine of these cases, employees refused the bribes and the cases were reported. Contracts with those offering the bribes were either terminated, or the parties concerned reminded that Shell does not condone such behaviour, and in cases of repetition, termination of business would be a consequence. In three cases, employees were dismissed after investigation. The final case is under investigation.

In addition, the employment of one contractor was terminated after it was detected that he had accepted bribes. There was also one case of a third party requesting money from one of our contractors, which was rejected.

Shell companies in 79 countries (82 in 2000) operate a procedure which aims to ensure that the use of intermediaries does not compromise business integrity. This decrease reflects a reduction in the number of countries using intermediaries. Shell companies in 87 countries (80 in 2000) also operate a procedure which aims to identify and prevent possible breaches of the Group’s commitment of not condoning facilitation payments.

YOU TOLD SHELL

“Shell companies do not make payments to political parties, organisations or their representatives or take any part in party politics. I am proud that Shell has this policy, because it supports our ethical behaviour in the marketplace, environment and communities.”

Shell employee

USA

Reported cases of bribery

Number of bribes and total value \$	1998	1999	2000	2001
Bribes offered and/or paid by Shell company employees directly or indirectly to third parties	1 (\$300)	1 (\$300)	0	0
Bribes offered and/or paid by intermediaries, contractor employees directly or indirectly to third parties	not available	0*	1 (\$4,562)	0
Bribes offered to, solicited and/or accepted by Shell company employees	4 (\$75,000)	3 (\$153,000)	4 (\$89,000)	13*** (\$25,668)
Bribes offered to, solicited and/or accepted by intermediaries, contractor employees or others	not available	1 (unknown)	1 (zero)**	2**** (\$18,072)

* One case in which a Shell employee used an intermediary to make payments of \$300 has been included in the cases concerning company employees. ** Bribe refused and reported. *** 9 of the 13 cases refused and reported. **** 1 of the 2 cases refused and reported.

Our management primer “Dealing with Bribery and Corruption” makes it very clear that we make no distinction between bribes and facilitation payments when enforcing zero tolerance.

Within our culture, staff are encouraged to raise concerns, including those about business integrity, through their line manager. Increasingly Shell companies are also providing formal means for employees to raise such concerns in confidence and without the risk of reprisal, using mechanisms such as hotline numbers or whistleblowing schemes (case study, page 21).

Political payments

For some twenty years, we have had a policy of no political payments. Shell companies in 120 countries (117 in 2000) operate a procedure to prevent and identify possible breaches of this policy. In 2001, no political payments were reported.

Competition

In line with our Business Principles, Shell companies seek to compete fairly and ethically within the framework of applicable competition laws. In 109 countries (95 in 2000), Shell companies operate a procedure to ensure that their operations do not compromise such laws.

CASE STUDY

Raising awareness of competition laws

Accusations of anti-competitive practices in the Dutch fuel retail market were dismissed after an exhaustive official investigation. However, the Dutch competition authorities intend to issue a decision regarding the use of margin support schemes to further enhance competition. The experiences underlined the need to keep employees fully trained and aware of the issues.

Shell companies are required to send an annual competition law report to the appropriate senior executives, with copies to their Country Chair*. The companies are given a package that helps them understand the issues and structure training, including an introductory video presented by Philip Watts, Chairman of the Committee of Managing Directors. Particular attention is paid to staff who have regular contacts with competitors. They receive an initial training session and refresher courses every two years.

A management primer, similar in style to those on Human Rights and Dealing with Bribery and Corruption, is being prepared on competition law and will be distributed to raise further awareness and understanding.

In 95 countries (71 in 2000) employees receive training to help them understand applicable competition laws, and in 77 of these, Shell companies also provide written guidance for employees about competition laws.

In 2001, five competition cases involving Shell companies were completed. Of these, three were ruled in favour of Shell companies, including accusations of anti-competitive practices in the Dutch fuel retail market (see case study, above). In two cases, the Shell company was found guilty.

In the first, Shell, along with 10 other operators, was judged to have infringed competition law by adopting similar pricing behaviour and a fine of \$12,000 was paid. In the second case, Shell and another operator were judged to have infringed competition laws in relation to local transport policy. Shell paid a fine of \$270,000.

Last year we reported that Svenska Shell, along with other major energy companies, was being investigated in response to allegations of fixing gasoline prices. This case is still pending.

* One manager acts as the senior representative of the Group and is called the “Country Chair” in a country or group of countries, whether or not he or she is actually chairman of the local companies.

YOU TOLD SHELL

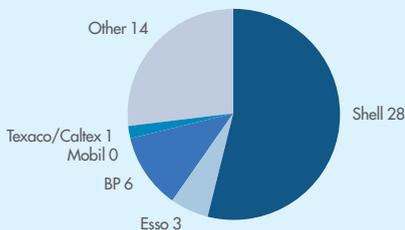
"I was deeply impressed by your willingness to share some very blunt feedbacks. I think this is REAL listening to your customers. I personally like very much this kind of openness and taking care. I am a quite loyal customer to your products and this kind of communication between a giant company and its customers will make me loyal even more. Keep your ability to listen, it is very important."

Unknown

Delivering value to customers

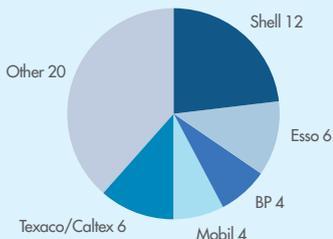
12 Brand share of preference 2001

First preference
number of countries



13 Brand share of preference 2001

Second preference
number of countries



Customers are the lifeblood of our business. We seek constantly to strengthen existing customer relationships and develop new ones. We strive to meet and exceed customer expectations by designing and delivering highly attractive and innovative products and services.

Meeting customer expectations

Customers are at the heart of everything we do, whether they are multinational businesses trading with us on a global scale or individuals on the forecourt, in the home or on the Internet. We listen carefully to what they have to say and seek innovative solutions to their needs.

Shell is the world's largest single branded retailer. Our global network serves some 25 million customers a day in over 56,000 service stations. When market research revealed that distinct groups of motorists wanted specific benefits from their fuel – such as increased responsiveness, enhanced engine protection and reduced environmental impact – we developed a range of differentiated fuels. These are now available in 40 countries in 10,000 retail sites.

In Europe, we make 100 euroShell fuel card transactions every 10 seconds. But most people who come to our retail sites expect much more than just fuel. Most of our sites now provide a wide range of goods and services from groceries to refreshment centres.

Underpinning our strength is the Shell brand – one of the most trusted and reputable in the world. The Shell Global Brand Tracker, believed to be the largest consumer tracking study of its kind, is run annually. In 2001, over 22,000 private motorists in 52 countries were asked which brand they preferred in our Global Brand Tracker survey. For the fifth year running, Shell was ranked number one globally for brand preference (graphs left).

We have an interest in 50 refineries in over 30 countries and have more than a million commercial and industrial customers. In Europe alone we keep three million households warm by providing them with heating oil. We market liquefied petroleum gas (LPG) in 58 countries to 40 million customers many of whom are in the developing world. LPG offers a cleaner, affordable and convenient alternative to traditional sources of energy.

Our marine business has 8,000 customers worldwide and operates 15,000 vessels from ocean tankers to ferries and fishing boats. We operate our global aviation business in 90 countries with fuelling operations at more than 800 airports, fuelling some 20,000 aircraft a day. The quality of this service has been recognised through three Armbrust awards for Best International Jet Fuel Marketer, a customer-driven assessment award.

YOU TOLD SHELL

"I just wanted to let you know that I am impressed with the amount of time and energy you are putting into social and environmental issues. I will be watching your progress and if I see that it is more than just a PR ploy, I will do my best to stop at a Shell station."
USA

CASE STUDY



"Green" electricity in the Netherlands

Shell is to sell electricity generated from renewable resources in the newly liberalised domestic market in the Netherlands. The availability of this "green" electricity will enable consumers to buy an environmentally sound product without having to change their lifestyle, and at comparable cost. The Dutch government is committed to cut CO₂ emissions in line with the Kyoto Protocol and the increasing use of renewable energy in homes is essential if targets are to be met. The "green" electricity is supplied by the Swedish company, Vattenfall, generated from biomass power. In future it is hoped to provide "green" electricity from Shell Renewables facilities from within the Netherlands.

Innovation and product development

More and more, people are expressing their demands for a cleaner, healthier, more socially responsible world by the purchasing choices they make – what they buy and from whom. Understanding the individual needs of consumers and their personal priorities for quality of life, health, environment and security is what drives our customer-focused innovation.

We are using expertise from across our businesses and the strength of the Shell brand to create a single face to the consumer and build new business opportunities.

CASE STUDY



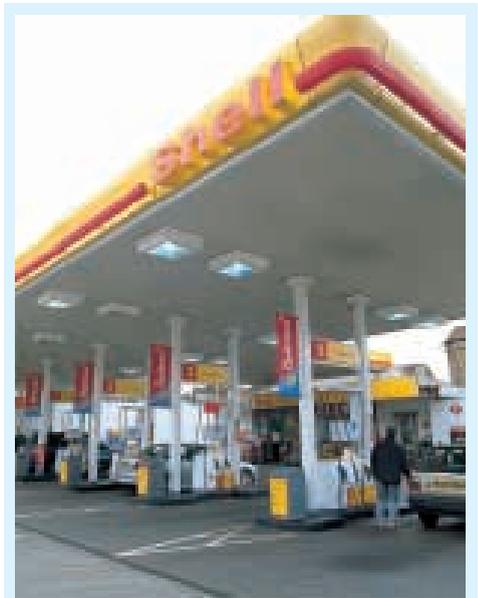
Filling up with bio-fuels

In some parts of the world, fuels made from crops are starting to be used in transport fuels. These "bio-fuels" are derived either from vegetable oils (methyl esters) for use in diesel engines or from fermented and distilled products of crops, such as corn or sugar beet (ethanol), for use in gasoline engines. Bio-fuels are intrinsically carbon neutral, but energy is needed for their production. Overall their use creates less greenhouse gas emissions than traditional fuels. Their production is up to four times more expensive and their use is currently economic only if the cost is subsidised. As with any intensive agriculture, there are environmental issues that have to be considered too, such as the use of agrichemicals and the effects of mono-crops on biodiversity. The European Union has recommended that all fuels should contain a 2% minimum bio-content from 2005 and nearly 6% from 2010. This would mean producing 16-times more bio-fuel by 2010. Shell companies are committed to research and develop bio-fuels and promote their use whenever they make environmental and economic sense. We already market fuels containing bio-components in Brazil, Sweden, USA and France.

For busy drivers on the move we are developing a range of mobile services including voice-delivered route-planning and traffic information services. "Shell autoserv" is our innovative way of recognising the importance of delivering the highest level of personal customer-care while also getting the technical side of car servicing right every time.

"Shell at home" provides a variety of energy types (gas and electricity), energy advice and services to households. For example, our Green energy service supplies electricity from renewable sources (above left). Heating, ventilation and air conditioning is a growing area. Service quality is what makes the difference, so the focus is on providing a reliable and friendly experience for customers.

The Internet is vital in growing new e-related businesses and provides a convenient means of purchasing. We continue to expand the range of financial services, from venture capital to car insurance. A number of retail



YOU TOLD SHELL

“Could you please be so kind to tell me about your company’s policy towards animal-testing. What products are animal tested and do you support alternatives?”

UK

sites provide pick-up points for bulky goods ordered on the Internet, so that people need not wait at home for deliveries.

Offering motorists a choice of conventional fuels having environmental and performance benefits (page 23) is matched by innovations in bio-fuels, that are carbon-neutral (see opposite), and ultra-clean fuels.

In January 2002, for example, Shell launched a new semi-synthetic fuel – Shell Pura Diesel in Thailand. This is the first commercially available diesel fuel that has been specifically formulated to take advantage of the ultra-clean properties of fuel created from natural gas, using the Shell Middle Distillate Synthesis (SMDS) process, see page 6.

By blending locally produced diesel with the SMDS fuel, it has been possible to introduce a product which can be used in existing vehicles without modification, combining improved engine cleanliness with significant emissions reduction. SMDS products are ultra-clean, being completely free of aromatic and sulphur components, and the diesel fraction makes an excellent blending component.

We are also working with partners to develop and sell fuel processors that convert diesel and gasoline to hydrogen for use in fuel cell powered vehicles. They provide a bridge to emerging technologies, encouraging new fuel cell applications and paving the way for future investment in hydrogen storage and distributions systems, for a time when hydrogen will replace carbon as the primary energy carrier.

ISSUE

Health of products and animal testing

For our businesses to be sustainable, we have to meet stakeholder expectations and regulatory requirements for the health and environmental safety of our products. Shell’s products include substances that are incorporated into many consumer applications. Ensuring that our products are safe to use requires a range of tests, some using animals. We share the hope that scientific and technological advances may eventually enable society to find alternatives to tests using animals to assure the safety of products. Until that time, some animal testing is necessary. Shell and other oil and petrochemical companies are involved in only a very small proportion of animal tests. Recognising that the use of animals for product safety testing is of concern to many, Shell has developed a Group Animal Testing Standard with which all Shell companies must comply, see www.shell.com/testing.

Shell companies only use animals when there is no alternative. Testing is only carried out in officially approved research facilities whose animal welfare standards are enforced by independent inspection. Tests commissioned by Shell do not involve cats, dogs or monkeys. We minimise the number of animals used, and we cooperate with other companies whenever possible and share our research results to prevent unnecessary duplication. We support efforts to reduce the number of animals used in product safety testing, to refine test methods to make them as humane as possible and to replace animal tests with alternative methods where possible. In particular, we support the work for the Fund for the Replacement of Animals in Medical Experiments (FRAME) in the UK and the Center for Alternatives to Animal testing (CAAT) in the USA. We have set up an independent panel to review and comment on the implementation of our Standard. Next year’s report will contain a summary of the panel’s findings.

CASE STUDY



Building our solar business

In January 2002, Shell exercised its option to acquire the shares held by Siemens and EON in the photovoltaic joint venture formed in April 2001. This move is part of Shell’s commitment to develop renewable energy as a commercially viable business. Over the next five years, the Group plans to invest \$0.5–1 billion, subject to ongoing economic review, in developing commercially viable, alternative energy sources, particularly in solar and wind. Shell Solar will employ up to 1,100 people and brings together world-class operations in both research & development and manufacturing. It provides Shell with access to thin-film solar, which offers a wider range of applications than competing solar products and is seen as the solar technology of the future.

Environmental – at a glance

- Greenhouse gas emissions up, but still on track to meet 2002 reduction target
- Significant increase in spill volumes
- Fresh water usage reported for the first time

Protecting the environment

The natural environment supports all human activity. We continually look for new ways to reduce the environmental impact of our operations, products and services throughout their life.

2001 was a disappointing year in that we did not deliver planned performance in some important areas. Hydrocarbon production and refinery throughput levels were both higher than 2000, which contributed to some increases in overall emission levels. An increase in gas flaring (which particularly impacted greenhouse gas (GHG) emissions), and a small number of large spills, which contributed to a significant increase in overall spill volumes, were of particular concern.

Emissions

Greenhouse gas emissions

Although our overall GHG emissions showed a 2% increase to 103 million tonnes carbon dioxide (CO₂) equivalent, we still expect to meet our target to reduce emissions to 10% below 1990 levels by the end of 2002, through our ongoing GHG management programme. A 3% increase in CO₂ emissions resulted mainly from an 11% increase in flaring, as well as the increased amount of energy required to produce cleaner fuels in our refineries. This increase was partially offset by a 21% drop in methane (CH₄) emissions, which reflects the disposal of our coal business, a change in emission factors in shipping as well as the reduction of continuous gas venting in line with our commitment to eliminate this practice by 2003.

In the past, gas was often seen as a by-product of oil production, which had to be disposed of in the absence of a market. Now we are working hard to use this gas. Also, for safety reasons gas may be released (vented) or burnt (flared). It is disappointing that flaring was up 11% in 2001 at 10.3 million tonnes.

At a field in Gabon there was earlier than forecast gas breakthrough associated with limited gas compression facilities. There was also a 3% increase in flaring in Nigeria as a result of increased production. However, we still remain confident that we will meet our long-standing target to eliminate disposal of gas by continuous flaring by 2008. The third production plant (train) at the Nigeria Liquefied Natural Gas (NLNG) facility and associated gas gathering projects at Alakiri/Obigbo North, Belema Cawthorne Channel and Odidi are due to come on stream in late 2002, and two further trains at NLNG are currently under consideration (page 29).

Work is under way to improve the quality of environmental data in Nigeria, especially air emissions, as described on page 29.

Ozone depleting substances

When certain halocarbons (such as CFCs and halons) are released into the air they contribute to depletion of the stratospheric ozone layer. The production of these substances is being phased out under the Montreal Protocol.

Shell does not manufacture any ozone-depleting substances, but like many companies we do use them in small

ISSUE



Shell Canada – acting on climate change

A Panel of independent environmental and community experts, constituted in 2000, is helping Shell Canada develop and apply plans to manage its GHG emissions. Shell Canada has had targets in place since 1995 that include meeting 1990 levels of GHG gasses by 2000 for base business and reducing these emissions by 6% by 2008. The 2000 target has been achieved. The Panel has helped establish the new Athabasca Oil Sands Project goal of 6% fewer GHG emissions than the imported crude this source will displace by 2010. Members oversee progress towards that goal and also examine the social and environmental effects of the project to ensure well-integrated sustainable development. During 2001, the Panel assisted in the drafting of a Shell Canada Climate Change Strategy, which has now been approved by the Shell Canada Board. Shell Canada is taking the lead in meeting Group commitments (see page 12) for GHG reduction and actively engaging on the topic of climate change.

YOU TOLD SHELL

"PLEASE do not drill for oil in the Sundarbans. The tigers are already on the verge of extinction, this is not a place for oil drilling! I am concerned for the future of the tigers in this area, and hope that you will think carefully about this."

Unknown

For information about our environmental performance, please visit www.shell.com/environmental

quantities, for example, in fire-fighting systems, refrigeration and air conditioning. Ozone-depleting substances in redundant equipment are disposed of responsibly by, for example, sending them to an official halon/CFC bank. In 2001, losses were 5.1 tonnes, compared to losses of 11.1 tonnes in 1998 when we first set our objective to replace these products with alternatives where feasible. Whilst stocks remain, there can be small losses from maintenance and testing. Stocks in our Exploration and Production and Oil Products businesses were reduced by 30% and 42% respectively during 2001.

Nitrogen oxides and sulphur dioxide

Nitrogen oxides (NO_x) and sulphur dioxide (SO₂) are emitted when fuel is burnt in our operations and contribute to local air pollution and acid rain. In line with our Minimum Environmental Standards, the annual average NO_x and SO₂ emission rates at Shell-operated refineries and chemical plants throughout the world were well within ranges permitted in Organisation for Economic Cooperation and Development (OECD) countries. For more about our Minimum Environmental Standards, see www.shell.com/environmental.

Overall, our emissions of NO_x increased by 5%, principally in our Exploration and Production business, as a result of higher flaring and energy use.

Emissions and fuel quality

We recognise that the use of our products, particularly fuels, can contribute to both global and local air emissions and we continue to work with key stakeholders, such as vehicle manufacturers and governments to support initiatives to reduce their impact. Possibly the most important has been the introduction of catalytic converters on cars, made possible by unleaded petrol, reducing exhaust emissions and contributing to a significant improvement in air quality in many major cities of the world.

CASE STUDY

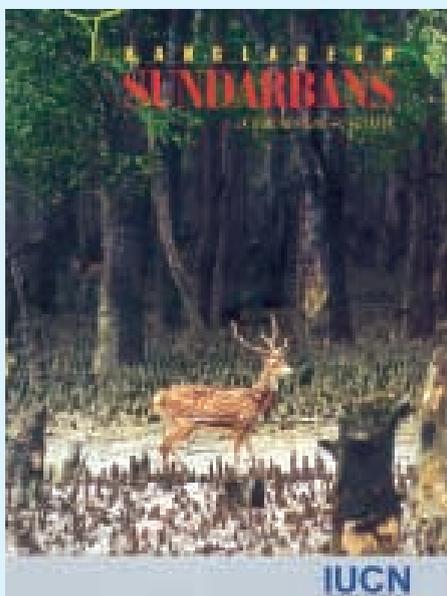


Working alongside gray whales in Sakhalin

Concerns about the effects of oil and gas activities on an endangered whale population near a platform operated by Sakhalin Energy Investment Company (SEIC) – a Shell joint venture off Russia's Sakhalin Island – have prompted investigations into the potential impacts of the operations. Only an estimated 100 of the western gray whales exist, returning every summer to feed off the island in the Okhotsk Sea, one of the World Wildlife Fund's Global 200 Ecoregions. Recent reports have indicated that calf production is low and that a number of the whales appear thin. Conservation groups are concerned that the whales' condition is linked to industry's activities. Concern has focused on the SEIC platform because it is the only active venture in the area, although it is located outside the whales' primary feeding grounds.

SEIC has funded studies of the whales by independent scientists. These have found that SEIC activities are not affecting the whale population or their feeding habitats. They also show that the whales' condition is similar to that observed among different species in other regions and is not directly linked to oil activities. Nevertheless, SEIC has evaluated the impacts of its operations on the marine environment and implemented a series of mitigation measures. The company continues to fund studies of the whales and remains in contact with the scientific community, Russian agencies, and non-governmental organisations to share information.

CASE STUDY



Preserving the Sundarbans

Shell has rights to explore for oil and gas in Bangladesh in an area that includes the forested Sundarbans Nature Reserve. We will not explore within the reserve and are committed to help preserve the area. For example, we have worked with IUCN – the World Conservation Union, to help raise awareness of the importance of biodiversity in the forest through publication of a book (left).

Sarah Wade

Economist, Environmental Defense

“The integration of the panoply of issues and interests related to climate by Shell Canada’s executives into their everyday jobs is a model for Shell International as it operationalises its global GHG commitment. It would be our hope that Shell International would engage in similar intensive dialogues in each of the geographic areas in which it operates and that other companies would take this as a model.”



Data and targets

We have aggregated our environmental performance data from all companies that are under Shell’s operational control. We report these data on a 100% basis even where the Group’s interest is less. We present our data as absolute figures that reflect our environmental load or impact, such as GHG emissions, and by indicators which are normalised by the activity levels of our three main businesses, such as energy efficiency. Data that we believe reflect the most significant health, safety and environmental impacts at the Group-level are independently verified.

Find further details in the Data tables, Basis of reporting and the Verification Statement on pages 46–48.

Targets are normally set per unit of activity, which are multiplied by assumed business activity to give absolute projections. The targets and projections for Oil Products do not include Equilon LLC (USA) and DEA (Germany), which will come under operational control during 2002.

Fixed five year targets and projections for 2003 were set in 1998, based on our performance and business portfolio at the

time, to enable assessment of our progress year by year. Some targets and projections are becoming less relevant to today’s portfolio, for example the oil in effluent projection (graph 18) and the Chemicals energy efficiency target (graph 20). We will reset our targets and projections next year for 2007.

In relation to our 2003 targets and projections, we are well ahead for SO₂, NO_x and oil in effluent. Less progress has been made in spills and flaring (which in turn affects CO₂ and GWP).

* Refer to the case study, page 29.

YOU TOLD SHELL

"Well Shell, are you not all about serving the people, hearing their concerns and being fair to your employees? What about the environment? What about the issues of global warming? I saw your article about admitting it is your problem on this web site. But what are you doing about it? It is one thing to admit to the problem, but it is another to do something about it."

USA

CASE STUDY

Environmental data quality in Nigeria ☺

In previous Shell Reports, we reported weaknesses in the data systems used for environmental data reporting in Shell Petroleum Development Company of Nigeria (SPDC). The size of the Shell operation in Nigeria and the related quantity of gas flared is such that uncertainties in flaring, emissions to air and other data could have an impact on the accuracy of the total Group data. The programme for improvement of environmental data quality in SPDC was accelerated in 2001 with emphasis on gas flaring data. This led to significant improvements (compared to previous years) in the consistency of data aggregation systems, protocols and data validation.

The limited extent, and shortcomings in the quality, of gas metering at the flow stations still create potential inaccuracies in the reported gas flaring data and related emission to air parameters for 2001 (GWP, CO₂, CH₄ and NO_x). SPDC intends to address this by implementing an improvement plan during 2002 and 2003. SPDC has already improved the accuracy of other environmental data, particularly related to oil spills and financial compensation arising from environmental incidents. In summary, SPDC intends to further enhance the quality of the data reported during 2002 to meet the requirements of the Shell Group.



Obigbo Gas Gathering Station – One of Shell's main environmental objectives is to stop continuous flaring of natural gas by 2008. To achieve this, Shell is implementing a major investment programme in Nigeria. Key is the gathering of gas otherwise flared and subsequent processing in LNG facilities. Two trains are operational and a third LNG train will be completed late 2002. Approval of plans for a fourth and fifth LNG train are expected in 2002. In addition, investments are being made to develop the local industrial and power gas market.

In 2001, we expanded the availability of low sulphur petrol and diesel, which are required by the new breed of high efficiency engines. While such fuels require more energy to produce, they can lead to lower overall CO₂ emissions. We also expanded the number of sites offering liquefied petroleum gas (LPG), the use of which produces lower CO₂ emissions, compared with petrol or diesel. Shell has been a pioneer in the introduction of "cleaner" fuels, producing lower emissions (pages 24 and 25).

Effluents

The main discharges to water from our operations are oil in the water that accompanies oil production and oil in effluents from refineries. The volume of oil in water from production operations was 14% better than planned, with an average concentration of 16 milligrams per litre (mg/l), well below the current North Sea standard of 40 mg/l. Innovative solutions are also being tested to make good use of this water (page 33).

Spills

We report, as a single volume figure, spills of crude oil, oil products and chemicals. Such spills may be caused by equipment failure (including corrosion), human error, acts of sabotage and natural events. Most Shell companies did not have any spills and

in most of our businesses, the number of spills declined from last year. After an encouraging improvement in 2000, it is disappointing to report that spill volumes have increased significantly from 9,900 tonnes to 17,800 tonnes. There were two main spills. A major rupture of the Trans Niger Pipeline at Ogbodo village in Nigeria resulted in a spill of 3,601 tonnes of which over 90% was recovered. Also 1,275 tonnes were spilt during a well blow out in Oman and the site has now been completely restored. Some 5,220 tonnes were attributed to acts of sabotage in Nigeria, higher than the 2,384 tonnes in 2000.

Action has been completed to address one of the significant incidents we reported last year. In October 2000, the independently-owned cargo vessel *levoli Sun* sank off France. One of the cargoes being carried by the tanker when it sank was styrene owned by Shell. About a quarter of the styrene escaped when the tanker sank. The chemical degrades quickly and no environmental harm was observed. Subsequent to the sinking, Shell worked with the owners, the authorities and the salvors. As a result of a successful salvage operation, the remaining styrene was safely recovered and reprocessed. For more information about *levoli Sun*, see www.shell.com/environmental.

Fines and liabilities

There has been a change in the way we report data on fines. In the past we reported payments made against three categories: fines, compensation payments (for Chemicals only) and payments made to avoid prosecution. Compensation payments often relate to events that happened many years ago. We believe that fines for not meeting laws, regulations and permits (amounting to just over \$1.4 million in 2001) is the best measure of our compliance. Our goal is to reduce fines to zero.

At the end of 2001, the total liabilities being carried for environmental clean-up, decommissioning and site restoration were \$3,069 million (\$2,989 million in 2000).

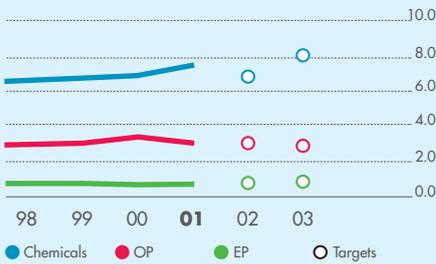
YOU TOLD SHELL

“Whilst the upstream technological developments and initiatives described in the report seem highly encouraging, improving energy efficiency has an important role to play in reaching climate change and environmental objectives and it is hoped that Shell will play a more active part in promoting this than appears to be the case at present.”

Unknown

Managing resources

20 Energy efficiency 
Gigajoule/tonne throughput



Exploration and Production (EP). Oil Products refineries only (OP)

21 Acidification Potential 
(SO₂ equivalent)

tonnes SO₂ equivalent/thousand tonnes throughput



Exploration and Production (EP). Oil Products refineries only (OP).
* SO₂ data not verified in 1999 and 2000.
** NO_x data not verified in 1999.

Efficient use of natural resources – for example energy, land, water – reduces our costs and respects the needs of future generations. We constantly look for ways to minimise their use.

Energy

In 2001, our total energy use was up 2% at 1,023 million gigajoules – enough to power a city the size of Paris for one year. Our goal is to continuously improve our energy efficiency. This is a challenge as we also seek to maximise recovery from existing oil and gas fields, as well as to refine the cleaner fuels that vehicle manufacturers, motorists and governments are now demanding, both of which require more energy usage.

Energy efficiency is one of the most cost effective ways of reducing our greenhouse gas emissions. In 2001, we started work with the Rocky Mountain Institute – highly respected innovators in industrial efficiency – on pilot projects both in our Fredericia refinery in Denmark (case study, page 32) and the Shell Centre office refurbishment in London. These pilots will be extended to our Chemicals, Exploration and Production and Gas & Power businesses this year.

Water

The world’s freshwater systems are under intense pressure. For its size, our industry is not a major water consumer, but we do use it in our refineries, chemical plants and forestry operations. We also have the potential to impact water quality when we

explore for and produce oil and gas. We recognise the growing need for water management systems that focus on recycling and conservation. Much can be done simply by changing attitudes and finding innovative ways to further reduce our impact.

In 2001, we began to monitor how we manage our use of fresh water, which is defined as water having a salinity of less than 400 mg/l. Water usage was reported in four categories: potable water received from local and municipal suppliers; fresh water taken directly from surface water sources; fresh ground water abstracted from wells and fresh water used for injection into production formations. Over 90% of the 1.7 billion cubic meters is used as cooling water (which is mostly returned to the surface source) in locations such as the Pernis and Moerdijk refining and chemicals manufacturing complexes in the Netherlands. For new facilities, air cooling is the preferred option.

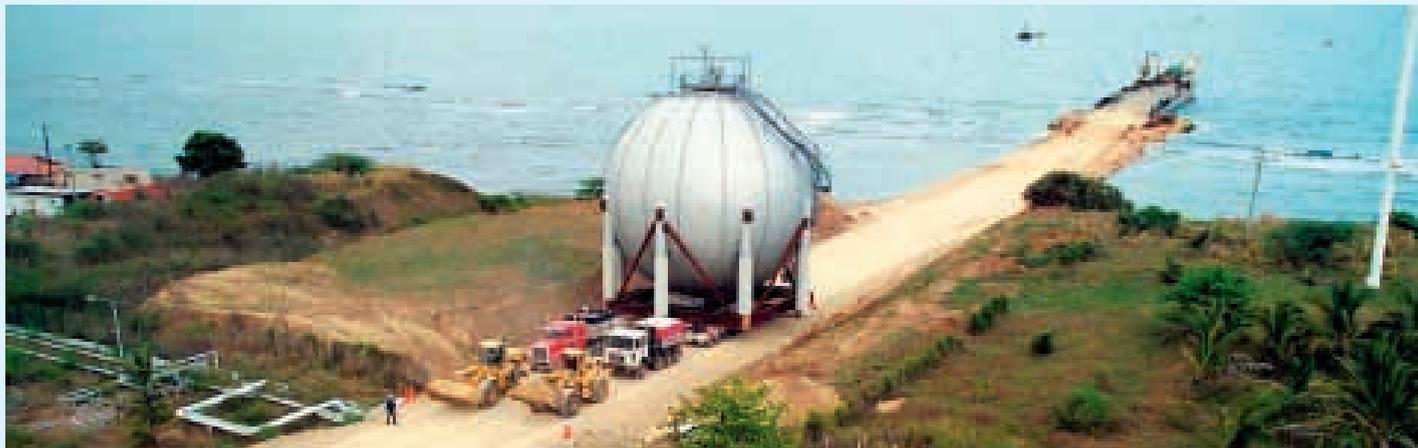
Water produced from oil and gas fields varies in salinity. We are looking at new technologies, which enable oil to be produced without bringing water to the surface as well as potentially commercial opportunities for using this water (page 33).

YOU TOLD SHELL

"An oil company cannot contribute to sustainable development unless it gets out of oil! When do you plan to take the IPCC's warnings seriously, stop all new oil exploration and become a renewable energy company."

UK

CASE STUDY



Nothing wasted

The shipping of two giant liquefied petroleum gas storage tanks across 8,000 km of ocean has solved problems in two continents and proved the value of Shell's sustainable development thinking. In Norway, the Sola refinery was closing and looking for ways to dispose of potentially valuable equipment. In the Caribbean, Refidomsa, a Shell refining and import terminal joint venture with the State of the Dominican Republic needed to increase its gas storage capacity quickly. Both management teams were charged with considering economic, environmental and social aspects in their planning. The solution identified by the teams was to ship the unwanted tanks and land them on a specially constructed jetty in front of the Dominican refinery. This would provide the much-needed storage faster and more economically than building new facilities for Refidomsa, while helping the Norwegian refinery to reuse or recycle 99% of its equipment. Decommissioning of the Sola refinery was completed on budget and without accidents. All former staff have found new jobs, engaged in further education or have set up their own businesses. Shell and the municipality are working in partnership to regenerate the site for new industries.

CASE STUDY



Using waste heat to warm a local swimming pool

Half the heat needed to warm this community pool in the Dutch town of Monster comes free from a nearby Shell-Exxon gas field, where it is generated during extraction and compression, and would otherwise go to waste.

Waste

Waste includes material from industrial operations for which there is no economic demand and which must be disposed of. For the purposes of corporate reporting, waste includes solids, liquids and sludges but not domestic, office, construction waste and contaminated soil.

We seek to use materials efficiently by not generating waste. Where this is impossible, we try to reduce, recycle or reuse waste materials. The case study above and on page 32 illustrate some of the innovative ways that Shell companies are finding to turn waste into products.

The total waste disposed in 2001 was 897,000 tonnes (890,000 tonnes in 2000), of which about half is classified as hazardous. The main categories of hazardous waste are oil-based and synthetic mud and cuttings, sludges from water

treatment and tank cleaning and spent catalysts, which are disposed to landfill or incinerated.

Many of our operating units have specific, local programmes for waste reduction, but we do not set Group-wide targets because of widely differing and changing national definitions.

Amory B. Lovins

Chief Executive Officer (Research), Rocky Mountain Institute

“Shell’s skillful, entrepreneurial engineers make fine partners in integrative design that can ‘tunnel through the cost barrier’ to achieve astonishingly large and profitable energy savings in refineries and other facilities.”

CASE STUDY



Saving energy through efficiency

An early test of the potential to increase the energy efficiency of our refineries through operational improvements – called Energise – has reduced energy costs by \$500,000 a year and is on track to deliver yearly savings of \$2 million at one of the world’s most efficient refineries, at Fredericia, Denmark. Energise has been developed by technical specialists Shell Global Solutions who act as consultants, providing an experienced team that finds ways to cut energy use without capital expenditure. At the same refinery, Shell has also piloted a programme to capture business benefits from “eco-efficiency” – reducing the use not only of energy, but of water and waste as well. Undertaken with the help of Shell Global Solutions and the Rocky Mountain Institute, significant additional savings were generated by considering the plant as a whole, looking for ways to prevent the creation of all wastes and making selected high payback capital investments. Both efforts highlighted the potential for generating bottom line improvements for shareholders by operationalising sustainable development. Shell Global Solutions is developing an integrated service based on the Energise and eco-efficiency pilots.

Eco-efficiency

Absolute emissions reflect our total impact or environmental burden. Showing emissions as a ratio of activity level reflects the efficiency of our processes. The three such ratios we illustrate – unit emissions of GWP (page 28), energy efficiency (page 30) and acidification potential (page 30) – show that despite the absolute increases, longer-term unit emissions trend broadly downwards.

Some examples of opportunities to increase eco-efficiency include:

- using better technology and processes to reduce the use of energy and materials. An example is combined heat and power plants where residual heat is used rather than wasted
- improving reliability leading to greater efficiency and fewer accidental emissions or spills
- minimising transport by continuing to integrate operations and sites (less transport needed) and improving efficiency of supply chain logistics.

CASE STUDY



Turning waste gas into a product

Turning waste into a saleable product conserves resources and reduces emissions. Shell companies are doing this with carbon dioxide (CO₂), the principal greenhouse gas, which is produced when fossil fuels are burned. At Shell Chemicals’ ethylene glycol plant in Safford, Canada, 62% of its (high concentration) CO₂ emissions are bought by a local company that produces gas for the fizzy drinks industry. Shell’s ethylene glycol plant in Singapore (above) is doing the same, reducing its CO₂ emissions by 40% by selling 25,000 tonnes a year to a nearby company that supplies the food industry. In the Netherlands, a Shell Chemicals plant at Moerdijk supplies 40,000 tonnes of CO₂ a year to a Swiss firm that makes a whitener for the paper industry. Shell engineers in the Netherlands are also working on the feasibility of diverting waste heat and CO₂ to nearby greenhouses. Using these wastes – needed to grow plants – could dramatically cut the energy needed by farmers, reducing overall costs and emissions.

Legacies

Our commitment to protecting the environment continues after our operations finish. Redundant facilities are responsibly decommissioned – removing equipment and demolishing buildings and structures.

We constantly look for ways to recycle and reuse equipment. For example, nearly all of the equipment from the redundant Sola refinery in Norway was reused after closure (page 31).

We recognise our obligation to clean up old sites, which were unintentionally contaminated to ensure that communities do not suffer harm. In Brazil, Shell is providing free health examinations and offering to buy homes in a community in Paulinia, in recognition that many people are worried about the possible effects of insecticide contamination from a Shell plant that was sold in 1993. Remediation activities are continuing on the manufacturing

YOU TOLD SHELL

"I was surprised to see no reference, at least not that I could see, to energy from waste. I think this is a topic so important to the Western world countries that as an energy company, Shell should have something to say."

UK

CASE STUDY



Using the sun to clean water

When oil is produced from below the ground, it also brings water to the surface. Since this water is not clean, until now the preferred practice has been to re-inject it back underground. However, a new technique developed by Shell and its partner companies could soon be used to clean the water and provide a sustainable supply for desert regions. The first stage of the process uses reed beds to treat the water to a quality which can be used to irrigate certain salt tolerant crops. A new development, called Solar Dew, then combines membrane technology with solar energy to separate out the remaining contaminants, leaving water of a quality safe enough to drink.

site to further improve and preserve environmental conditions to internationally accepted standards.

Concerns in the community were raised after claims were made that people's health was being damaged. These claims were later considered by a group of eminent, independent physicians and toxicologists who investigated the evidence. The group concluded that contamination is well below levels that could cause concern in the scientific community. Shell is, however, acutely aware of the strength of feeling among residents and has made its offer because it wants to do its best to reduce their concerns and provide them with an opportunity to move away if they wish.



CASE STUDY

Collecting used lubricants

A Shell programme is helping to protect the marine environment off Thailand by reducing the amount of used engine oil often dumped into the ocean by fishing vessels. As part of a service offered to the fishing industry, Shell Thailand extracts and safely disposes of used oils before refilling the vessels with its own lubricants.

Social – at a glance

- **Best ever safety performance**
- **Minimum Health Management Standards adopted**
- **Slow progress towards gender target – focused programme to accelerate diversity**
- **Incompatibility with Shell Business Principles – 100 contracts terminated**
- **Reaching out to an ever wider range of stakeholders**

Respecting and safeguarding people

We aim to treat everyone with respect. We strive to protect people from harm from our products and operations. We aim to respect and value personal and cultural differences and try to help people realise their potential.

Health

Total Reportable Occupational Illness Frequency (TROIF) is the parameter we use to monitor health performance for our employees. Performance at 2.3 illnesses per million hours worked was similar to 2000. During 2001, we adopted a set of Minimum Health Management Standards – common expectations – which we aim to implement Group-wide before the end of 2003.

Stress continues to be an issue of concern. Building on the lessons learnt from our successful root cause analysis tool for looking at safety incidents, we are working to see if the same approach can also be applied to better understand stress. To help people balance work and personal life, many Shell companies have introduced a wide range of practices such as flexible working, part-time working and career breaks. A picture of what constitutes best practice is beginning to emerge. The next challenge is to create the right working environment where employees feel comfortable in making use of these opportunities.

We also work in communities to mitigate potential health impacts of our operations and meet their health needs. In sub-Saharan Africa, for example, Shell is using the

communications potential of its retail network to help fight the spread of HIV/AIDS (page 35).

Safety

We deeply regret that 42 people (39 contractors and three Shell staff) lost their lives at work in 2001. However, this is significantly fewer than in 2000 and represents the lowest number of fatalities ever recorded in one year. Some 76% of incidents resulting in fatalities were associated with road accidents, mainly in developing countries where driving conditions are particularly difficult. Our attention in 2001 has been focused on extending an action programme specifically designed to enhance the awareness, commitment and performance standards of our road transport contractors in such countries.

Any fatality is unacceptable and the circumstances behind each and every one are investigated at the very highest levels to learn how to avoid a similar thing happening again. This applies not just to incidents that result in the death of company or contractor staff. All incidents, involving any death are reported internally and investigated with the same rigour, even when it is clear that the accident resulted solely from the unsafe action of another party.

Based on the broader measure of safety that includes minor accidents and incidents – Total Reportable Case Frequency (TRCF), the performance of company and contractor staff improved a further 9% from 2000 to 2.9 cases per million hours worked.

ISSUE



Winning hearts and minds for safety

Shell has been working with specialists from Leiden and Manchester universities to study human behaviour and investigate ways to encourage people to be more conscious of safety.

“Hearts and minds” safety programmes are being applied in many Shell companies around the world and use a range of tools and techniques. For example, toolkits on rule breaking and on understanding the organisation’s culture are used in seminars for supervisors and middle managers. Seminars are short and fun, helping to raise awareness of weaknesses and the need for change, while providing opportunities for people to offer ideas for improvement.

Staff and contractors say that they find the seminars useful. Management teams have understood the need to improve and individuals have recognised the need to change their personal behaviour.

YOU TOLD SHELL

"In a modern world, with unlimited access to information and opportunities, people would prefer some level of flexibility in work arrangements. Companies who recognise this would invariably get better performance and commitment from current employees and also be better positioned to attract the best talent available in a fast paced and increasingly mobile world."

Nigeria

For the Group – and each of our main businesses – this was our best performance ever and reinforces our position as a leader in our industry.

It is clear that improving safety involves more than hardware, systems and processes – values are important too. It is essential to win the hearts and minds of all who work with us, so that they participate fully in a culture of safety and work within the rules and procedures that are there to protect them. This is a complex and long-term challenge, but we are determined to find the solutions necessary to enable us to meet our aspiration of no harm to people. We have been working with experts to study human behaviour and the reasons why people have accidents, see case study left.

Working hours and wages

We aim to reward employees according to performance. This includes their personal achievement and how they help others to work effectively. Shell companies in 133 countries compare pay to ensure it is competitive. The lowest wage paid in 2001 was \$50 per month, plus \$18 transport allowance and medical and life insurance benefits, in an African country where the national statutory minimum is \$28 a month. No employee receives less than the legal minimum.

We recognise that reward is not simply about financial recognition. We have also introduced a worldwide employee share purchase plan (page 19) and are extending our stock option scheme further into the organisation.

With the rise in globalisation, traditional work patterns in many industries are changing, requiring more people to work outside traditional working hours or in remote locations. No employee has a standard contractual working week of more than 48 hours, but many say they find it difficult to maintain a healthy balance between home and work. We are working to address this, see Health, left.

Unions and staff forums

We have a range of mechanisms to protect employee welfare and enable staff to discuss employment issues. In all countries where unions exist, Shell companies allow employees to join. Worldwide, almost 19% of company employees are estimated to be union members, excluding the six countries where data is unavailable or cannot be collected for legal reasons. Shell companies in 96 countries (97 in 2000) acknowledge unions in discussions on employment conditions and in 82 countries, unions are involved in negotiations on employment conditions.

Over 99% of staff have access to a staff forum, a grievance procedure or a support system – such as independent counsellors, helplines, doctors or ombudsmen – through which employment issues may be raised: Employment grievance procedures were used by staff on 592 occasions in 2001 (620 in 2000) mostly in Nigeria and the USA. Councils include the Shell European Forum, a consultation body of management and staff, representing more than 40,000 employees.

Shell People Strategy

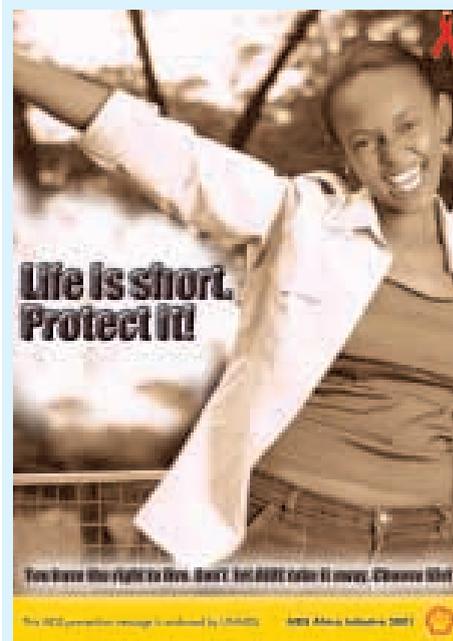
During 2001, a Group-wide Shell People Strategy was developed to address issues raised by the 2000 Shell People Survey, a questionnaire sent to all staff every second year. The strategy focuses on three priority programmes:

Attracting and retaining talent – we want Shell to be the employer of choice. During 2001, the induction process for new staff was improved and several new attraction initiatives were developed including the introduction of "campus ambassadors" at several universities. We are also reviewing our internal job application system to ensure that all staff have access to the wide variety of opportunities in Shell companies.

Learning and leadership development – we are improving our ability to identify, develop and train leaders, as well as enhancing our overall learning and knowledge framework.

For information about our social performance, please visit www.shell.com/social

CASE STUDY



Service stations spread the word on HIV/AIDS

Shell is using its extensive network of some 2,000 service stations in sub-Saharan Africa to help fight the spread of HIV/AIDS. The disease threatens to decimate populations in Africa, the continent worst affected, where over 20 million people have already died from AIDS. Service stations display thought-provoking posters and leaflets are available to customers, encouraging people to protect themselves against contracting HIV.

This starts with the induction and mentoring of new recruits, followed by a wide range of training to improve technical, managerial and professional competence. Leadership programmes are run in conjunction with several international business schools and a Shell Open University, launched in 2001, provides access to online learning for all staff. Employees are encouraged to broaden their skills and gain new experience. In 61 countries, for example, Shell companies have programmes to involve employees in local communities. All staff can participate in Project Better World (page 43).

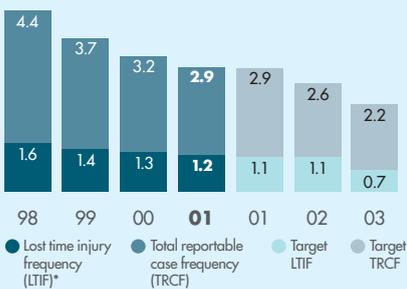
Promoting diversity and inclusiveness – we are working to make Shell a place where men and women are treated with

YOU TOLD SHELL

"The preference you give to Principles over Profits on important issues; the balancing of economic growth with environmental care and social responsibility all point to the cherished desire to strike a delicate balance between economic interest and ecological concerns. You do pay some price indeed. Yet you could still do more."

Nigeria

22 Safety statistics – company employees and contractors per million exposure hours



* Data not verified 1999–2001.

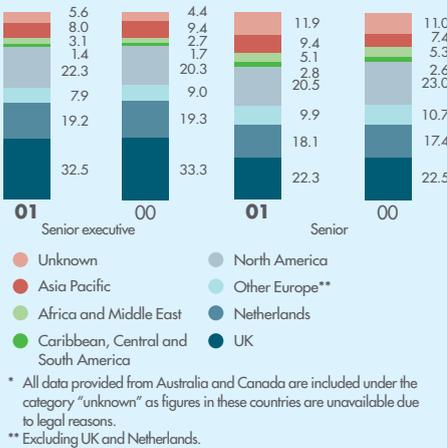
23 Total reportable case frequency benchmarking – company employees per million exposure hours



24 Staff forums and grievance procedures number of countries



25 Regional diversity staff country of origin %*

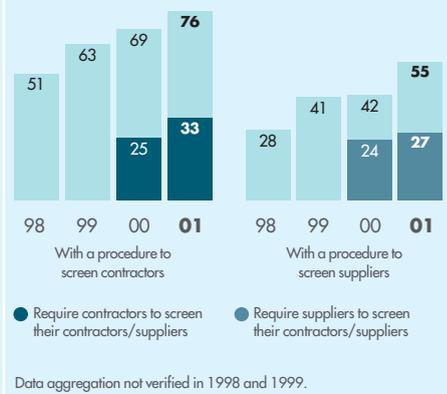


26 Gender diversity %



- - Target 2008: Increase to 20% the number of women in senior executive positions.

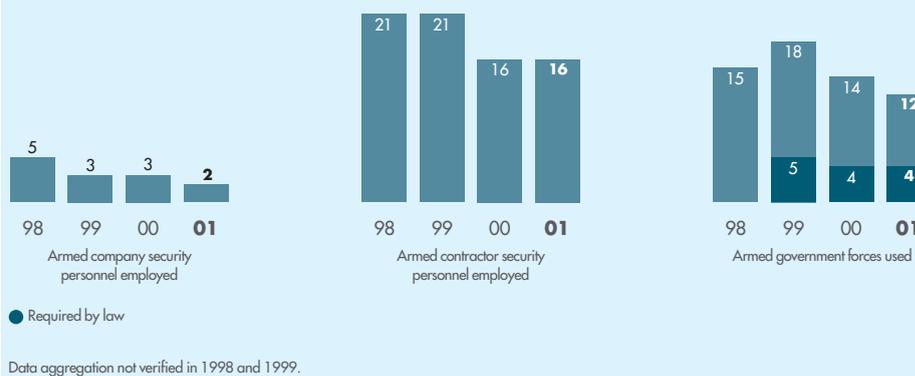
27 Screening against the use of child labour number of countries



28 Use of security personnel number of countries



29 Use of armed security personnel number of countries



YOU TOLD SHELL

"I note that Shell's goal for improving gender diversity is to move from the current 7.8% female senior executives to 20% by 2008. I am curious to know how you arrived at the 20% figure, and what barriers you have identified that account for the currently low female representation. I note that all the managing directors on the opening page of your report are caucasian males."

USA

respect and dignity and different cultures, experiences and backgrounds are valued. Our progress is detailed below.

In addition, Shell companies around the world are developing their own local programmes to address the Survey results.

Diversity and inclusiveness

Shell companies in 124 countries operate equal opportunities procedures (123 in 2000), although in 23 of those countries there is no legal requirement to do so.

Our culture has always benefited from our international spread, but in 2001 we launched a series of visible events to accelerate progress and further strengthen the Group's commitment to diversity and inclusiveness. These include:

- Adopting a Group Diversity and Inclusiveness Standard for all Shell companies (page 11) with a supporting annual assurance process
- Establishing a Global Group Diversity Council chaired by Philip Watts, Chairman of the Committee of Managing Directors, to provide strategic direction
- Engaging leaders through workshops in 78 countries around the world to raise awareness of diversity. These have been attended by over 2000 people, including some 90% of senior staff
- Establishing a diversity change agent network to support business leaders, catalyse action and share good practice (see case study above)
- Embedding diversity and inclusiveness into our key human resource policies and practices such as talent management and recruitment
- Incorporating diversity and inclusiveness plans into the annual Targets and Resources process

CASE STUDY



Network for change

Employing diverse, multi-cultural, talented people who better reflect our customers and communities is important to the success of Shell and we have been working to make this happen. Integral to our plans is our network of "diversity change agents" (above), nominated champions within our businesses and functions who help to promote change and create an inclusive environment throughout the organisation. The agents work with their leaders to help them understand the issues and develop plans to meet their diversity goals through recruitment, career planning and development. A Global Diversity Practice supports the network through training, information sharing, consulting and networking.

- Encouraging and supporting employee networks in major Shell companies worldwide including groups for young graduates, women, and gay and lesbian employee networks.

These initiatives are helping to provide a basis from which to meet our diversity targets. By the end of 2001, 7.9% of senior executives were women. This is only slightly better than 2000 (7.8%) and still some way from our target of 20% by 2008. We are focusing on strengthening the recruitment and development of women at all levels to ensure achievement of this target.

46% of our 131 Country Chair* positions are currently held by people from that country, compared to 40% of 129 positions in 2000. The regional diversity of senior staff is shown in graph 25.

* One manager acts as the senior representative of the Group and is called the "Country Chair" in a country or group of countries, whether or not he or she is actually chairman of the local companies.

Egbert G.Ch. Wesselink

Pax Christi Netherlands and European Coalition on Oil in Sudan

"In my experience, Shell's intention to respect both its financial bottom line and human rights is sincere. Considerable progress has been made. Currently, credibility could profit from routinely showing why and how the tough choices are made. Time is also ripe for independent evaluations of Shell's human rights impact. Shell is right to be an ambitious company, and I am sure they can do it."

Child labour

Child labour is not an obvious concern in a technical industry such as ours, but we take it very seriously since we could inadvertently support the use of child labour through the use of suppliers and contractors. Every Shell employee is above the legal age of employment.

In 118 countries (112 in 2000) Shell companies have a procedure to prevent the use of child labour in their operations. In a further 12, there are national laws against child labour and in a further three, there are controls in recruitment procedures. The youngest Shell employee is 16 and works part-time in the USA.

Screening procedures are applied in countries where there is a potential risk of child labour. In 2001, Shell companies screened contractors in 76 countries and suppliers in 55, a rise from previous years (see graph 27, page 36). The screening of sub-contractors has also increased.

Security

We have a Group Security Standard that governs the protection of personnel, property, information and reputation against security threats (page 11). In 2001, 16 countries reported significant security incidents – including war or civil unrest in four countries. In at least 10 countries there were violent crimes (including killings) at retail sites. In the aftermath of the attacks in the USA (page 4), significant efforts were made to protect Shell employees and assets against potential new threats.

The different types of security used are shown in graphs 28 and 29. Our expectations for the management of security are set out in our Standard. We use armed security only when it is a legal or government requirement, or where there is no acceptable alternative to manage the risk.

During 2001, Shell companies in 24 countries (29 in 2000) employed armed company or contractor security or used armed government forces. In all cases, Shell company armed security staff operated in accordance with our guidelines on the use of force. In two countries, our armed security contractors do not yet operate fully in line with our guidelines; efforts are being made to correct this situation.

In nine countries, armed government forces operate in line with the Group Security Guidelines on the use of force and in one country there are plans to align government forces with Shell's standard.

We also require contractors and joint venture partners to follow our Group Security Standard and we use our influence to promote this Standard in other ventures. In 23 countries, armed security is used by joint ventures and contractors while doing work in which we have an interest; 14 of them already operate according to our security standard and plans are in place in a further two to ensure consistency.

ISSUE



Human rights impact assessment

The Danish Centre for Human Rights is developing a management tool to help companies assess the way they deal with human rights issues. Shell South Africa (SSA) volunteered to test the Centre's Human Rights Impact Assessment tool in 2001. The tool consists of questions and indicators (similar to an environmental impact assessment) that can be applied to specific areas of operations. The SSA test showed that the tool works well and is highly beneficial, but could be streamlined. It showed that the company would be highly rated by human rights professionals, with many good practices worth disseminating across Shell. The lessons are being used in the further development of a human rights performance template to be used by Shell companies.

YOU TOLD SHELL

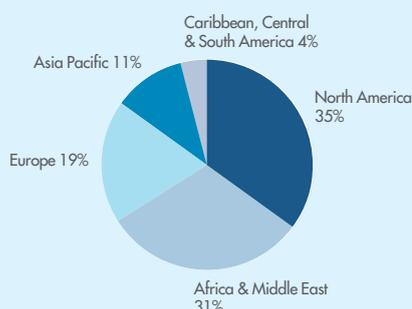
"I had quick look through the People, planet and profits handbook and I was hoping to see a graph containing our donations to the poor over the last 5 years. Is that information available?"

UK

Benefiting communities

30 Social investment (Shell share*) in 2001 by region

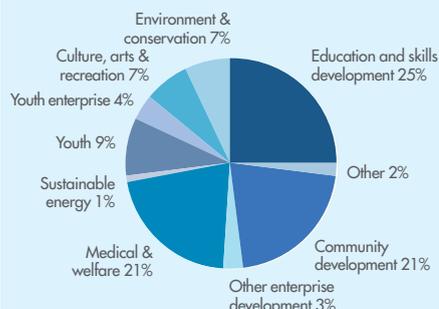
total \$85 million



* In companies where we do not have 100% equity share, the figure has been adjusted to represent only the "Shell share".

31 Social investment (Shell share*) in 2001 by category

total \$85 million



* In companies where we do not have 100% equity share, the figure has been adjusted to represent only the "Shell share".

Wherever we work we are part of a local community. We will constantly look for appropriate ways to contribute to the general wellbeing of the community and the broader societies who grant our licence to operate.

Managing social performance

We made important progress in 2001 in our thinking and approach to the way we work with local communities. While voluntary work and social investment are important, often the way we manage our operations can have an even more important impact – both positively through, for example, employment and negatively, for example through resettlement and land acquisition.

A new social performance management unit was established in 2001. It will develop guidance, management tools and performance measures (page 15) and give expert support to Shell companies. To start its work, 25 social specialists from inside and outside of Shell met for a workshop in Canada to share experiences and develop future priorities.

In 53 countries, Shell companies have a procedure in place for assessing social performance and in 19 of these, potentially significant social issues arising from operations have been identified.

In 13 of these cases, socio-economic analyses of affected communities have already been undertaken to provide a base from which to develop plans to minimise potential impacts, enhance benefits and seek alternatives to the proposed action.

In the USA for example, Shell is working with the community at its Norco site to address local concerns and improve performance (page 40). In China, as part of the development of the Nanhai petrochemical project, Shell and its partners have plans to ensure that the resettlement of local residents is undertaken in a manner that meets both Chinese and international standards (page 44).

We are also revising our social, health and environmental impact assessment guidelines to improve their effectiveness.

Employment

One of our biggest social contributions is employment. Shell companies employ some 91,000 people (2001 year-end figure) the vast majority of which are local staff.

We actively encourage and support the development of local contractors and suppliers. In 112 countries (106 in 2000) more than 50% of the total spend on goods and services was inside that country. In 88 of these, the spend was on locally owned companies (i.e. companies with 100% local ownership rather than international companies with a branch office in a country).

Margie Eugene Richard

Community advisor, Concerned Citizens of Norco

“The struggle for environmental justice has existed for many years in the New Diamond Plantation, a section of Norco, Louisiana. Shell Chemical Company and Concerned Citizens of Norco are filling the gap to solve local problems by communicating. Time is moving forward due to positive changes in areas of education, recognition of people and environmental justice versus injustice. At last Shell is cooperating by consistent communication and a plan of action.”

To further encourage this trend, Shell companies in 52 countries have a policy to promote the use of local contractors and suppliers. In Oman, for example, contracts worth some \$95 million have been awarded to more than 49 local companies, following a programme to train local people in how to set up their own companies.

We are also encouraging similar activities in other countries, such as the Philippines (page 14), Canada (see case study below) and Nigeria (page 41). Such good practice examples are being shared throughout Shell.

Community development and social investment

In addition to the contributions we make through our operations, we also continue to undertake voluntary social investments worldwide.

Social needs differ according to the level of development and the degree to which governments supply essential infrastructure, such as schools, hospitals and roads. The intention of Shell companies is to work in partnership with other organisations to contribute to the provision of skills and expertise to help people help themselves.

Over the past five years, we have contributed on average one percent of net income after tax to social investment. In 2001, the share of voluntary social investment contributed by Shell companies was \$85 million (same in 2000), made in proportion to their equity interests. The total social investment was \$129 million (\$139 million in 2000).

Some \$5 million of social investment was made as part of contractual requirements. During 2000 and 2001, approximately \$14 million in grants was also approved by The Shell Foundation – our independent grant-making charity (page 45).

Of the total investment of \$129 million, two of the largest social investment programmes in the Group are in Nigeria and the USA. More than \$50 million was spent on community development programmes by

ISSUE



Norco

Shell's Good Neighbour Initiative among the community of 4,000 people who live between two parts of our chemical plant and joint venture refinery at Norco in Louisiana, USA, continues to attract both praise and criticism. The initiative – set up to respond to local concerns after safety incidents – includes a range of actions designed to improve the quality of life in the community and the plant's environmental performance. For example, an Employment Academy helps Norco residents with basic employment skills, such as interview techniques. Emissions are being reduced and those people living close to the fence line can sell their houses to the company if they prefer to move away. Different groups within the community sometimes hold conflicting views and some have, for example, criticised the extent of the home purchase programme. Shell is determined to continue its dialogue with the community to improve relations and resolve issues.

Shell Petroleum Development Company of Nigeria (SPDC) during 2001, see case study opposite. As part of our evolving assurance processes, an independent review was undertaken in 2001 to assess the management systems underlying the company's community development programmes (page 15).

During 2001, \$29 million was spent on social investment programmes in the USA. For example, Shell Oil runs the Shell Youth Training Academy programme, a cooperative education partnership with public school systems in Chicago, Houston, Los Angeles and Oakland. It is designed to improve employment opportunities for youth education and on-the-job training.

The scheme helps develop a trained workforce and allows Shell to be involved in the neighbourhoods where we do

CASE STUDY



Developing local skills

Shell works with local communities to help build their business skills. In Northern Alberta, Canada for example, the Fort McKay Group of Companies – an aboriginal-owned and operated business – now provides a wide range of services to Shell's Muskeg River Mine, from transport services to heavy construction.

Dr Michael Warner

Secretariat co-ordinator, Natural Resources Cluster, Business Partners for Development

“From close involvement with Shell in Nigeria over the last two years, it is clear that senior managers are serious about improving their ‘social licence to operate’ with local communities. Internal guidelines for preparing Environmental Impact Assessment reports for new oil and gas projects now include requirements for stakeholder consultation, and I have seen evidence of these guidelines being implemented. Looking to the future, SPDC would be wise to reach out to civil society groups and government authorities and begin building partnerships that strengthen the long term sustainability of community projects.”

CASE STUDY



Black Economic Empowerment in South Africa

In support of the government’s Black Economic Empowerment programme, Shell has agreed, subject to certain regulatory approvals, to sell up to 25% of its marketing business in South Africa to the Thebe Investment Corporation. Errol Marshall of Shell South Africa (right) meets with Vusi Khanyile, Chairman of Thebe (left) and Phumzile Mlambo Ngcuka, Minister of Minerals and Energy (middle).

business. To date, the programme has graduated over 2,500 students and has earned national recognition from former President Clinton and former Secretary of Education, Richard Riley.

Since 2000, we have been working with other companies, NGOs and governments as part of the World Bank’s “Business Partners for Development” programme (BPD). BPD aims to study the value of tri-sector partnerships (industry, government, NGOs) as an effective means of reducing social risks and promoting community development. Creative partnerships are seen as one of the solutions.

Shell is participating in the “Natural Resources Cluster” which is testing the performance of three-way partnerships in terms of both business benefit and development impact in a variety of projects in different countries. SPDC volunteered

CASE STUDY



Nigeria update 🗣️

Community agitation for greater and rapid development of the Niger Delta region remains high. The Nigerian government has taken steps towards improving the development of the region by inaugurating the Niger Delta Development Commission (INDDC). The Commission recently held a Niger Delta Summit (partly sponsored by SPDC) to create a broader stakeholder base and has also commissioned a master development plan of the region. A disturbing development in the past year was the heightened level of economic crime (sabotage and oil theft), some of which resulted in oil spills and fires (page 29).

SPDC continued its community development (CD) programme in 2001. The company focused on stakeholder consultation and advocacy for development, and began a strategic transition towards a partnership model for programme development and delivery. To verify and continue to improve its social performance, SPDC invited a number of external reviews of its community development activities and programmes. These included an assessment by, amongst others, representatives of the World Bank, UNICEF, ProNatura and Nigerian Government agencies of the success and functionality of completed projects; a review by external consultants as part of SPDC’s contribution to the World Bank “Business Partners for Development” initiative; and a first management systems review by external auditors, KPMG. Useful learning has come out of the assessment. A key challenge going forward is measurement of the impact of the CD programmes.

A further innovative partnership arrangement was also agreed last year. SPDC is committed to using local contractors where it can. But these companies, who provide services to the oil business in the Niger Delta, often find it difficult to grow and take on more work, in part because borrowing money is difficult and expensive. For this reason, Shell and the International Finance Corporation have worked with Diamond Bank of Nigeria to create a \$30 million fund to lend money to local indigenous contractors. A support programme to help the companies grow and develop is also being set up. Further details on SPDC’s activities may be found at www.shellnigeria.com.

its Environmental Impact Assessment improvement process as one of the projects to be reviewed.

BPD experts assisted SPDC in building local capacity, assessing competence and facilitating stakeholder dialogue as a means of improving the environmental

and social planning processes of new projects. Learnings from this and other projects will be widely shared by the BPD.

YOU TOLD SHELL

“Multinational companies are sometimes accused of being overly secretive and impersonal as well as lacking the willingness or the means to communicate effectively. How do you think companies can improve the way they communicate with interested parties and society at large?”

USA

Working with stakeholders

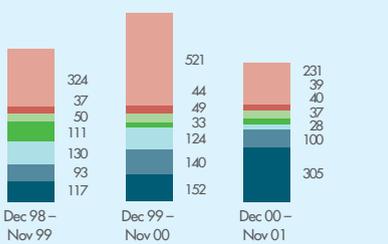
32 Screening compliance with SGBP  number of countries



● Sub-contractors

Data aggregation not verified in 1998 and 1999.

33 “Tell Shell” response by issue December 1998 – November 2001



● Other topics ● Values, principles and integrity ● Credibility, words versus actions ● Stakeholder engagement ● Renewables ● Other environment ● Nigeria

We affect – and are affected by – many different groups of people, our stakeholders. We aim to recognise their interest in our business and to listen and respond to them.

Promoting our Principles

Our Shell General Business Principles (SGBP), see page 49, apply to all of our business affairs and describe the behaviour expected of every employee. A rigorous assurance procedure ensures that the Principles are taken seriously. In addition, a range of mechanisms are in place to promote awareness and compliance:

- The Principles are available in 51 languages, covering the local languages of 99.9% of Shell employees
- In all countries where we operate, Shell companies have a procedure to ensure that new employees receive a copy of the Principles. In 127 countries (119 in 2000) new staff also receive training in the Principles
- A new internal web site provides a central place to share information and exchange ideas on implementing the Principles. It includes a training module on combating bribery and corruption. A further module on human rights is under development
- A series of primers have been developed for use by staff on topics such as human rights, sustainable development and dealing with bribery and corruption. These were used in 79 countries during 2001, often to help raise staff awareness and understanding and for stakeholder engagement
- Workshops are held with staff to raise awareness and discuss potential issues and dilemmas faced in daily operations
- In many countries support teams and procedures provide an avenue for confidential (and if required) anonymous feedback from staff or others about actual or potential breaches of the Principles and suggestions for improving compliance (case study, page 21).

We also expect our contractors and business partners to work in ways that are compatible with our Principles. Our approach is outlined on page 10.

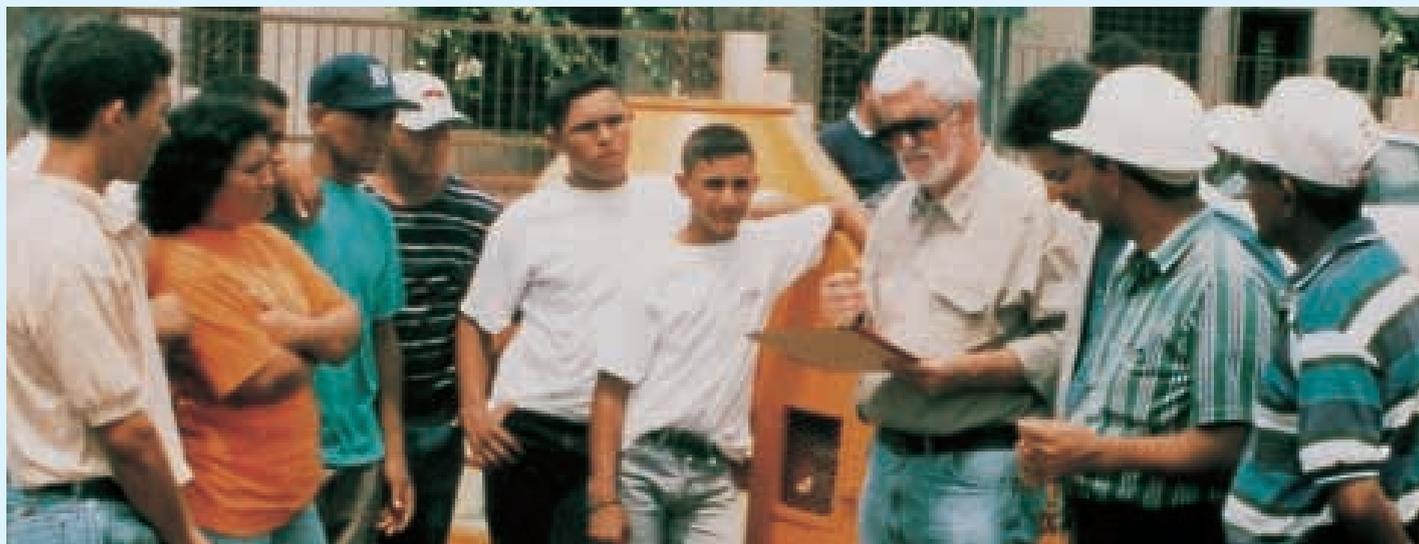
Shell companies in 131 countries (128 in 2000) explicitly discuss the SGBP during negotiations with contractors and in 119 (116 in 2000) with suppliers. In 119 countries (112 in 2000) expectations about the SGBP are explicitly written into contracts and in an increasing number of countries, screening for compliance is taking place (graph 32). Such procedures are being extended down the supply chain: Shell companies in 64 countries (54 in 2000) now operate a procedure to screen sub-contractors for compliance with the SGBP.

YOU TOLD SHELL

"I came across your website researching business opportunities for my company and I surfed the forums. I admire the quality, frequency, honesty and comprehensiveness of the responses from the Shell employees, I have never seen anything like this in a big company, this is just great and how responsible big corporations should behave."

USA

CASE STUDY



Working with the Barranquitas community

Learning how best to work with communities in developing countries was the reason behind a study of Shell's relationship with the Venezuelan fishing village of Barranquitas, on Lake Maracaibo. There are few jobs available in the area and many villagers suffer from hereditary Huntingdon's disease. Shell has worked with the community for over five years, promoting self-help and fostering leadership skills. It has also supported the construction by villagers of a social centre and a medical facility. The study, conducted by the Human Rights School of Columbia University, New York, looked at the relationships between the villagers, local government and Shell Venezuela. The findings will help us refocus our community investment plans, particularly for medical support.

CASE STUDY



Project Better World

Willeke Verhoef takes water samples in the Czech Republic, part of an initiative to improve water quality in north Bohemia, an area affected by acid rain. She is one of 85 Shell people who have for the past three years volunteered for Project Better World, a partnership with the environmental organisation EarthWatch and the UK's Voluntary Service Overseas.

In 128 countries Shell companies work with suppliers and contractors to help them to comply with our standards, for example through workshops and training in health, safety and environment.

If, however, we are unable to convince our partners or contractors of the importance of behaviour consistent with our Principles, we will terminate contracts and divest from joint ventures. In 2001, 100 contracts were cancelled (106 in 2000) because of operations incompatible with our Principles, mostly relating to safety and environmental performance standards and business integrity.

Listening and responding

Effective communication and consultation is a key element of our commitment to contribute to sustainable development. We aim to provide full and relevant information about our activities and continue to make real progress in engaging more fully with a broad range of stakeholders. At the corporate level, we are reaching out to an ever wider number

of people through our global public reporting, our "Profits and Principles" advertising campaign and our web site www.shell.com:

- Our "Profits and Principles" campaign was further developed during 2001 to include a series of adverts demonstrating the value of partnerships with external stakeholders and experts. Some 2.5 million summaries of the Shell Report were inserted into international publications.
- "Tell Shell", a web-based and replied-paid mail service, was created to encourage people to have a dialogue with us and is widely used for comment, queries and debate. Senior executives read and discuss the comments that provide an important indicator of people's feelings – good and bad. During 2001, 780 "Tell Shell" responses were received, fewer than previous years (graph 33). Our operations in Nigeria and environmental issues remain the main areas of interest.

YOU TOLD SHELL

"Although the future developmental programs of Shell for its host communities are welcomed; regrettably in a poor economy like Nigeria, especially its oil rich Niger Delta region, the future is nothing to those whose present is endangered. Shell should embark more on short-term survival programs (e.g. revolving agricultural loans/grants) that could make the local people see themselves as potential beneficiaries of discernable dividends."

Nigeria

Messages are received by mail (10%), e-mail (78%) and on our uncensored web forums (12%).

Involving stakeholders in decision-making helps us learn from others and addresses their needs and concerns, resulting in better decisions. Shell companies in 82 countries have procedures in place to listen and respond to stakeholders. Several, such as Shell Canada (page 26) and Shell Philippines (page 14) have established stakeholder panels and in others, regular engagement sessions are held. Shell Nigeria, for example, held its fifth annual stakeholder workshop during January 2001 with some 515 stakeholders on the theme of "Working for the sustainable development of the Niger Delta".

An increasing number of Shell companies are also producing their own national or local environmental and social reports. Copies are available through www.shell.com.

Within Shell, communication and sharing of good practices is a valuable means of integrating our sustainable development commitment ever more widely into our activities. Engagement with staff is promoted through the Shell People Survey (page 35), The Shell Report and Shell Television. Our businesses also have expanding networks of sustainable development champions.

International engagement and partnerships

Internationally, Shell participates in a number of industry bodies such as the International Chamber of Commerce (ICC), the European Round Table and the World Business Council for Sustainable Development (WBCSD), which seek to identify and share best practice and learning. In January 2002, Philip Watts, Chairman of the Committee of Managing Directors, became Chairman of the WBCSD. Shell also contributes to policy discussions with many international organisations. We work closely, for example, with international conservation organisations on biodiversity (page 15) and are involved in discussions on a wide range of public policy issues.

CASE STUDY



Nanhai project

Consultation in Daya Bay, China has begun as part of the final phase of an environmental and social impact assessment of one of the country's biggest Sino-foreign projects. The planned petrochemical complex involves an investment of \$4 billion. Subject to the final investment decision later in 2002, the joint venture between Shell and CNOOC Petrochemicals Investment Limited aims to complete construction by late 2005. This will provide jobs and boost industry in the area. The plant will be built to world-class technical standards allowing the joint venture to implement its policy to use materials and energy efficiently and protect the environment, especially the coastal area, which is designated a nature reserve. The joint venture worked with the local municipality who moved 1,485 families before site preparations start in 2002. Chinese relocation standards specify that people have to be found accommodation better than they were in before (see new homes above). Liaison with the municipality on relocation resulted in agreement and support for World Bank Standards for the resettlement process. A Resettlement Action Plan is available to local communities and at the municipal offices.

Business is also increasingly seen as an important participant, with government and civil society, in resolving international issues. Following September 11, there is considerable debate on whether businesses can contribute to resolving and preventing conflict. The private sector can contribute to stability through its contribution to socio-economic development, for example wealth creation, and desires stability because it promotes business. Shell is discussing these issues with a number of interested parties including other businesses, NGOs, humanitarian agencies and the UN through the forum set up by the UN's Global Compact.

World Summit on Sustainable Development

The second World Summit on Sustainable Development (WSSD) will be held in 2002 in Johannesburg, South Africa (August 26 – September 4). Governments will meet to discuss progress towards sustainable development, 10 years after the Rio Summit.

The involvement of Philip Watts as chairman of the WBCSD and Sir Mark Moody-Stuart – former Chairman of the Committee of Managing Directors – demonstrates our commitment to contribute to efforts to promote sustainable development.

YOU TOLD SHELL

"I find your recent ad showing a caring environmentalist absolutely hypocritical and annoying. Like all the other oil companies, your agenda is economic growth at all costs."

Unknown

CASE STUDY



Enterprise boosted by micro-lending in eastern Europe

Forty-two small businesses, run by women, have been created in Romania and Slovakia through a micro-lending project partly financed by The Shell Foundation. The aim of the project is to help women at risk – unemployed, poor, single mothers or those suffering from domestic violence – by providing small loans to finance enterprises ranging from candle making to pottery. The women are given commercial training and help to draw up business plans. Approved projects get loans of up to \$2,000, repayable within two years. Shell Romania and Shell Slovakia work closely with local non-governmental organisations, churches and business groups to support the enterprises. For example, Shell Slovakia's shops sell products made by the businesses and Shell contacts have led to a US order for 10,000 beeswax candles. The project – run on Shell's behalf by the Integra Foundation – intends to train 1,330 women and provide 910 loans worth a total of \$400,000 by the end of 2003.

Sir Mark is chairman of the Business Action for Sustainable Development (BASD), a partnership between the WBCSD and the ICC to make the business case for sustainable development to the Summit.

The Shell Foundation

The Shell Foundation – set-up and endowed by the Group in 2000 as an independent, registered, grant-making charity – goes from strength to strength. There are currently three programmes:

- *Sustainable Energy* works to reduce the environmental impact of fossil fuels and increase the access of low-income communities in developing countries to modern energy services. Projects focus on sustainable transport, improving health through providing energy to rural communities and adaptation to climate change. Currently, there are approximately

25 operational projects in Africa, the Americas, Asia and Europe, involving a total commitment of about \$9.5 million

- *Sustainable Communities* helps poor and marginalised communities to generate income through projects such as micro-enterprise and agriculture. Seven projects were funded in 2001 in Africa, South America and Asia for a total of \$1.5 million
- *Youth Enterprise* (in collaboration with a similar Shell programme, LiveWire) encourages young entrepreneurs. In 2001, new projects were launched in Argentina, Brazil, Brunei and Singapore and others are being developed in Hong Kong, Iran, Nigeria, Poland and Thailand.

CASE STUDY



Environmental projects in Uganda

School children and their teachers in Kampala, Uganda, have been planting fruit trees, holding debates on the environment, growing vegetables, sorting rubbish for recycling and draining the swampy land on which so many of the city's poor have settled. These are among the environmental projects – run by the charity Living Earth and co-sponsored by The Shell Foundation and the UK Department for International Development – to help communities become more self sufficient.

Verification

Message from the verifiers

We are committed to enhancing the clarity and value of external verification. We have used three symbols to indicate what we have verified and show the differences in the scope of our work:

At Group, Business and Operating Unit level we obtained an understanding of the systems used to generate, aggregate and report these data. We assessed the completeness and accuracy of the data reported by visiting operating units to test systems and data, performed a review of all data reported, and assessed the data trends in discussions with management.

We tested the calculations made at Group level. For the financial parameters, we also checked that they were properly derived from the audited Financial Statements of the Royal Dutch/Shell Group of Companies

We assessed systems and processes and underlying evidence supporting the data and statements marked with this symbol. Our assessment included interviewing Shell people and external experts, reviewing documentation and confirming the accurate use of data derived from external sources.

Our work was conducted:

- at a local level for the Nigeria case studies
- at the Group level for the text on key performance indicators and total shareholder return.

At the Group level we tested the integrity and accuracy of the data aggregation process, including sample-testing of the data input from a complete set of operating unit responses. We did not verify the reliability of the data reported by operating units.

Verifiers' report

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

Introduction

We have been asked to verify selected data, graphs and statements of the Royal Dutch/Shell Group of Companies reported in this year's Shell Report. We have marked these statements with the symbols below. This Report is the responsibility of management. Our responsibility is to express an opinion on the data, graphs and statements indicated, based on work referred to above in "Message from the verifiers".

In our opinion:

- The data, statements and graphs, together with the case study and explanatory information on pages 29 and 48, properly reflect the performance of the reporting entities for each parameter marked with this symbol
- The statements and data related to systems and processes marked with this symbol are supported by underlying evidence
- The data are properly aggregated at Group level for each parameter marked with this symbol.

Basis of opinion

There are no generally accepted international environmental or social reporting and verification standards. We based our approach on emerging best practice and principles within international standards for assurance engagements. Therefore, we planned and carried out our work to obtain reasonable, rather than absolute, assurance on the reliability of the data and statements marked with the symbols and , and on the integrity and accuracy of the Group level aggregation process for data marked with . We believe our work provides a reasonable basis for our opinion.

Verification work performed

In forming our opinion, we carried out the work summarised above in "Message from the verifiers". We also examined the whole Report to confirm consistency of the information reported with our findings.

Considerations and limitations

It is important to read the data and statements in the context of the summary of reporting policies and limitations on page 48, the notes to the graphs and the case study on page 29. Environmental and social data are subject to many more inherent limitations than financial data given both their nature and the methods used for determining, calculating or estimating such data.

We did not carry out any work on data reported in respect of future projections and targets. Where we have not verified previous years' data it is clearly shown.

We have not carried out any verification work in the operating units to verify the accuracy and completeness of data aggregated at Group level, for the data marked with the symbol .

It is also important to note that to ensure a thorough understanding of the financial results and financial position of the Group the reader should consult the Royal Dutch/Shell Group of Companies Financial Statements for the year ended 31 December 2001.

15 March 2002

KPMG Accountants NV The Hague

PricewaterhouseCoopers London

KPMG

PRICEWATERHOUSECOOPERS

Data tables

KEY TO THE TABLES

EP	Exploration and Production
OP	Oil Products (refineries only)
Chem	Chemicals
N/A	Not applicable

 HSE parameters with significant impact at Group level that have been verified

Activity level

	Million tonnes							
	Actual				Projection			
	98	99	00	01	01	02	03	
EP	326	324	341	355	328	343	413	
OP	163	156	154	156	157	156	177	
Chem	36	37	37	33	36	37	29	

EP: oil, condensate and gas produced

OP: crude/feedstock processed

Chem: production.

Data are reported on a 100% basis and are not comparable with data in the Parent Companies' Annual Reports.

Energy efficiency

Gigajoule per tonne production – for OP per tonne crude/feedstock

	Actual							Target	
	Actual				Actual			01	02
	98	99	00	01	01	02	03		
EP	0.8	0.8	0.7	0.7	0.9	0.7	0.9		
OP	2.9	3.0	3.3	3.0	3.3	3.0	2.9		
Chem	6.6	6.8	6.9	7.3	7.5	6.8	8.2		

Global Warming Potential unit emissions

Tonnes CO₂ equivalent/tonne throughput

	Actual						Target	
	Actual			Actual			01	02
	98	99	00	01	01	02	03	
EP	0.15	0.14	0.14	0.15	0.15	0.15	0.14	
OP	0.21	0.21	0.21	0.21	0.21	0.21	0.21	
Chem	0.36	0.37	0.38	0.42	0.38	0.38		

Acidification potential (SO₂ equivalent)

Tonnes SO₂ equivalent/thousand tonnes throughput

	Actual							Target	
	Actual				Actual			01	02
	98	99	00	01	01	02	03		
EP	0.33	0.29	0.27	0.30	0.31	0.26	0.29		
OP*	1.40	1.35	1.21	1.17	1.17	1.15	1.17		
Chem**	0.96	0.83	0.72	0.64	0.75	0.66	0.96		

* NO_x data not verified in 1999

** SO₂ data not verified in 1999 and 2000

*** No emissions of perfluorocarbons (PFCs)

Group health, safety and environmental performance summary

	Actual				Projection (P)/Target (T)			
	98	99	00	01	01	02	03	
 Total reportable occupational illness frequency (TROIF) Company employees only – per million exposure hours	3.2	3.5	2.2	2.3	N/A	N/A	N/A	
 Fatalities								
Employees	6	3	5	3				
Contractors	57	44	55	39				
Total number	63	47	60	42	N/A	N/A	N/A	
 Total reportable case frequency (TRCF) Company employees and contractors – per million exposure hours	4.4	3.7	3.2	2.9	2.9(T)	2.6(T)	2.2(T)	
Lost time injury frequency (LTIF) Company employees and contractors – per million exposure hours	1.6	1.4	1.3	1.2	1.1(T)	1.1(T)	0.7(T)	
 Carbon dioxide (CO₂) Million tonnes	92	90	92	95	91(P)	95(P)	85(P)	
 Methane (CH₄) Thousand tonnes	522	456	398	315	332(P)	306(P)	N/A	
Volatile organic compounds (VOCs) Thousand tonnes	584	499	538	372	N/A	N/A	N/A	
 Global warming potential Million tonnes CO ₂ equivalent	103	99	101	103	98(P)	103(T)	N/A	
 Flaring EP Million tonnes of hydrocarbons	9.1	8.1	9.3	10.3	8.1(T)	8.0(T)	5.0(T)	
 Sulphur dioxide (SO₂) Thousand tonnes	337	304	277	274	287(P)	265(P)	300(P)	
 Nitrogen oxides (NO_x) Thousand tonnes	252	218	202	213	192(P)	191(P)	278(P)	
Hydrochlorofluorocarbons (HCFCs) Tonnes	95	77	61	48	N/A	N/A	N/A	
CFCs/halons/trichloroethane Tonnes	11	12	6	5	N/A	N/A	N/A	
Other Kyoto greenhouse gases***								
Nitrous oxide (N₂O) Thousand tonnes	N/A	2.7	3.4	3.7	N/A	N/A	N/A	
Hydroxyfluorocarbons (HFCs) Tonnes	N/A	8.8	9.6	4.9	N/A	N/A	N/A	
Sulphur hexa-fluoride (SF₆) Tonnes	N/A	0.0	0.0	0.4	N/A	N/A	N/A	
Oil in effluents to surface environment Tonnes	5,248	3,284	2,803	2,879	3,386(P)	2,690(P)	5,328(P)	
 Spills Thousand tonnes	13.2	18.7	9.9	17.8	8.5(T)	8.5(T)	2.9(T)	
Waste								
Hazardous	240	272	400	445	N/A	N/A	N/A	
Non hazardous	521	468	490	452	N/A	N/A	N/A	
Total	761	740	890	897	N/A	N/A	N/A	
Thousand tonnes								
Fines								
Amount \$ 000	1,355	2,833	3,089	1,412	N/A	N/A	N/A	
Number	227	306	329	93	N/A	N/A	N/A	

Basis of reporting

The basis of reporting is as follows:

- The financial data are aggregated from Group companies, together with partnerships, joint ventures and other interests using the accounting and consolidation principles used in the Royal Dutch/Shell Group of Companies Financial Statements. For more information refer to www.shell.com.
- The HSE data are aggregated from all companies, partnerships, joint ventures and other interests that are under Shell's operational control plus a number of companies to which Shell companies provide operational services. A list of these Operating Units can be found at www.shell.com/environmental. We report these HSE data on a 100% basis even where the Group's interest is less. The HSE data reported are based on our global "HSE Performance Monitoring and Reporting" guideline that in some cases may differ from local legislative requirements. A copy of this guideline can be found at www.shell.com/environmental.
- The remaining data, unless otherwise specified, are aggregated from all companies, partnerships, joint ventures and other interests either under Shell's operational control or where the Shell entity is responsible for the activities concerned. We report these data on a 100% basis, unless otherwise specified.

Operational control means entities in which a member of the Royal Dutch/Shell Group of Companies has full authority to introduce and implement the Group's HSE Commitment

and Policy and the Shell General Business Principles. Data from companies that were disposed of or acquired during the year are generally included only for the period that companies were under operational control or the Shell entity was responsible for the activities concerned.

Comparability

The comparability of data is affected by changes to the portfolio of reporting entities, by changes in the methodology for determining certain data and improvement in information systems, such as enhanced guidelines and use of better estimates. Items affecting data comparability can be found at www.shell.com/environmental.

Targets and projections

Our improvement goals are of two types. Targets per unit of activity give the best gauge of performance; absolute projections multiply the unit target by the assumed business activity.

Except for prior year restatements, our five year 2003 targets and projections were fixed in 1998 and will be revised next year. The figures do not take into account changes in planned activity levels since last year or prospective portfolio changes.

Limitations

Although we are confident in the overall reliability of the data reported, we recognise that some of these data are subject to a degree of uncertainty that relates to the limitations associated with interpreting guidelines, measuring, calculating or estimating the data and differences in reporting to regulatory authorities.

Certain specific limitations that our data are subject to include:

- Differences in definitions of HSE parameters occur, often due to the use of definitions prescribed for reporting by the regulatory authorities as opposed to those prescribed in our guidelines, for example waste and spills
- Social data may be affected by local interpretations, cultures and practices, and can be the subject of confidentiality laws
- Methods used to determine environmental data carry limitations in respect of accuracy. For example, measurement of oil in effluent to surface environment may be based on continuous or intermittent sampling, and is influenced by the type and accuracy of the instruments and techniques used
- Emission calculations can be based on broad industry-wide standards, particularly for the determination of NO_x and CH₄ emissions. For some data, such as spills, volumes have to be estimated.

HSE data verification

We identified 12 HSE parameters to be verified that we – supported by our verifiers – believe reflect the significant HSE impacts at the Group level. These parameters are fatalities, TRCF, TROIF, emissions of CO₂, CH₄, SO₂ and NO_x, gas flaring, GWP energy consumption, volume of spills and amount of fines and settlements.

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

The Sustainable Development Group (PXR), Shell International, thank Peter Knight for writing, Williams and Phoa for design and production using Ringmaster®, Butler and Tanner for printing and Andy Glass for cover photography.

The manufacturers of the paper used for the cover and internal pages of this Report are accredited with the ISO 9002 Quality Assurance and ISO 14001 Environmental Management Systems. The paper used for the internal pages also carries the Nordic Swan environmental label for low emissions manufacture. Ringmaster® is the registered trademark of Automatrix plc.

Global Reporting Initiative (GRI)

Shell is a Charter Group member of the GRI and a pilot test company of the GRI reporting guidelines. This Report has been produced within the broad framework of the guidelines. We will continue to evolve the Shell Report and provide learning into the further development of the guidelines.

Our Business Principles

Principle 1 – Objectives

The objectives of Shell companies are to engage efficiently, responsibly and profitably in the oil, gas, chemicals and other selected businesses and to participate in the search for and development of other sources of energy. Shell companies seek a high standard of performance and aim to maintain a long-term position in their respective competitive environments.

Principle 2 – Responsibilities

Shell companies recognise five areas of responsibility:

To shareholders

To protect shareholders' investment, and provide an acceptable return.

To customers

To win and maintain customers by developing and providing products and services which offer value in terms of price, quality, safety and environmental impact, which are supported by the requisite technological, environmental and commercial expertise.

To employees

To respect the human rights of their employees, to provide their employees with good and safe conditions of work, and good and competitive terms and conditions of service, to promote the development and best use of human talent and equal opportunity employment, and to encourage the involvement of employees in the planning and direction of their work, and in the application of these Principles within their company. It is recognised that commercial success depends on the full commitment of all employees.

To those with whom they do business

To seek mutually beneficial relationships with contractors, suppliers and in joint ventures and to promote the application of these principles in so doing. The ability to promote these principles effectively will be an important factor in the decision to enter into or remain in such relationships.

To society

To conduct business as responsible corporate members of society, to observe the laws of the countries in which they operate, to express support for fundamental human rights in line with the legitimate role of business and to give proper regard to health, safety and the environment consistent with their commitment to contribute to sustainable development.

These five areas of responsibility are seen as inseparable. Therefore, it is the duty of management continuously to assess the priorities and discharge its responsibilities as best it can on the basis of that assessment.

Principle 3 – Economic principles

Profitability is essential to discharging these responsibilities and staying in business. It is a measure both of efficiency and of the value that customers place on Shell products and services. It is essential to the allocation of the necessary corporate resources and to support the continuing investment required to develop and produce future energy supplies to meet consumer needs. Without profits and a strong financial foundation it would not be possible to fulfil the responsibilities outlined above.

Shell companies work in a wide variety of changing social, political and economic environments, but in general they believe that the interests of the community can be served most efficiently by a market economy.

Criteria for investment decisions are not exclusively economic in nature but also take into account social and environmental considerations and an appraisal of the security of the investment.

Principle 4 – Business integrity

Shell companies insist on honesty, integrity and fairness in all aspects of their business and expect the same in their relationships with all those with whom they do business. The direct or indirect offer, payment, soliciting and acceptance of bribes in any form are unacceptable practices. Employees must avoid conflicts of interest between their private financial activities and their part in the conduct of company business. All business transactions on behalf of a Shell company must be reflected accurately and fairly in the accounts of the company in accordance with established procedures and be subject to audit.

Principle 5 – Political activities

Of companies

Shell companies act in a socially responsible manner within the laws of the countries in which they operate in pursuit of their legitimate commercial objectives.

Shell companies do not make payments to political parties, organisations or their representatives or take any part in party politics. However, when dealing with governments, Shell companies have the right and the responsibility to make their position known on any matter

which affects themselves, their employees, their customers, or their shareholders. They also have the right to make their position known on matters affecting the community, where they have a contribution to make.

Of employees

Where individuals wish to engage in activities in the community, including standing for election to public office, they will be given the opportunity to do so where this is appropriate in the light of local circumstances.

Principle 6 – Health, safety and the environment

Consistent with their commitment to contribute to sustainable development, Shell companies have a systematic approach to health, safety and environmental management in order to achieve continuous performance improvement. To this end Shell companies manage these matters as any other critical business activity, set targets for improvement, and measure, appraise and report performance.

Principle 7 – The community

The most important contribution that companies can make to the social and material progress of the countries in which they operate is in performing their basic activities as effectively as possible. In addition Shell companies take a constructive interest in societal matters which may not be directly related to the business. Opportunities for involvement – for example through community, educational or donations programmes – will vary depending upon the size of the company concerned, the nature of the local society, and the scope for useful private initiatives.

Principle 8 – Competition

Shell companies support free enterprise. They seek to compete fairly and ethically and within the framework of applicable competition laws; they will not prevent others from competing freely with them.

Principle 9 – Communications

Shell companies recognise that in view of the importance of the activities in which they are engaged and their impact on national economies and individuals, open communication is essential. To this end, Shell companies have comprehensive corporate information programmes and provide full relevant information about their activities to legitimately interested parties, subject to any overriding considerations of business confidentiality and cost.



www.shell.com



Annual Report and Accounts 2001
The Annual Report and Accounts of Royal Dutch Petroleum Company and The "Shell" Transport and Trading Company, p.l.c.
Also available at
www.shell.com/annualreport



The Shell Report
A review of Group companies' progress in embodying sustainable development and meeting the economic, environmental and social expectations of stakeholders: includes the latest verified health, safety and environmental data. Also available at
www.shell.com/shellreport

Tell us what you think –
about Shell, our performance,
our reports or the issues we face.
Join the global debate – we value
your views.

"Tell Shell" at
www.shell.com/tellshell
or e-mail us at
tell-shell@si.shell.com



**Summary Annual Report
and Accounts 2001**
Abridged versions of the Annual Report
and Accounts of Royal Dutch Petroleum
Company and The "Shell" Transport
and Trading Company, p.l.c.



The Shell Report Summary
Abridged version of The Shell Report.

**Contact any of the addresses
below for copies of publications**

Shell International B.V.
FSK Division, PO Box 162
2501 AN The Hague
The Netherlands
Tel: +31 (0)70 377 4540
Fax: +31 (0)70 377 3115

Shell International Limited
PXXC (Publications), Shell Centre
London SE1 7NA, UK
Tel: +44 (0)20 7934 5293
Fax: +44 (0)20 7934 5555



**Financial and Operational
Information 1997-2001**
Five years' financial and operational
information about the Group, including
maps of exploration and production
activities. Also available at
www.shell.com/faoi



**Statement of General
Business Principles**
Fundamental principles that govern
how each Shell company conducts
its affairs. Also available at
www.shell.com/sgbp

Shell Oil Company
630 Fifth Avenue, Suite 1970
New York, NY 10111, USA
Tel: +1 212 218 3113
Fax: +1 212 218 3114