

People, planet & profits
The Shell Report



The objectives of the Royal Dutch/Shell Group of Companies are to engage efficiently, responsibly and profitably in the oil, gas, chemicals 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.

Contributing to sustainable development – at a glance

Economic

- Exceptional profits in a year of high oil prices
- Cost improvements of \$4 billion
- Return on average capital employed (ROACE) of 19.5%
- Competition law breaches – zero tolerance enforced
- Motorists once again rank Shell top brand

Environmental

- Greenhouse gas emissions 11% below 1990 levels
- Volume of oil spills halved
- Cost of carbon included in major project decisions
- Global biodiversity expectations set

Social

- Unacceptable rise in fatalities
- Stress arising from work identified as a serious issue
- Progress towards gender target
- 80% of Shell people proud to work for Shell (up 5%)
- Group security expectations launched
- Nigeria – focus on engagement and community needs

Managing our business

- Incompatibility with Shell's Business Principles – 106 contracts terminated and two joint ventures divested
- Over 90% of major installations certified to ISO14001
- Four incidents of bribery resulting in seven dismissals
- Steady progress in integrating sustainable development thinking

Exploration and Production

Searching for oil and gas fields by means of seismic surveys and exploration wells; developing economically viable fields by drilling wells and building the infrastructure of pipelines and treatment facilities necessary for delivering the hydrocarbons to market.

Downstream Gas and Power

Commercialising natural gas through investments in processing and transportation infrastructure, including liquefied natural gas (LNG), pipelines and Gas to Liquids; marketing and trading of natural gas and electricity to industrial and domestic customers; developing and operating independent power plants.

Oil Products

Sales and marketing of transportation fuels, lubricants, speciality products and technical services. Refining, supply, trading and shipping of crude oil and petroleum products. Oil Products serves over 20 million customers a day through some 46,000 service stations, and more than one million industrial and commercial customers.

Chemicals

Producing and selling base chemicals, petrochemicals and polyolefins globally. Products are widely used in plastics, coatings and detergents.

Renewables

A generator of green electricity and provider of renewable energy solutions. Develops and operates wind farms and biomass power plants; manufactures and markets solar energy systems and grows forests to supply markets with sustainably managed wood products.

Other businesses

The portfolio includes a range of other businesses such as:
Shell Hydrogen
Shell Internet Works
Shell Capital

This report documents the actions we have taken in 2000 to meet our economic, environmental and social responsibilities and describes how we are striving to create value for the future.

Contents at a glance

Armed security	21	Integrity standards	25	Message from the Chairman	2-3
Biodegradable oils	30	Iraq	10	Transparency	4-5
Biodiversity	16	Key performance indicators	27	Contributing to sustainable development	
Bio-fuel	31	Lobbying	26	Economic	6-11
Bribery and corruption	25	Nigeria	23	Environmental	12-17
Business Principles	25	Norco refinery	20	Social	18-23
Certification	25	Piracy	21	Managing our business	24-27
Child labour	22	Political payments	26	Strategy	28-29
China petrochemicals	22	Procurement	10	Strategy in action	30-32
CleanWave	32	Rig recycling	30	Our Business Principles	33
Climate change	13	Shell Foundation	22	You told Shell	34
Competition	9	Shell Haven	10	"Tell Shell"	35
Consultancy services	32	Shell People Survey	21	We really do want to hear your views on Shell or The Shell Report, about the issues we covered and anything we didn't. Contact us via the internet at www.shell.com/tellshell , by e-mail at tell-shell@si.shell.com or write to us using the pre-paid reply card at the back.	
Diversity	21	Shipping standards	15	Annex	37
Eco-efficiency	13	Smart wells	30		
Emissions	13	Solar Centres	31		
Engagement	27	Spills	15		
Equal opportunities	19	Strategy	28		
Facilitation payments	26	Stress	19		
Fatalities	19	Sundarbans	17		
Financial services	32	Sustainable energy	14		
Fuel cells	32	"Tell Shell"	27		
Fuel prices	9	Transparency	4		
Gasification	31	Twister	30		
Global standards	25	Ultra-clean fuels	31		
Global warming	13	Verification	5		
Globalisation	10	Waste	16		
Health and safety	19	Water use	15		
Hot fractured rocks	32	Wind farms	32		
Human rights	22				
Hydrogen	32				

Key

   Information verified see page 5.

 Find out more on the web.

5, 6 Graph references.

Committee of Managing Directors



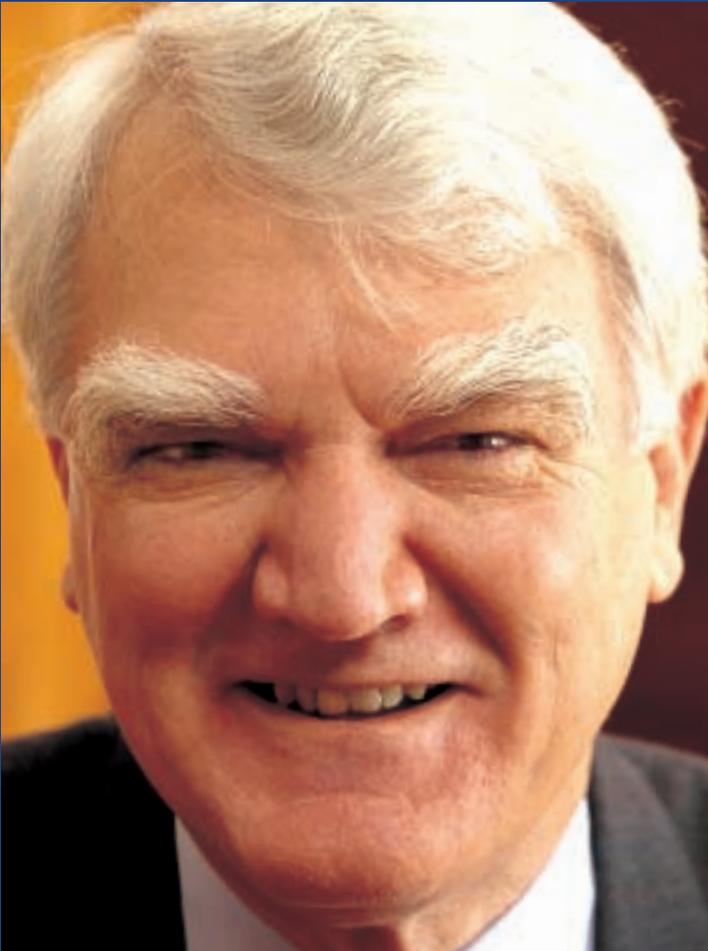
“ In my view the successful companies of the future will be those that integrate business and employees’ personal values. The best people want to do work that contributes to society with a company whose values they share, where their actions count and their views matter. ”

Jeroen van der Veer



“ We’ve taken the ideas of transparency and openness fully on board – even when it is difficult. I’m not sure how this will play out but a lot of people in Shell – particularly our younger people – are very pleased with it. ”

Harry Roels



“ We face great challenges. Energy systems must evolve – to meet new needs, offer new choices, provide new solutions. It will take commitment, creativity, compassion and courage. We should look forward with humility – but also with confidence in the ability of our people to respond. It’s a privilege to be part of this endeavour. ”

Sir Mark Moody-Stuart



“ The challenge is no longer just to operate better – but to help change the way the world meets its energy needs. My interest in sustainable development is severely practical – philosophy is one thing but it is action that will make the difference. ”

Phil Watts



“ We have learned much over the last decade about engaging with stakeholders to help us develop business approaches that secure economic benefits for shareholders and society while reducing negative environmental and social impacts. ”

Paul Skinner

Message from the Chairman

2000 was a successful year in many ways. We made further progress in fulfilling our commitments and met most performance targets. Excellent returns reflect considerable business achievements, as well as exceptionally high oil prices.

We must deliver – and be seen to deliver – in two ways. We need the profitability that provides competitive returns and funds investment. Profits are an important part of our ability to contribute to society. Shell companies also accept their responsibility to help deliver the economic, social and environmental requirements of sustainable development. Being trusted to meet societal expectations is essential for long-term profitability. We are committed to transparency, and to developing and integrating our reporting on how Shell companies fulfil their responsibilities.

Our success rests on the quality and commitment of Shell people, who inspire confidence that we can continue meeting the challenges of an uncertain world. I thank them most sincerely, as well as all the others who have worked with us.

Exceptionally high oil prices together with cost improvements helped deliver strong financial results. On a current cost of supplies basis – excluding special items – earnings of \$13.1 billion were 85% up on 1999. The return on average capital employed was 19.5%, and would have been over the 14% target at our \$14 a barrel planning assumption. The Group remains financially strong.

Shell companies continued to contribute to economies in over 135 countries – meeting needs, providing and supporting employment, generating taxes. They invested \$8.5 billion in 2000.

We endowed the non-profit Shell Foundation, launched in 2000, with \$250 million to help support social and environmental projects in areas such as sustainable energy, community development and youth enterprise.

Our latest global staff survey revealed that nearly two thirds of Shell people often feel under intense pressure. We are working hard to create a workplace where people feel respected. Staff diversity is improving – so that all levels reflect the societies we serve – but not as fast as we would like. I am pleased the survey confirmed that over 80% of Shell people believe we act responsibly in the communities where we operate, and in relation to the environment.

Safety remains a serious concern. The unacceptable increase in fatalities of company and contractor staff from 47 in 1999 to 60 in 2000 overshadowed the reduction in minor injuries. Most fatal incidents continue to occur on the road in developing and emerging countries. We recognise controls and procedures are simply not enough – these serious accidents can only be eliminated when a culture of safety is embedded in the hearts and minds of all who work with us.

Compared to last year, our environmental performance has been mixed. Our greenhouse gas emissions were up slightly but remain on line to meet our 2002 target. We halved the volume of oil spilled.

Health, safety and environmental management systems are in place in all Shell companies and over 90% of major installations have been externally certified to international environmental standards. The challenge is now to make sure that they deliver the desired performance improvements. I am pleased that we have set expectations for how all Shell companies will address biodiversity.

Sustainable development underlies our strategy and is being integrated into everything Shell companies do – in oil and gas as much as renewables.

We have to do business in the real world, with all its complexities. We look to governments to create conditions that foster social and economic development but some lack the means. We believe responsible business promotes development. We support Kofi Annan's Global Compact and the Global Sullivan Principles.

Our Business Principles remain the bedrock of the way we do business – we enforce zero tolerance of bribery, political payments and unfair trade and competition.

How we succeed is as important as what we achieve. We are committed to delivering excellent returns and building value for the future – for the planet and its people, for our customers, employees and shareholders.



Sir Mark Moody-Stuart
Chairman of the Committee of Managing Directors

Transparency – at a glance

- **Greater engagement and transparency**
- **Exploring new ways to assure performance**
- **Focus on reliability of health, safety and environmental data management systems**
- **Clearer indication of what is verified and how**

Building trust and credibility with transparency

We recognise the importance of accountability to stakeholders and are learning to be more open, through greater engagement and more transparent communication (page 27).

An important part of building confidence is the publication of reliable information that gives a fair picture of our performance. Without verification by respected organisations neither you nor we can be sure that real progress is being made in critical areas covered by this report.

Our financial information has been audited for over a century. Similar approaches have been brought to our health, safety and environmental (HSE) data over the last four years. Each year we work with our verifiers to continuously improve the efficiency of the process. We continue to focus on the 12 HSE parameters that reflect the most significant impacts of the Group, see page 37. Those Shell operating units which were subject to on-site verification in 1999, and that demonstrated to the verifiers that their HSE data management systems are still effective, are subject to review centrally. Other companies continue to receive on-site verification of their data.

Providing assurance on social information – such as the effectiveness of anti-bribery and corruption practices – is a less mature process. So far, the central consolidation of data has been verified, as has the progress we have made in developing a set of key performance indicators (page 27) that will form a basis for reporting and verification in the future. We also provide an

independent view of the effectiveness of our Business Principles letters of assurance process (page 25).

We have continued to explore ways of making verification more approachable and meaningful. The three symbols described in the 'Message from the verifiers' make clear what has been verified and how.

The future

We expect that reliance on self-assessment and demonstration of sound internal controls will become the norm for providing assurance on the reliability of HSE data. Independent verifiers will continue to visit operations regularly to check the continuing validity of HSE data management systems and reliability of information.

Proving data reliability is only part of improved transparency. We are now exploring ways of moving from confirming the accuracy of data to adding further meaning for stakeholders: for example, is our performance good, bad or indifferent? To achieve this we will use other methods of assurance, such as testimonials from experts, making comparisons with other companies (benchmarking) and stakeholder perceptions of performance. This is part of our effort to understand how well we are performing, communicate this to others, and to learn from those that do better.

These moves reflect our broad programme of stakeholder dialogue and communications. In this way we aim to earn the trust and respect of our stakeholders.

transparent and credible?

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 appropriateness of 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.

- At a 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 explanatory information and the notes on page 37, 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 appropriate underlying evidence and present a balanced view.
- 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 37 and the notes to the graphs. 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 2000.

14 March 2001

KPMG Accountants NV

The Hague

PricewaterhouseCoopers

London

- For a more detailed understanding of what the verifiers have done to provide assurance this year see www.shell.com/transparency

- For further information on the KPIs visit www.shell.com/kpis

- For further independent views and to tell us what you think visit www.shell.com/tellshell

You told Shell

UK

"I admire your transparency in all your dealings. I think it is a good way of rebuilding the trust of the public in your company."

You told Shell

Spain

"The 'report from verifiers' makes clear that these accountants verify little beyond financial and operational figures and the existence of certain reports."

Jacqueline Aloisi de Larderel

Director, UNEP Division of Technology, Industry and Economics

"In this era of market globalization and liberalization, there is an increased demand for corporate responsibility, accountability and transparency. It is encouraging to see that companies such as Shell are responding to that demand through reporting on their sustainability performance, and engaging in a dialogue, however difficult, with all stakeholders."

Economic – at a glance

- Exceptional profits in a year of high oil prices
- Cost improvements of \$4 billion
- Return on average capital employed (ROACE) of 19.5%
- Competition law breaches – zero tolerance enforced
- Motorists once again rank Shell top brand

6

Contributing to sustainable development – Economic



winning with principles?

- @ Visit our investor relations website where you can see quarterly results and access analysts presentations at www.shell.com/investors
- @ Read our Parent Companies' Annual Report and Accounts at www.shell.com/annualreport
- @ For more details of our economic performance visit www.shell.com/profits

The Royal Dutch/Shell Group is a business. Our objective is to create and increase value – providing a competitive return to investors, meeting customer needs, generating prosperity and contributing to overall economic development. We are committed to achieve our economic objectives while contributing to the well-being of the planet and its people. In this section we report on our economic performance.

Profits and growth

Principle 3 Economic principles

Full year adjusted earnings (on a current cost of supplies basis and excluding special items) were \$13,111 million, 85% more than last year. This was mainly due to the benefit of the higher oil and gas prices, higher refining margins and cost improvements partly offset by the effects of lower chemicals and marketing margins.

Cost improvements of \$4 billion mean we have met the target of \$4 billion annually by 2001 (relative to 1998 levels) one year ahead of schedule.

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 2000 we achieved a ROACE of 19.5%, shown in the graph 2 which compares us to other oil majors.

Underlying oil and gas production growth* for 2000 was 5% and 7% respectively. The combined production between 2000 and 2005 is expected to grow at an average annual rate of 5%. Oil products sales volumes in 2000 were 4% higher than in 1999 and whilst Chemicals sales volumes were lower than in 1999, excluding the effects of divestments and the formation of Basell, underlying Chemicals business growth was 7%.

Assets

Principle 3 Economic principles

Cash and other readily accessible funds (cash equivalents and short-term securities) were \$11.4 billion at the end of 2000, up \$7.4 billion on 1999. The total debt ratio at the end of the year was 11.0%. Net assets increased by \$0.9 billion to \$57.1 billion during the year. Fixed and other long-term assets decreased by \$6.9 billion to \$76.6 billion mainly due to the effects of asset sales.

Every year we aim to identify sufficient reserves of hydrocarbons 3 at least to replace those we have extracted in production. Through discoveries and extensions in the USA and West Africa, improved

recovery in Oman and Canada and an improved understanding of fields in Oman and Venezuela we have increased the total proved hydrocarbon reserves – a replacement ratio of 105%. The net effect of acquisitions and divestments brings this figure to 69%.

Dividends and shareholder return

Principle 2 Responsibilities to shareholders

The aim of the two Parent Companies of the Royal Dutch/Shell Group of Companies is to deliver dividends that increase at least in line with inflation averaged over a period of years. Again in 2000 we have succeeded in delivering on this commitment 8, 9. Earnings per share have also risen again this year for both of the Parent Companies 5, 6.

Both Parent Companies started a share buyback programme in February 2001. During 2001, shares will be purchased from time to time in the market and, depending on various conditions, each Company will buy back between 0.5% and 3.0% of its issued share capital.

In 2000 the Group announced a worldwide employee share purchase scheme. We hope this will help build a sense of global unity and affiliation, and enable employees to benefit from any Group success. We expect all countries will be participating by end 2001.

Investment and divestment

Principle 3 Economic principles

Effective allocation of capital remains a key focus – ensuring funds only go where the prospect of high returns and sustainable performance justifies the investment. In 2000, Shell Group companies invested a total of \$8.5 billion through capital expenditure, exploration expense, new investments in associated companies and other investments. Significant actions included: in China (buying interest in Sinopec** and concluding a joint venture to build a \$4 billion petrochemical complex); in Russia (increasing shareholding of Sakhalin Energy to 55% in an asset exchange deal); in Malaysia (increased interest in a liquefied natural gas (LNG) plant and finalisation of the rebuild of the Gas to Liquids plant); in Africa (purchasing of Agip's retail network and other assets in five key markets). Divestments included: the sale of the Group's interest in Altura in the USA; divestments in the UK, Australia and Chemicals; sales of retail sites in Brazil and Italy and sales of refineries in the USA and Switzerland. The Group's coal

*Excluding the effects of divestments and production sharing contracts. ** China Petroleum and Chemical Corporation (Sinopec Corp.)

@ Tell us what you think, we want to hear your views – on the uncensored forum or by email at www.shell.com/tellshell

@ More about our approach to ensuring fair and ethical competition is at www.shell.com/competition

@ For more details of our economic performance go to www.shell.com/profits

You told Shell

Ireland

“Would you agree that Principle 8 (Competition) could sustain a little elaboration, as stated it is somewhat broad and aspirational? Surely the applicable competition laws must be addressed more pro-actively.”

You told Shell

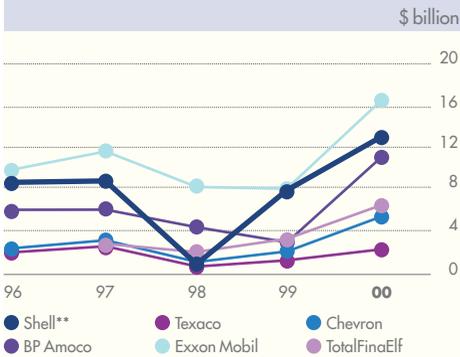
Unknown

“As a shareholder I must say don't get so caught up in the liberal, leftist social agenda that you shortchange your shareholders.”



Rising fuel prices led to protests across Europe.

1 Net income for oil majors*



*From 1996 to 2000 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 (CCS) basis. This is used to show a representative comparison with other oil majors who are using slightly different accounting principles.

4 Operating profit

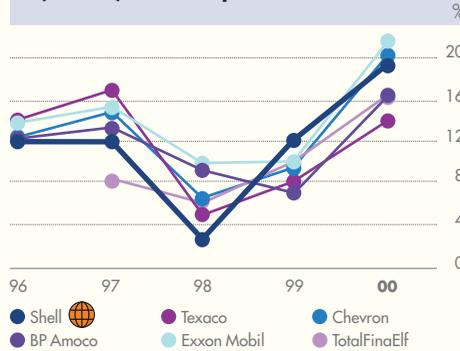


7 Total shareholder return* 1991 to 2000



*Total shareholder return is a recognised measure of long-term financial performance. It combines changes in share price with dividends. An investment 10 years ago in shares of the companies shown, with all dividends reinvested, would have yielded the indicated annualised returns as at the end of 2000. The calculation is based on quarterly reinvestment of gross dividends expressed in dollars. Source: Bloomberg (TotalFinaElf data not available for 1991)

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



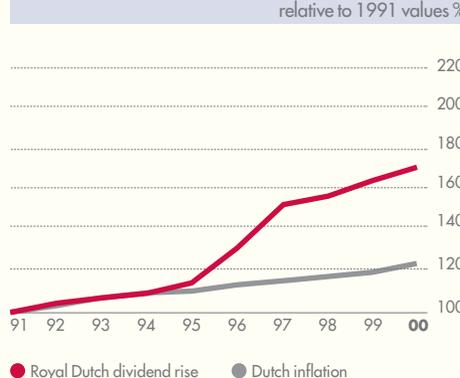
* Shell ROACE figures are calculated as CCS earnings plus the Group share of interest expenses after tax, as a percentage of the Group share of average capital employed. The figures for other oil majors are Shell estimates based on year-end press releases, which may have been prepared on a different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

5 Royal Dutch Petroleum Company Adjusted CCS earnings* (pro forma)



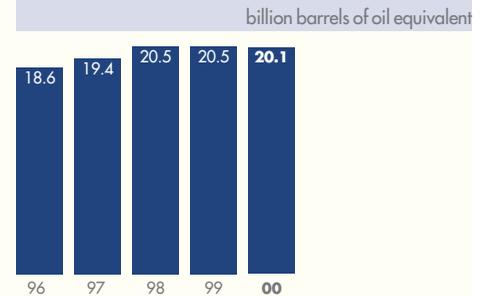
* Earnings on an estimated current cost of supplies (CCS) basis, excluding special credits/(charges).

8 Royal Dutch Petroleum Company dividend 1991 to 2000



● Royal Dutch dividend rise ● Dutch inflation

3 Total reserves*



* Crude oil, natural gas liquids and natural gas. Includes oil sands.

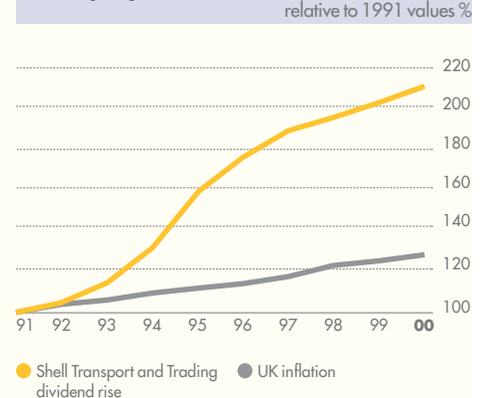
5,800 million cubic feet of natural gas = 1 million barrels of oil equivalent.

6 The "Shell" Transport and Trading Company Adjusted CCS earnings* (pro forma)



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

9 The "Shell" Transport and Trading Company dividend 1991 to 2000



● Shell Transport and Trading dividend rise ● UK inflation



Offering customers a choice of fuels with environmental and performance benefits as here in Argentina.

activities were sold in July 2000. A venture capital fund was set up to invest in appropriate internet related ventures. Shell companies spent \$389 million on research and development.

All Shell companies in 109 countries, where major project investment and divestment decisions are made, operate a procedure to incorporate social and environmental considerations. In 103 of these, decisions also take the full life cycle of the project into account.

Meeting customer expectations

Principle 2 Responsibilities to customers

We listen to our customers and find innovative solutions to their needs. 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 – Shell developed a range of specially-tailored fuels which are now available in more than 30 countries. Dialogue with commercial customers told us that many wanted Shell to be more than just a traditional supplier of products. We responded by offering packages including full factory lubrication and maintenance, and environmental consultancy.

In 2000, over 24,000 private motorists in 53 countries were asked in our global Brand Tracker survey which brand they prefer. For the fourth year running Shell was ranked number one globally for brand preference **12**.

Shell Aviation has for the third time received the Armbrust award for Best International Jet Fuel Marketer, a customer-driven assessment of performance.

ISSUE Fuel prices

Rising crude oil prices (graph **10**) led to higher fuel prices in 2000. This combined with the high rate of taxes on fuel, up to 70% in some countries, caused considerable controversy. A high oil price might help boost our profits in oil and gas production temporarily, but it:

- Angers our customers.
- Does not help the Organisation of Petroleum Exporting Countries (OPEC) because it encourages alternate supplies of both crude oil and other sources of energy.
- Slows countries' economies by increasing inflation.

Shell cannot influence the world oil price – we supply just 3% of the world's crude oil. Our other businesses, such as refining, chemicals and fuel marketing, have to buy much of their raw materials and products for re-sale and are also affected by the high price of crude. We do not cross-subsidise businesses. Subsidies disadvantage smaller operators and are not allowed by many competition authorities. Each business must stand on its own.

Competition

Principle 8 Competition

In line with our Business Principles Shell companies seek to compete fairly and ethically within the framework of applicable competition laws. In 95 countries Shell companies operate a procedure to ensure their operations do not compromise such laws. In 71 countries employees receive training to help them understand applicable competition laws, in 57 of these Shell companies provide written guidance for employees about competition laws.

In 2000, nine competition cases (two in 1999) involving Shell companies were completed. Of these, four cases were dropped and three found in favour of the Shell company. In two cases the Shell company was found guilty. In both, Shell companies were judged to have infringed competition law by being part of price-fixing cartels resulting in fines of \$11,000 and \$17 million. The latter is being appealed.

Last year we reported that a Shell company was found to have breached local commerce laws by colluding with other oil companies on the withdrawal of a car wash promotion in 1996. The penalty has now been set at \$171,000 (plus costs).

In addition to those listed above, a fair trading commission ordered eight oil wholesalers, including a non-Shell operated joint venture, to pay some \$17 million for rigging bids in the supply of oil products to the defence industry. This is being contested.

ISSUE Breaches of competition law

Competition authorities in Sweden led a dawn raid on oil companies in response to allegations of fixing gasoline prices. Internal investigations by Svenska Shell led to the dismissal of the Retail Sales Manager and further investigations discovered that there had also been separate meetings with competitors on diesel prices. Shell volunteered this information to the authorities which resulted in a further raid. The case, which involves other major energy companies, is now pending.

Any allegations of price fixing and cartels are taken extremely seriously by Shell management. The Group has reinforced its compliance training programme, which includes guidelines on preventing anti-competitive practices as well as a management guide on anti-trust law. The training programme and publication reinforce that a failure to comply may result in disciplinary action including dismissal.

Tax

Principle 2 Responsibilities to society

Tax is one of the ways in which corporations play a role as an 'economic engine' for society. In 2000, taxes generated by Shell companies was more than \$51 billion – the graph 11 shows current income tax charge and sales taxes, excise duties and similar levies.

ISSUE Globalisation

Greedy multinationals exploiting the poor and destroying the environment for their own good. This is the way globalisation is often characterised by those who are concerned about the growth of open markets in a world where one in five live in abject poverty. We understand this genuine concern and believe that:

- Globalisation can be shaped as a positive force by political will and responsible business practices. This offers a chance to provide social benefits currently only enjoyed by the minority, such as universal health care and education.
- Governments have a big role to play in making this happen, mainly by establishing the conditions to attract the necessary foreign investment needed to generate wealth and sustainable growth.
- Shell is helping by making investments, through technology transfer, employment and training. There is also much that we can do simply by listening to the needs of local communities and working in partnership with them, and with governments and non-governmental organisations @.

ISSUE Shell and Iraq

There are increasing calls for sanctions to be lifted in Iraq. In compliance with United Nations (UN) sanctions Shell does not carry out any operational activities in Iraq but we, like many other organisations, are anticipating the re-opening of opportunities. We have been considering how projects can be pursued under

You told Shell

Unknown

“ The shareholders are the owners of the company and management needs to focus on the share price. Social investment is best left to the government and to support from charitable donations from individuals. ”

You told Shell

USA

“ It is very clear to me that Shell is committed to preserving the environment, while protecting shareholder's profits. You are to be commended – we can only help support you as customers. You have 100% of my family's business from this day forward. Keep up the great work! ”

UN humanitarian 'oil for food' programmes. We will only work to be part of the country's long-term oil and gas development if we are able to do so in accordance both with applicable legislation (including UN resolutions) and with Shell's own Business Principles.

Direct and indirect employment

Principle 2 Responsibilities to society

We continue to make a substantial contribution to local economies in over 135 countries where we have an interest in operations through employment and the use of local contractors and suppliers.

Shell companies employ some 90,000 people (year-end figure), the majority of which are local staff (for details see page 20). The number of employees has fallen at all levels of the Group since last year due to divestments, transfer of labour to other organisations and downsizing exercises started in 1999.

In 50 countries Shell companies have a policy to promote the use of local contractors and suppliers (a reduction from 54 in 1999 due mainly to decreased presence in some countries). In 106 countries Shell companies spent more than 50% of total spend on goods and services inside that country.

ISSUE Global procurement

When spending billions of dollars a year on materials and services getting the best deal is essential. By combining the needs of individual operating units worldwide greater purchasing power has led to discounts as high as 55% over previous prices. Internet-based purchasing (e-procurement) is also increasingly leading to significant cost savings. A combination of approaches has saved some \$500 million in 2000 in Exploration and Production alone.

But thinking globally does not mean local suppliers miss out. Better relationships between operating units and their contractors, cutting out inefficiencies in the supply chain and internet purchasing, save costs. They also facilitate the development of business skills and infrastructure, allowing local companies to compete more effectively for business both locally and outside their existing markets. For example, a global agreement for wirewrap screens in Brunei has led to the set up of a new manufacturing facility – enabling the local company to serve many other customers.

At least a third of Shell's expenditure will continue to be spent directly on a local basis, benefiting indigenous businesses and supporting the regional economy.



Case Study Shell Haven

Shell UK made a determined effort to find a sustainable solution when closing the Shell Haven refinery in 1998 with the loss of 300 jobs. An agreement has been signed with P&O, the international logistics and transport company, who will regenerate the 1500-acre site as a major container port, distribution and commercial centre creating up to 10,000 jobs. We have helped secure new jobs for the majority of staff – supporting them during this difficult time has been our priority.

- @ Operating in politically sensitive regions brings many challenges. Read more at www.shell.com/sensitive
- @ Find more about our approach to the issue of globalisation at www.shell.com/global
- @ To visit the Africa America Institute's web site go to www.aaionline.org

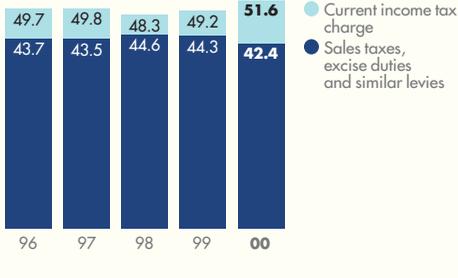
10 Crude oil prices

Brent Blend: average monthly spot prices \$ per barrel



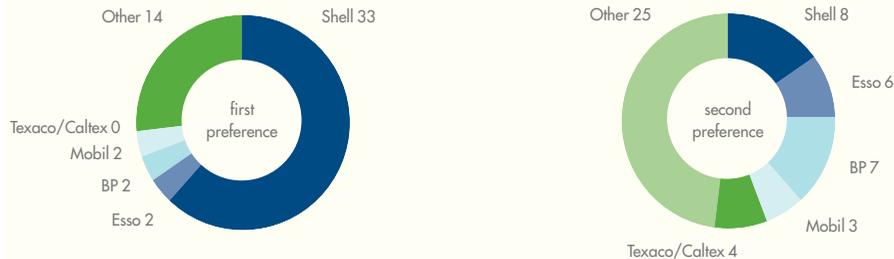
11 Taxes generated by Shell companies

\$ billion

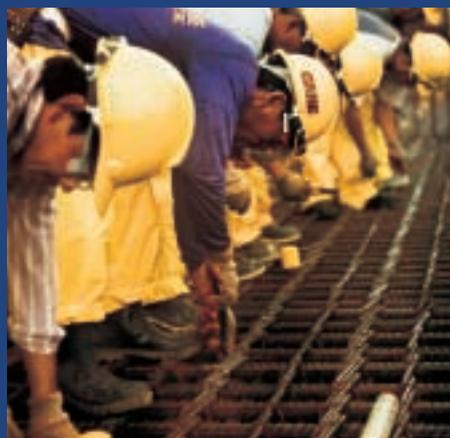


12 Brand share of preference 2000

First and second preferences number of countries



Results of our global Brand Tracker survey of over 24,000 private motorists in 53 countries.



Training local contractors in the Philippines.

Mora McLean

President, Africa America Institute (AAI)

“While Africa has not fared well historically with western mining and energy companies, it is also true that these companies can help spur African economic progress. Shell’s dialogue with its critics is laudable. AAI encourages Shell to invest long-term in increasing the numbers of highly skilled African technical professionals.”



The acquisition of Agip's oil products operations in five key countries demonstrates Shell's continuing commitment to long-term business in Africa.

Environmental – at a glance

- Greenhouse gas emissions 11% below 1990 levels
- Volume of oil spills halved
- Cost of carbon included in major project decisions
- Global biodiversity expectations set

12

Contributing to sustainable development – Environmental



clearing the air?

- @ For more details about the information shown visit www.shell.com/planet
- @ To read our HSE Policy and minimum environmental expectations visit www.shell.com/hsepolicy
- @ Find out how we are helping to reduce the impact of our products at www.shell.com/stewardship
- @ For our approach to climate change see www.shell.com/climate
- @ Read about our emissions trading programme at www.shell.com/steps
- @ More details of our Clean Development Mechanism (CDM) projects can be found at www.shell.com/cdm

Climate change remains one of the most important environmental issues of our time. We are acting to reduce our own emissions @ and supporting our customers, partners and suppliers to reduce theirs . We strive to continuously reduce negative environmental impacts across our operations. Our environmental expectations set minimum standards worldwide, which form the platform for further improvement. Over 90% of our major installations have achieved ISO14001 certification (page 25).

Reducing emissions to air, water and land is critical to our business success and our contribution to sustainable development. We set tough targets to promote improvement @ .

Reducing impact through eco-efficiency

Principle 6 Health, safety and environment

We group our environmental performance data into the main categories: emissions to air, discharges to water (effluents), spills and waste. We present the absolute figures as well as a number of indicators which reflect our environmental load or impact (such as global warming potential (GWP) **14**, **17** and acidification potential **24**) and eco-efficiency (energy consumption **23**). The latter are normalised by the activity levels in our main businesses. Five year targets and projections (for 2003) were fixed in 1998 and will be revised next year. You can find business data and other additional information on the website @.

We apply new gas processing technology such as Twister (page 30) to improve our eco-efficiency and reduce our own impact while making products that help our customers reduce theirs (page 9). However making cleaner products with lower environmental impact often requires more energy.

Emissions to air

Greenhouse gas (GHG) emissions

Some greenhouse gases contribute more to global warming than others, so we report our emissions of all six gases covered by the Kyoto Protocol in terms of their GWP **13**, **14**, **17**. This indicator is expressed in terms of carbon dioxide (CO₂) equivalent and therefore provides a more consistent picture of our impacts. After several years of steady reduction our GHG emissions showed a 2% increase in 2000 to 101 million tonnes CO₂ equivalent, 11% below 1990 levels and ahead of our 2002 target. Increases of 2% in CO₂ emissions

and 15% in flaring at the Group level mainly resulted from higher production in Nigeria.

Gas is often produced as a by-product of oil production. When there is no market for the gas, or for safety reasons, the gas is released (vented) or burnt (flared). The drive to reduce flaring in Nigeria continues in line with our target to eliminate continuous flaring by 2008 – one of our minimum environmental expectations.

Methane (CH₄) emissions **15** were down by 13% as a result of reduced venting in the upstream business and the sale of Shell Coal in mid 2000. We have set a target to stop continuous venting by 2003.

Ozone depleting substances

The production of substances that deplete ozone in the upper atmosphere is being phased out under the Montreal Protocol. Our longer term objective is to eliminate such products from our operations and we are working to phase out remaining inventories in all businesses. While inventories remain on site, small losses will inevitably result from maintenance and appliance testing. Such losses were down 46% to 6.4 tonnes.

ISSUE Climate change

Despite the failure of the United Nations negotiations in 2000, we remain committed to reduce GHGs in our own operations, helping our customers reduce theirs and playing an active role in the public policy debate. Over the past year we have:

- Increased our GHG emissions by 2% in GWP terms, but we remain firmly on line to meet our target to cut these by 10% below 1990 levels by end 2002 **13**.
- Firmly established the discipline of including the possible financial cost of GHGs (\$5 per tonne carbon to 2010 and \$20 thereafter) in investment decisions for new large projects. This is part of our strategy to ensure that investments will be robust in a future where there is a financial penalty associated with carbon use.
- Traded over a million tonnes of CO₂ (a year equivalent) in our experimental internal carbon trading system. The system helps us understand the process of trading GHGs that could become a recognised international mechanism @.

You told Shell

Shell employee

“We're still emitting too much CO₂ into the atmosphere. Why? Because 'our priority is to get the plant running and make some money. Then we can afford disposal'. Not good enough in my opinion. What this company needs is a good Greenpeace scare and we'll find the money.”

You told Shell

Zambia

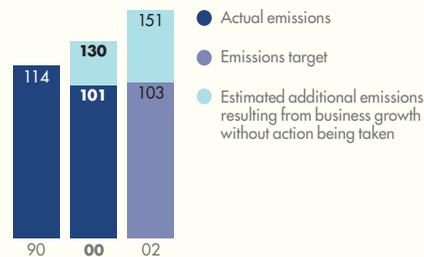
“I commend you on exceeding requirements for the emissions allowed by companies. What you do will be noticed by other major corporations and they will hopefully follow suit.”

Case Study Shell Sustainable Energy Programme (SEP)

Over 30 projects are so far being supported by SEP, a Shell Foundation initiative to promote sustainable energy worldwide. Projects include: helping Mexican villages in environmentally protected areas use renewable energy to reduce dependence on firewood; spreading biogas technology in rural China for cooking, lighting and heating greenhouses; helping set up an emissions advice website; spreading good practice in managing urban air quality; raising energy awareness in primary schools @.

13 Greenhouse gas emission reduction

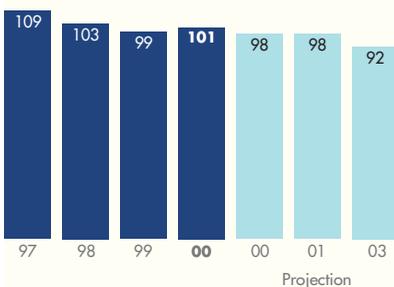
million tonnes CO₂ equivalent



We grew our oil and gas production and manufacturing over the period 1990 to 2000, but reduced our overall greenhouse gas emissions by 11%.

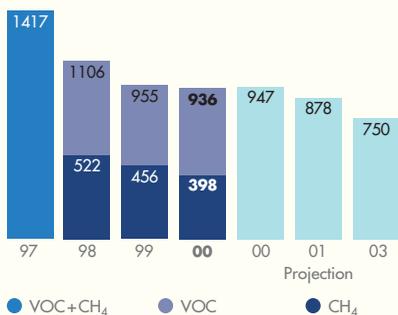
14 Global Warming Potential (GWP)

million tonnes CO₂ equivalent



15 Total emissions of VOCs* + CH₄

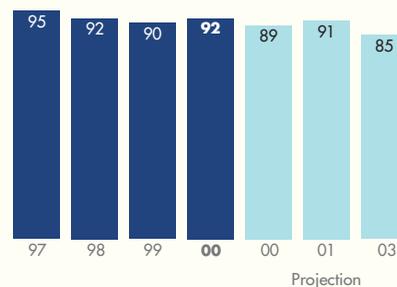
thousand tonnes



* Data not verified in 1999 and 2000.

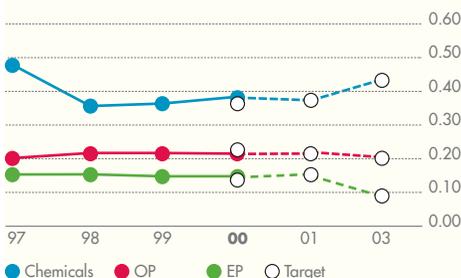
16 Total emissions of CO₂

million tonnes



17 Unit emissions of GWP

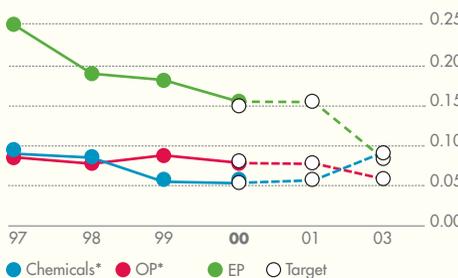
tonnes CO₂ equivalent/tonne throughput



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

18 Unit emissions of VOCs* + CH₄

% mass/tonne throughput



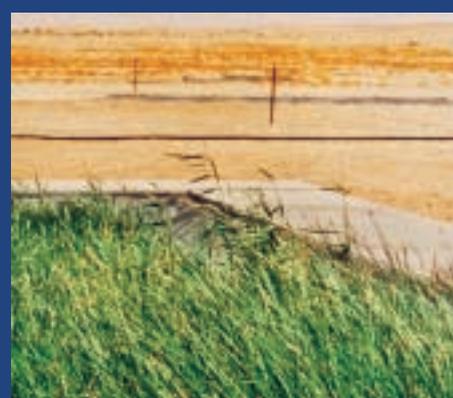
Exploration and Production (EP). Oil Products refineries only (OP). *Data not verified in 1999 and 2000.

19 Total flaring*

million tonnes



* Refer to page 37 for limitations on the accuracy of the data.



In Oman reed-growing is being trialled as a way of processing waste produced water from oil and gas wells in an environmentally sound way.

Case Study Coming clean on refinery emissions

Community trust in Shell was put to the test in 1999 at the South African Petroleum Refinery (SAPREF) in Durban – Africa's largest refinery jointly owned with BP. The refinery is in the same area as other industries emitting sulphur dioxide (SO₂) and air quality is a major concern to neighbouring communities. Emissions are regulated by government and improvements beyond permit levels are voluntary. The refineries are working with government to ensure continued environmental improvement. Non-governmental organisations (NGOs) are encouraged to participate. Since 1995, SAPREF has been reducing SO₂ emissions

voluntarily, and in 1997, it made a widely reported public commitment to further reductions. In 1999, the refinery discovered calculation errors in its measurements. The reductions achieved were substantially higher than had been thought. SAPREF kept media, government, NGOs and communities fully informed. While some environmentalists were concerned, there was broad recognition of SAPREF's honesty in disclosing errors. SAPREF is investing \$40 million to almost halve SO₂ emissions by end-2002.

- @ Visit the Sustainable Energy Programme website at www.shellfoundation.org/sep
- @ For our approach to climate change see www.shell.com/climate
- @ More details of our Clean Development Mechanism (CDM) projects can be found at www.shell.com/cdm
- @ Find examples of how we have been reducing our water use at www.shell.com/water
- @ To tell us what you think or see what others said go to www.shell.com/tellshell

- Identified eight projects that could qualify under the Kyoto Protocol's Clean Development Mechanism (CDM), which provides credits for those involved in carbon-saving projects in the developing world @.
- Continued to work on new technologies and cleaner fuels to help customers reduce their CO₂ emissions. The Group was recently awarded the Climate Technology Initiative prize for a rural electrification scheme based on solar cells. We are also working on a wide range of technologies to further reduce the impact of our operations on the use and emissions of carbon @.

ISSUE Shipping standards

Many of our products are transported by sea, including oil, gas and chemicals. We have always promoted high standards, diligently operating our own ships and rigorously inspecting those offered to us for charter. We will not use a ship that compromises our standards and we file our inspection reports for use by other shippers, port authorities and government agencies.

The sinking of the chemical carrier *levoli Sun* in October 2000 again raised public and political attention on tanker safety, particularly in the European Union. Amongst other things the ship was carrying styrene for Shell Chemicals. The accident occurred in very heavy weather in the English Channel. The vessel was relatively modern, double hulled, and had passed recent inspection. The cause of the accident is still being investigated.

Shell, through its membership of the Oil Companies International Marine Forum endorses measures to strengthen the scrutiny of vessels by the authorities, and to require improved levels of performance from Classification Societies in surveying and assuring the condition of vessels. Through the International Maritime Organisation, we support the introduction on a global basis of additional measures to prevent or remediate spills – including increased payments under international conventions to cover clean-up costs.

Nitrogen oxides and sulphur dioxide

Nitrogen oxides (NO_x) and sulphur dioxide (SO₂) are emitted when fuel is burnt in our operations and can contribute to local air pollution and acid rain. In line with our minimum environmental expectations, at the end of 2000, the annual average NO_x and SO₂ emissions **20, 21** at all Shell-operated refineries and chemical plants were within ranges permitted in Organisation of Economic

Cooperation and Development (OECD) countries. Graph **24** illustrates our performance in reducing the impact of these emissions on the environment.

ISSUE Water use

The world's fresh water systems are under intense pressure. The United Nations warns that in many areas the situation is already in crisis. Although water use does not play a major role in our industry we do use water in our refineries, chemical plants, forestry and biomass operations. We have the potential to impact on 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. From our experiences around the world – including Australia, Oman and the Netherlands – it is clear that much can be done simply by changing wasteful attitudes to water and finding innovative ways to further reduce our impact on water. We are using the learning gained in these areas to address this issue more systematically. In 2001 we began monitoring the use of potable water, surface water and ground water and we will report these data for the first time in 2002 @.

Effluents

The main discharges to water from our operations are oil in the water that accompanies oil production (produced water) and oil in effluents from refineries. We report these together as oil in effluents to surface environment **22**. In line with our minimum environmental expectations the concentration of oil in produced water is now below 40 milligrammes per litre in all Shell companies. As water production increases in maturing fields the challenge will be to reduce the total volume of oil discharged. Significant reductions in oil in effluent were reported by two refineries – Buenos Aires, Argentina and Geelong, Australia.

Spills

We report, as a single volume figure, spills of crude oil, oil products and chemicals, caused by equipment failure (including corrosion), human error, acts of sabotage and natural events **25**. In 2000 we met our aggressive target to reduce volume of spills with volumes down by nearly 50% on last year. This was mainly due to improved maintenance to reduce corrosion. The 1999 spills volume included one major shipping incident. Our total discharge of oil to the environment, including oil in effluent, decreased in 2000.

Jonathan Lash

President, World Resources Institute

“The Sustainable Energy Program [page 14] is a concrete and significant step in implementing Shell’s commitment to clean energy. By investing in alternative energy, community development, and innovations in sustainable energy, Shell provides a glimpse of a better future and takes a real step toward getting there.”

Jeff McNealey

Chief Scientist, World Conservation Union (IUCN)

“I am very glad to see that Shell has made a particular effort to reach out to ecologists and other field scientists to ensure that its operations in ecologically significant sites take full consideration of the biodiversity that often make such areas a source of conservation concern.”

ISSUE Transredes oil spill

In early 2000 Transredes, a non-Shell operated joint venture in Bolivia, had a pipeline rupture at a river crossing in the remote Altiplano during the flood season, spilling crude oil along both riverbanks, and affecting many local communities.

Shell and its partners immediately provided expertise, spill containment and clean-up gear to support Transredes in avoiding further contamination. Transredes worked with local communities, first to provide them and their livestock with clean water and then to clean up the spill, employing at peak more than 3,000 local people, as well as doctors, nurses and vets (see photograph opposite) who monitored community health. The clean up has been monitored and audited by government, and the people of Bolivia were kept fully informed through frequent news releases.

Since then, Transredes has been working with CARE Bolivia to provide community projects to those affected by the spill. The type of project is only determined after communities have been fully consulted, a key element in fair and helpful support for people living in the area. Later Shell worked closely with Transredes to improve operational and environmental procedures to avoid a repeat of this incident. Transredes is spreading these standards through its contractors and subcontractors.

Waste

Waste includes material from industrial operations for which there is no economic demand and was consequently disposed of, either to landfill or by incineration. It excludes domestic, office, construction waste and contaminated soil. The total amount of waste we produced was 890,000 tonnes (740,000 tonnes in 1999), approximately 45% of which was hazardous (37% in 1999). The largest increase took place in Moerdijk, The Netherlands, where the new styrene/propylene oxide plant had its first year of operation. The waste water stream is classified as hazardous waste and incinerated. One example of progress in reducing waste is the re-use and recycling of offshore platforms (page 30).

Fines, settlements and liabilities

Shell companies paid a total of \$3.1 million in 2000, including workers’ compensation payments in Chemicals, the third consecutive year that the levels of fines paid has increased. At the end of 2000 the total liabilities being carried for environmental clean up, decommissioning and site restoration were \$2,989 million (\$3,044 million in 1999).

ISSUE Biodiversity

Leading conservationists at our biodiversity workshop in December 1999 said we should: say what we stand for, operate responsibly and make a positive contribution to biodiversity to help offset our impacts.

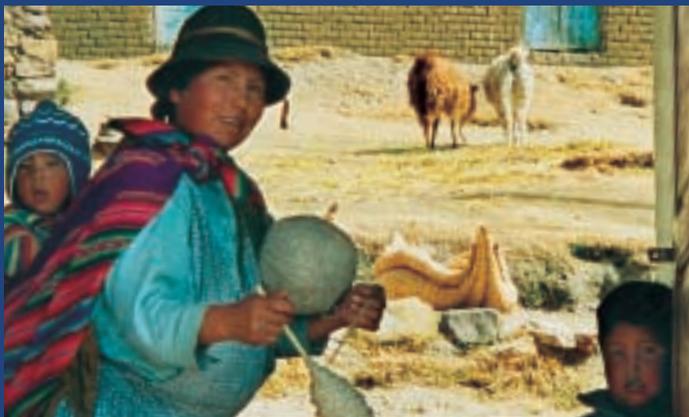
We recognise the importance of biodiversity and are committed to work with others to maintain ecosystems; respect the concept of protected areas; and seek partnerships so we can make a positive contribution to the conservation of global biodiversity. We have set expectations for how all Shell companies will address biodiversity. We will:

- conduct environmental assessments, including potential impacts on biodiversity, prior to all new activities and significant changes to existing ones
- pay special attention to managing activities in internationally-recognised ‘hot spots’, including identifying and consulting with key stakeholders – we have already set up an early-warning system to inform stakeholders if we intend to work in sensitive environments.

We will also assess each case against our sustainable development principles and develop, where appropriate, conservation plans to ensure the long-term integrity of sensitive environments and assist local community development.

We recognise that this position does not go as far as some would like in defining ‘no go’ areas. We will continue the dialogue with energy and conservation leaders in an initiative led by Conservation International. This will build on our experience in highly sensitive areas, such as Camisea in Peru, for which we received an award from the International Association for Impact Assessment.

The Shell Foundation has made a \$2.8 million grant to the Smithsonian Institution to establish biodiversity baselines, monitor the impact of human activity and build local capacity to help countries meet their obligations under the biodiversity convention. The first project has begun in Gabon @.



Vets declare llamas free of foot and mouth in follow-up to Transredes oil spill – increasing value of llamas 100 times and transforming the local economy.

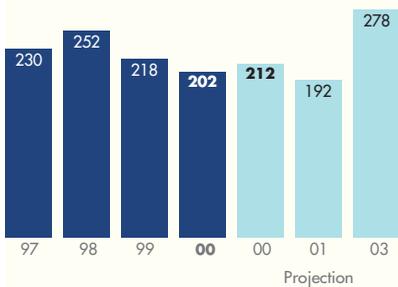
Case Study **Sundarbans**

Shell Bangladesh has initiated a production-sharing contract for Block 5 in the southwest of Bangladesh. The Block includes the internationally-renowned Sundarbans Reserved Forest (a home to the Bengal Tiger). The Sundarbans is already under pressure: around 3.5 million people are dependent to some extent on its natural resources. Extensive fishing and extraction of wood for fuel and building, both legal and illegal, constitute a threat to the forest eco-systems.

We stress that we have no plans for any activities in the Sundarbans. Indeed, to avoid any indirect effects, we will carry out extensive studies before conducting activities elsewhere in the Block.

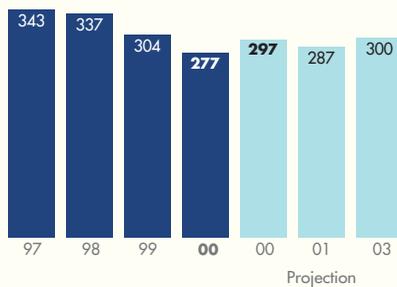
20 Total emissions of NO_x

thousand tonnes



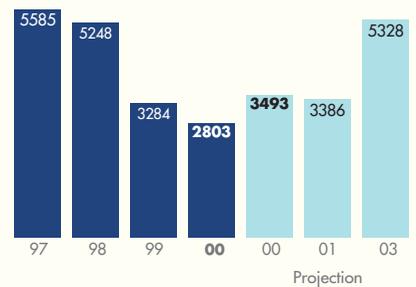
21 Total emissions of SO₂

thousand tonnes



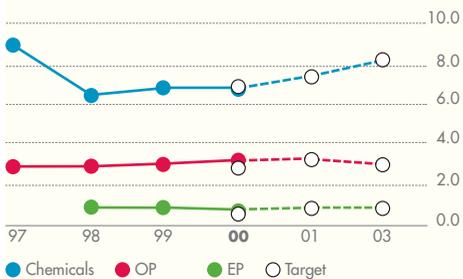
22 Oil in effluent to surface environment

tonnes



23 Energy consumption

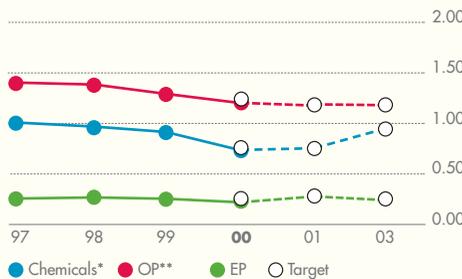
G Joule/tonne throughput



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

24 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.

25 Total spills

thousand tonnes



You told Shell

Unknown

“The Sundarbans is considered prime habitat for the highly endangered tigers. Two million people depend for their survival on this biologically rich ecosystem. This is NOT the place to explore or drill for oil. When will you ever stop?”

You told Shell

USA

“Clean up your mess! I hear it everyday from my Mom and it can be annoying. Is it bothering you? It’s not gonna stop. People are going to bug you forever. Don’t you care? I do!”



Shell Bitumen’s low temperature asphalt saves energy and reduces CO₂ emissions during manufacture and application.

@ For detail and context to the environmental performance see www.shell.com/planet

@ Visit the World Resources Institute website at www.wri.org

@ To find out more about our approach to biodiversity see www.shell.com/biodiversity

@ Find out more about biodiversity by visiting the Smithsonian Institution website at www.si.edu/simab

Social – at a glance

- Unacceptable rise in fatalities
- Stress arising from work identified as a serious issue
- Progress towards gender target
- 80% of Shell people proud to work for Shell (up 5%)
- Group security expectations launched
- Nigeria – focus on engagement and community needs

18

Contributing to sustainable development – Social

A woman in traditional Nigerian attire, including a white lace top and a yellow and black headwrap, is writing in a notebook. She is surrounded by other people, some wearing orange headwraps, in what appears to be an outdoor setting. The background shows a blue structure and greenery.

respect for people?

- @ Find out about engaging communities in Nigeria (pictured left) at www.shell.com/nigeriacommunity
- @ Read about our initiatives to improve road safety through our 'traffic games' for children at www.shell.com/trafficgames
- @ Find out about the work of the Global Road Safety Partnership at www.bpdweb.org/grsp/
- @ Find out about the background of diversity in Shell and see case studies showing our commitment in action at www.shell.com/diversity

Respecting the culture and needs of the communities where we operate is vital. We strive to be responsible members of society and contribute to staff and community welfare wherever we do business. We support fundamental human rights and are battling to improve safety and health.

Safety

Principle 6 Health, safety and environment

We deeply regret that in 2000 60 people (55 contractors and five Shell employees) lost their lives during work activity compared with 47 in 1999. This is unacceptable and we continue to promote local and global initiatives to address the issues involved. It is frustrating for us that the enormous amount of time and energy that is being invested to prevent such incidents is not yet showing returns. As last year, the majority of the deaths occurred in road accidents in developing and emerging countries where driving conditions are particularly difficult.

We continue the road safety training and awareness programmes, which we reported last year. The initiatives are aimed mainly at drivers, but in some countries we also run road safety education programmes to help children and the general public to avoid road accidents @. We also actively support the Global Road Safety Partnership in its objectives to improve driving standards and conditions in the highest risk countries. To further build awareness and improve performance we carry out regular HSE audits and investigate all fatal accidents to make sure we learn from incidents.

Based on the broader measure of safety (total reportable case frequency 26, 27), which also includes minor accidents and incidents, our performance improved a further 1.4% in 2000 to a best ever rate of 3.2 cases per million worked hours. This is equivalent to a workforce of 500 people working for a year with only three incidents.

Health

Principle 6 Health, safety and environment

We monitor employee health using total reportable occupational illness frequency (TROIF) and data indicates improved performance in 2000, which decreased from 3.5 per million exposure hours in 1999 to 2.2 in 2000. However, cultural and regulatory differences around the world mean that we are not yet confident enough in the consistency and reliability of reporting to set a target for 2001.

Both mental (work pressure) and physical stress such as repetitive strain injury (RSI) are significant occupational risks. The Shell People

Survey (page 21) showed work pressures are perceived as higher than 1999, with 59% of people saying they often feel under intense pressure in their current job (56% in 1999). This is much worse than external norms and is a serious concern. We are using the Shell People Survey results to identify areas where immediate attention is necessary. We are also building a training programme to help managers identify and reduce stress in the workplace, and developing guidelines and tools for managing RSI risks.

Working hours and wages

Principle 2 Responsibilities to employees

Contractually no Shell employee has a standard working week of more than 48 hours (Shell average is 40 hours). However, survey evidence from most organisations suggests that in practice many are struggling to maintain a balance with their personal life. Shell is no exception – 37% of Shell people saying they find it 'very difficult to balance their work and personal life'. This figure is similar to other global high performance organisations but worse than others in the oil and chemicals sector. We are addressing this and the links with rising stress levels (above).

Shell companies in 130 countries (down from 131 in 1999 due to decreased presence) compare remuneration levels to ensure they are competitive. No member of staff receives less than the statutory working wage. The lowest wage paid to a Shell company employee in 2000 was \$50 per month* plus \$20 transport allowance in a country in Africa where the national statutory minimum is \$25 per month.

An inclusive workplace

(Principle 2 Responsibilities to employees)

We believe in respecting people, equal opportunities, valuing diversity (all the ways we are different), and eliminating barriers that lead to unfair practices @.

Respect for people – In the People Survey 73% (as in 1999) said 'where I work, we are treated with respect', a figure significantly higher than external high performance benchmarks.

Equal opportunity – Shell companies in 123 countries operate an equal opportunities policy (compared to 121 in 1999) although in 25 of those countries there is no legal requirement to do so. In three countries operating an equal opportunities policy is prevented by local legislation. The number of countries with procedures to ensure equal opportunities is shown opposite 29.

*\$50 per month is equivalent to a purchasing power of \$1,950 per month in that country. Source: World Development Indicators 2000, World Bank.

Case study **Safety Centre – Singapore**

Training is vital to our continuous drive to improve safety. In Shell's Singapore refinery a team of Shell and contractor staff from seven nationalities identified factors limiting the effectiveness of training. Language was seen as a major obstacle. A Safety Centre was set up where contractors can give safety instruction to their personnel in their own language. Each individual has a 'safety passport' that is 'stamped' on passing a course. The Centre, which is run by the contractors, meets a clear need and has attracted wide interest from other industries.

@ More on PDO's social performance and their work in the community at www.pdo.co.om/pdocom.htm

@ Want to know more about the Shell People Survey? Check out www.shell.com/peoplesurvey

@ Group security guidelines on the use of force conform to UN Principles. See them and read more about security and human rights at www.shell.com/security

Case study **Improving conditions at Norco**

A community of 4,000 people lives between two parts of our chemical plant and joint-venture refinery at Norco in Louisiana, USA. Some local activists argue that the plant endangers health. Shell, with its joint-venture partner Motiva, began a fresh initiative with the local community in 2000, to better understand their concerns and make improvements. This includes widespread consultation and a social and environmental improvement programme.

26 Safety statistics

Company employees and contractors per million exposure hours

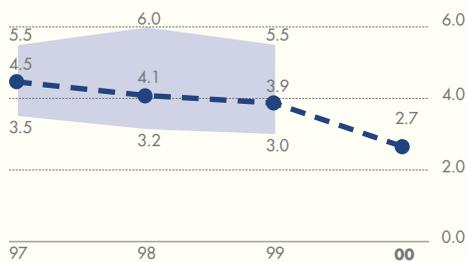


● Total reportable case frequency (TRCF) ● Lost time injury frequency (LTIF)* ● Target TRCF ● Target LTIF

* Data not verified in 1999 and 2000.

27 Total reportable case frequency benchmarking

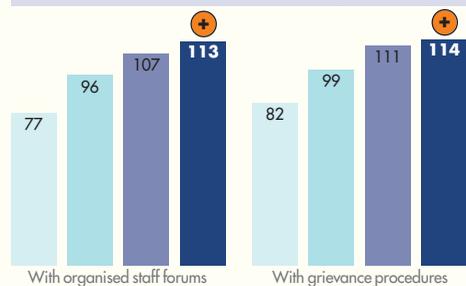
Company employees per million exposure hours



● Shell ● Key competitor range

28 Staff forums and grievance procedures

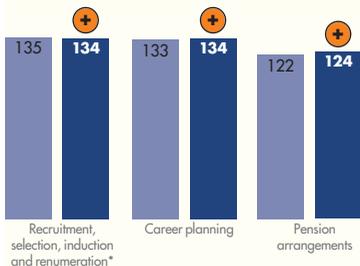
number of countries



● 1997 ● 1998 ● 1999 ● 2000

29 Operating procedures to ensure equal opportunities

number of countries

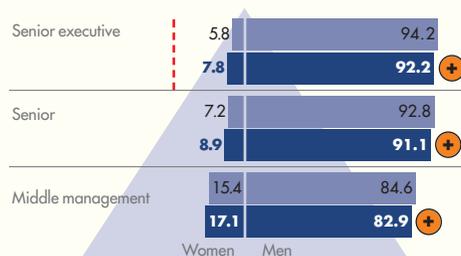


● 1999 ● 2000

*The slight reduction in total from 1999 to 2000 is due to our decreased presence in one country.

30 Gender diversity

%

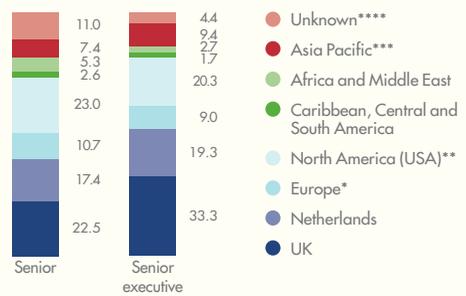


● 1999 ● 2000 --- Target 2008*

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

31 Regional diversity

staff country of origin %



* Includes all European countries except UK and Netherlands. ** Excludes Canada. *** Excludes Australia. **** Includes employees from Australia and Canada, where figures are unavailable due to legal restrictions.



The unacceptable tragedy of another road accident.

You told Shell

Unknown

“Safety seems to be one of your big stumbling blocks. Your managers seem more interested in their personal options in Shell shares than in your goal to prevent the loss of lives. The financial results have been made their number one goal.”

You told Shell

Shell employee

“Shell always put emphasis on HSE but do NOT think about their employee's long working hours. It's a lack of commitment and inhuman.”

Case study **Improving desert living**

Employees of Petroleum Development Oman (PDO) often have to live in remote desert regions in harsh conditions. Providing high standard accommodation is essential. PDO ensures that high quality living quarters are provided for both employees and contractors. This is consistent with PDO's criteria on health, safety and environment and sets the standards for other operators. Four contractor accommodation centres have been completed and a fifth will be ready by March 2002. Over 4,000 people have comfortable rooms, access to cafeterias, recreational and medical facilities.

Professor Lynn Sharp Paine
Harvard Business School

“Today’s leading companies are being held to a higher standard of performance all around the globe. Increasingly, they will need reports like this not only to assure the world they are living up to the new standard, but also to help their own managers do their jobs. Hats off to Shell for tackling this complex area of measurement and reporting.”

Frank J. Navran

Principal Consultant, Ethics Resource Center

“Increasingly, the organizations we work with view The Shell Report as a new standard in organizational accountability.”

Diversity – the Group’s diversity vision is that we will be widely perceived by internal and external stakeholders as an organisation that values diversity. Of 523 senior executives 7.8% are women. Although this is an increase from last year (5.8% in 1999), if we are to achieve our target of 20% by the year 2008 we need to significantly improve recruitment, development and retention of women at all levels **30**. We have a target to achieve capability to provide at least 100% national cover of all Country Chairman* positions by 2003. Out of 129 of these positions 40% are currently filled with people from that country. For regional diversity of senior people see **31**.

Unions, staff forums and the Shell People Survey

Principle 2 Responsibilities to employees

In every country where unions exist Shell companies allow employees to join. In 97 countries (96 in 1999) Shell companies acknowledge unions in discussions on employment conditions. Employee welfare is also protected through staff forums and/or grievance procedures in all but four countries **28**. In two of those informal staff meetings are held regularly and in the other two there are plans to put staff representation in place. On some 640 occasions in 2000 (590 in 1999) staff used formal channels, mostly in the USA.

The second Shell People Survey @, administered in October 2000 to over 90,000 people, in 37 languages, gave staff the chance to express their views and to allow us to monitor progress and track trends. More than 65,500 people responded. People feel that Shell is better led than they did last year (+14%), and 80% are proud to be part of Shell (+5%). It is increasingly the case that people don’t feel rewarded or recognised as they should (+3%) and find personal development an issue (+2%).

We score better than global high performance benchmarks on all questions related to social and environmental responsibility. This is also the case in most aspects of communications and in respect for people, teamworking, involvement and innovation. Our staff feelings about customer focus, individual and career development and on some aspects of appraisal and reward lag behind the benchmarks. We are tackling these through a Shell People strategy.

Security

Principle 2 Responsibilities to employees and to society

In 2000 18 countries experienced severe security incidents. There was war or civil unrest (including 5 bomb attacks) in 10 countries

and we evacuated staff in four. Employees were kidnapped in one country and in at least 11 countries there were murders, shootings and/or armed robberies at or around retail forecourts or sites.

We must, like every organisation, protect our employees and safeguard shareholders’ investment. We expect forces of law and order to give us appropriate protection that is in line with international law enforcement standards. Where countries lack the means to do this managers may seek authority, or be required by law, to employ security personnel. In 2000 the Group laid down expectations for the management of security in all Shell companies. We commit to use armed security only in cases where it is a legal or government requirement, or where there is no alternative to manage the risk. The graph **33** shows the decrease in use of armed security from previous years.

If armed security has to be used it shall comply with the Group’s guidelines on the use of force @, which conform to United Nations standards. These emphasise that in all situations guards must respect human rights and dignity of all people and, that in every case, only the minimum force proportional to the threat should be used. In all cases Shell company armed security staff operate in accordance with the Group security guidelines on the use of force. In one country, despite efforts in monitoring, training and supervision, our armed security contractors do not yet operate fully in line with the guidelines. We will change contractors if concrete improvement is not seen.

In 10 countries armed government forces operate in line with the Group security guidelines on the use of force, in two countries there are action plans to align them with Group guidelines, in the others they are recruited and trained by the government.

We also monitor contractors and joint ventures – including those not under operational control. In 27 countries armed security is used by joint ventures and contractors while doing work in which we have an interest; 17 of them already operate in accordance with the Group security guidelines on the use of force; plans are in place in 3 more to ensure consistency.

ISSUE Combating piracy

Modern day pirates are a safety concern for commercial ships in the South China Sea, Malacca Straits and some South American and African waters. Heavily-armed bands board ships to steal valuables and equipment. Worldwide, there were over 300 attacks on industry

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

- @ Find out about the issue of human rights and more about our approach including the global compact (pictured below right) at www.shell.com/human
- @ Read or download our management primers on human rights, child labour and bribery and corruption at www.shell.com/primer
- @ More about Shell and the Global Sullivan Principles at www.shell.com/sullivan
- @ More about the Shell Foundation and its programmes at www.shellfoundation.org
- @ Visit the Shell Nigeria website at www.shell.com/nigeria

ships in 2000, including an attack on a Shell Bangladesh work-boat in which a person was shot and injured. There were more than 30 attacks in that area in 2000 (23 in 1999). Just days before the attack on the Shell boat, nine people were murdered in a similar raid. The tankers, operated by Shell's trading and shipping company, STASCO, have detailed contingency plans to deal with attacks based on risk assessment, deterrence, vigilance and passive resistance. STASCO encourages national and local authorities to tackle the problem. It supports efforts by the International Maritime Organisation to raise awareness of the risks. The Oil Companies International Marine Forum has accepted STASCO's proposal to develop a code of practice to help authorities combat piracy.

Child labour

Principle 2 Responsibilities to those with whom they do business
Child labour may seem like a strange concern for such a technical industry as ours but it is highly relevant 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 and in 112 countries (112 in 1999), Shell companies have a procedure to prevent the use of child labour in any of their operations. The youngest Shell employee is 16 and works part-time in the USA. The screening of contractors and suppliers has increased slightly **32**. In addition, Shell companies in 20 countries require both contractors and suppliers to screen their contractors and suppliers.

ISSUE Human rights

The protection of human rights is explicit in our Business Principles, see page 33. We work with our businesses around the world to raise awareness of the issue @. We have:

- Prepared primers on human rights and preventing child labour @.
- Developed ways – including investment proposal screening and social performance assessment – to assess our community impact. We incorporated learning from such studies in China, Nigeria, Oman, Peru and the Philippines.
- Continued to talk with church groups, non-governmental organisations (NGOs) and others, about human rights in countries where we do business (such as Angola, China, Nigeria, Turkmenistan and Sudan). We remain committed to open and honest dialogue and also use these opportunities to discuss possible solutions to difficult issues we face.

- Participated in the joint US and UK government initiative with other companies, human rights groups and a trade union to produce voluntary security and human rights principles. We support the Global Sullivan Principles @, the UN Global Compact and the OECD Guidelines for Multinational Enterprises.

Contribution to the community

Principle 7 The community

We contribute to the community both through our operations and voluntary social investments. Over the past five years, we have contributed on average 1.07% of net income after tax in social investment*. In 2000, Shell companies contributed \$139 million in voluntary social investments **34** of which some \$85 million was Shell share* **35, 36** (\$93 million in 1999). An additional one-off endowment of \$250 million was made to the Shell Foundation in December 2000 and some \$6 million of social investment was made as part of contractual requirements.

The establishment of the Shell Foundation in June 2000, and the endowment, fulfils commitments announced in previous Shell Reports to reinforce our contribution to sustainable development through programmes addressing the challenges of Sustainable Energy (page 14), Sustainable Communities and Youth Enterprise. By focusing our social investments more on helping tackle issues in which the energy industry has a clear role and responsibility, the aim is to strengthen our operational social performance and build partnerships with others addressing the same challenges @.

ISSUE China petrochemicals development

Environmental and social impact studies and engagement are key to developing a major petrochemicals complex in China's Guangdong province. The project is a joint venture between Shell, China National Offshore Oil Corporation and Guangdong Development Investment Company. Site preparation will begin in 2002 and construction will begin in 2003 pending a final investment decision. The joint venture will operate in ways consistent with our Business Principles as well as Chinese and Shell environmental standards. The plant will provide 1,000 jobs and help China meet the needs of its fast-growing economy. But 1,300 families living in the area will be re-located by the municipal government. The joint venture will assist the authorities to ensure Chinese and World Bank standards are met in resettlement, including consulting the families and maintaining their livelihood.

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



Modern day piracy – a growing threat to the safety of ships' crews.

You told Shell

India

“How much of your profits have you really spent or invested as I would call it on the society? 1%? I doubt it. Cut down your ad spending and really do something for every part of the world you exist in.”

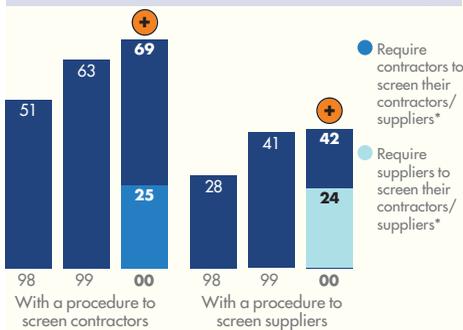
You told Shell

UK

“I am afraid that Shell's commitment to human rights comes too late. Blood will always, always be on your hands and no Business Principles will ever change that.”

32 Screening against the use of child labour

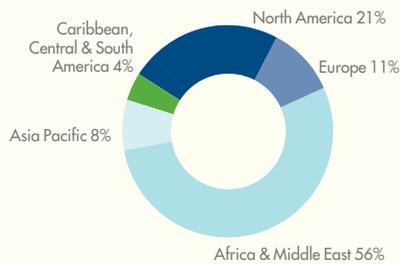
number of countries



Shell companies in 112 countries operate a procedure to prevent the use of child labour in any of their operations. *Data gathered for the first time in 2000.

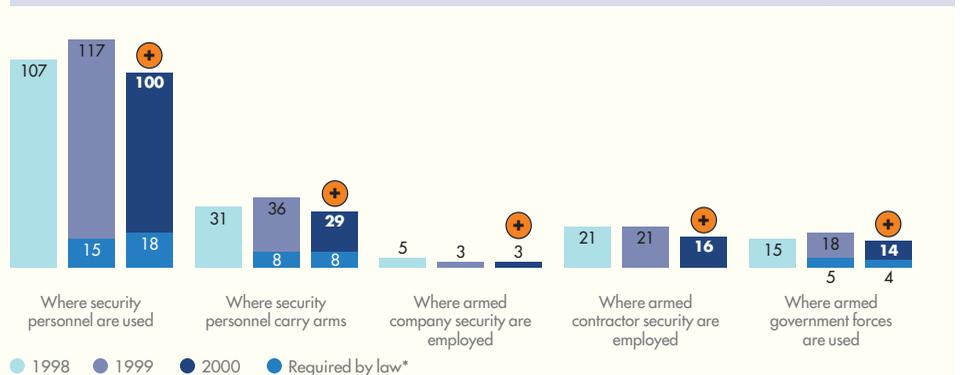
34 Social investment in 2000 by region

total social investment \$139 million



33 Use of security personnel

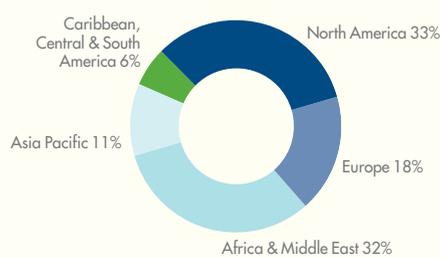
number of countries



*The definition of this parameter has changed in 2000. To allow comparisons, the 1999 figures have been restated accordingly.

35 Social investment (Shell share*) in 2000 by region

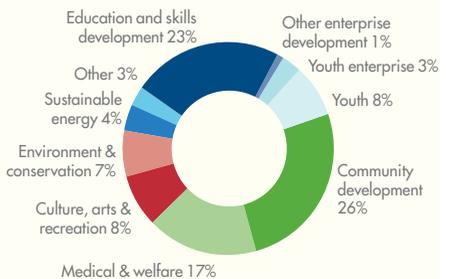
total social investment \$85 million



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

36 Social investment (Shell share*) in 2000 by category

total social investment \$85 million



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



Managing Director Phil Watts with Kofi Annan at the launch of the United Nations Global Compact, July 2000.

Case study Update on Nigeria

The new government continues to work to improve Nigeria's economy and deal with corruption and human rights abuses. But the expectations of the seven million people living in the oil-rich Niger Delta remain high. They understandably feel that they have yet to benefit in a significant way from the oil wealth generated from their land. Community unrest and general crime remains widespread. But in 2000 there was a 40% decrease (compared to 1999) in the volume of oil 'shut-in' due to community disruption/sabotage and also a big decrease in hostage taking incidents. The government has set up the

Niger Delta Development Commission to oversee socio-economic development and government funds from oil income have begun to flow to the oil producing states. The challenge is to use the funds in a transparent and co-ordinated way. As a start, the Shell Petroleum Development Company of Nigeria (SPDC) co-hosted a donors workshop in 2000 with the United Nations Development Programme. Separately SPDC spent \$55 million on its own community development programme. Through local community and NGO engagement, SPDC boosted the number of partnership programmes to 30.

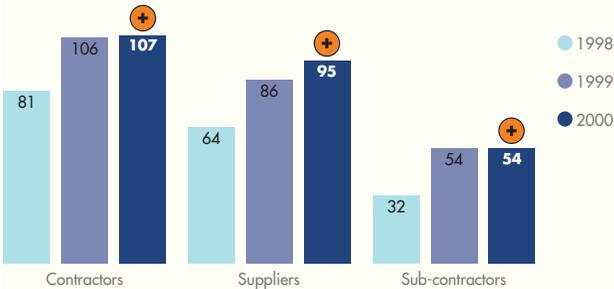
Managing our business – at a glance

- Incompatibility with Shell’s Business Principles – 106 contracts terminated and two joint ventures divested
- Over 90% of major installations certified to ISO14001
- Four incidents of bribery resulting in seven dismissals
- Steady progress in integrating sustainable development thinking

37 Road Map	1999	2000	2001	2002	2003	2004	2004+
Sustainable development	Understanding	Exploring	Piloting and progressive implementation				
Standards	Embedding policies and procedures						
Systems	Integrating sustainable development principles						Unified processes
Targets	Progressive development and implementations of KPIs						
Continuous improvement	Ongoing						
Verification	Focus on data	Focus on controls	Exploring new methods of assurance				
Reporting					Integrated reporting		
					Internet real-time and local reporting		
Internal engagement	Building awareness and commitment		Empowering		Living the values		
External engagement	Dialogue	Cooperating		Alliances	Moving to the 'Involve me world'		

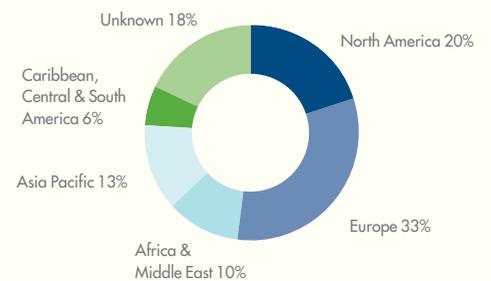
38 Screening an acceptable level of compliance with SGBP

number of countries with a screening procedure in place for:



39 'Tell Shell' response by region

December 1999 – November 2000



You told Shell

Unknown

“How can you tell me that this rhetoric is something I can believe or will you simply delete my inquiry?”

You told Shell

Nigeria

“It has never been possible for any organisation to roundly satisfy all segments of society. This is ever more so for a global outfit such as yours. I still have reasons to hold the view that your Business Principles are second to none in most countries where you operate.”

40 Alignment of business processes with sustainable development principles

	Level 1 Minimal alignment	Level 2	Level 3	Level 4 Full alignment
Degree of integration	Decision-making is based over-ridingly on financial or economical considerations	Decision-making takes account of wider economic and some social and environmental considerations	Decision-making incorporates economic, environmental and social considerations, but each element is managed independently	Decision-making is based on a systematic process that manages the inter-relationships between economic, environmental and social issues
Scope of engagement	Local, internal focus	Some internal engagement and use of special external advisors	Well-developed engagement programme	Advanced engagement activity integrated into cross-functional decision-making processes
Time horizon	Predominantly short-term	Short-term with some recognition of longer-term needs	Short-term priorities managed with context of longer-term needs	Short-term priorities managed as enablers of long-term value growth

You told Shell

USA

“The fact that the principles have been translated into fifty-one languages is very ‘nice’. However, you know and I know that implementation, interpretation and acceptance are anything but certain.”

You told Shell

Germany

“Just count the postings on the forum: there are far more ones critical of Shell and the human rights aspects of their operation than in support of it. That’s not what I would do if I wanted to merely improve my image.”

The way we manage our business is based on our core values of honesty, integrity and respect for people. These are embodied in our nine Shell General Business Principles (SGBP), see page 33, that apply to all our business affairs and describe the behaviour expected of every employee. Our Business Principles set the same global standards for all our operations in every region.

Our mandatory policies in the areas of health, safety and environment, our environmental expectations and our management systems help us embed the Principles @.

Making sure our Principles work

We have processes designed to ensure that our Business Principles are taken seriously by senior managers (the annual letters process). The Ethics Resource Center, a non-profit US-based organisation, was invited to review the process’ effectiveness and concluded:

- The annual letters process @ works well. There is top-level commitment and managers take it seriously.
- Management primers @ are excellent examples of the guidance field managers need to implement global policies in different settings.
- Shell has captured the complexity of ethical issues in business, addresses the entire spectrum of ethical performance and adopts a ‘beyond compliance’ approach.
- Shell is missing opportunities to benefit from data the letters process generates, and related exercises like the Shell People Survey (page 21).
- Training managers on the implementation of the Principles is sporadic and inconsistent. Not enough use is made of informal networks within the organisation that would help different cultures better understand the Principles.
- Shell needs to integrate parts of the process better; set up help-lines; systemise training; make managers accountable for communicating to all staff what it means to operate to the highest ethical standards; establish a formal independent assessment of the process and content.

The findings of the study were discussed with Country Chairmen* and the identified points for improvement are being addressed.

Promoting our Principles

Principle 2 Responsibilities to those with whom they do business
All Shell companies and employees are expected to comply with the Principles as a matter of course. Shell companies in 119 countries have a procedure to ensure that new employees not only receive the SGBP but are also trained in them. The SGBP are available in 51 languages @, covering local languages of 99.9% of Shell employees.

We also expect our contractors and business partners to work in ways compatible with our Principles – if we are unable to convince them of the importance of this, we will terminate contracts and divest from joint ventures. In 2000 more than 106 contracts were cancelled (62 in 1999) and 2 joint ventures with a total value of over \$8 million were divested because of operations incompatible with our Principles, mostly Principle 6 – Health, safety and the environment (HSE) and Principle 4 – Business integrity.

Shell companies in 128 countries (119 in 1999) explicitly discuss the SGBP in contract negotiations with contractors and in 116 countries (107 in 1999) with suppliers. In 112 countries (104 in 1999) expectations with respect to SGBP are written into contracts and in many cases screening for compliance takes place 38.

We are currently helping local suppliers and contractors reach Shell’s required standards in 126 countries – for example through management support, supplying documentation, workshops and training, ISO quality assurance and HSE auditing.

Certification

Principle 6 Health, safety and environment

As part of our minimum environmental expectations we set a target for all major installations to have the environmental elements of their management systems externally certified to international standards by end 2000. This goal is over 90% complete with the remainder to follow in 2001. Our Latin American forestry operations have been awarded Forest Stewardship Council certification. This independent, internationally recognised certification is increasingly required from customers as proof that timber resources are sustainably managed.

Doing business with integrity

Principle 4 Business integrity

We have a Group-wide policy and target of no bribes. Corruption is a global problem that can occur at any level but in some countries the payment of bribes and facilitation payments to low-level government officials is common practice – putting managers under

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

- @ Read the HSE commitment and policy, and Shell's global environmental expectations at www.shell.com/hsepolicy
- @ Greater detail on the annual letters process and the rigour of the procedures at www.shell.com/letters
- @ To read or download the set of management primers go to www.shell.com/primers
- @ Shell's Business Principles are available in 51 languages. Read more about them at www.shell.com/sgbp
- @ More on embedding the principles of sustainable development and details on the SDMF at www.shell.com/sustain and on KPIs at www.shell.com/kpis

continuous pressure. The primer 'Dealing with Bribery and Corruption' @ helps managers maintain the highest standards of integrity.

In 82 countries (80 in 1999) Shell companies also operate a procedure to identify and prevent possible breaches of the Group's policy concerning facilitation payments.

In places it is customary to employ 'intermediaries' or agents to arrange services more easily than would otherwise be possible. To avoid inadvertently becoming involved with corrupt practices Shell companies in 82 countries (71 in 1999) operate a procedure to ensure that the use of intermediaries does not compromise business integrity.

In 2000, Shell companies reported four instances (three in 1999) in which a total of seven employees were detected soliciting/accepting bribes directly or indirectly. The total financial value was estimated to be \$89,000. All seven employees were dismissed.

There was one case in which a bribe was solicited by a third party offering to secure a Shell company a favourable place in the bidding for a licence. The offer was refused.

There was one case of a contractor making facilitation payments of to third parties. The contractor was warned and increased controls were put in place to prevent repetition.

41 Reported cases of bribery

	numbers of bribes and total value \$			
	1997	1998	1999	2000
Bribes offered and/or paid by Shell company employees directly or indirectly to 3rd parties	0	1 (\$300)	1 (\$300)	0
Bribes offered and/or paid by intermediaries, contractor employees directly or indirectly to 3rd parties	*	*	0**	1 (\$4,562)
Bribes solicited and/or accepted by Shell company employees	23 (small)	4 (\$75,000)	3 (\$153,000)	4 (\$89,000)
Bribes solicited and/or accepted by intermediaries, contractor employees or others	*	*	1 (unknown)	1 (zero)***

* Data not available. ** One case in which a Shell employee used an intermediary to make payments of US\$300 has been included in the cases concerning company employees. *** Bribe refused and reported by Shell company employee.

No political payments

Principle 5 Political activities

We have a policy and target of no political payments. Shell companies in 117 countries (113 in 1999) operate a procedure to prevent and identify possible breaches of the policy. In 2000 there was one case where a Shell company detected a political payment made on its behalf through a marketing organisation of which the company is a member. An official public complaint was made.

ISSUE Lobbying

Because of their role in economic development, large multinationals have an influential role in global and local government policy decisions. However, many suspect the multinationals of abusing their influence.

We, like other organisations, lobby governments and inter-governmental bodies, either directly or through trade associations. We do this to promote policies that favour enterprise and free markets and to ensure that legislation is workable.

We believe in the benefits of partnerships with government to create an economic climate that favours beneficial change for all, such as tax incentives for cleaner fuels.

At all times we advocate responsible business practices aligned with our Principles. We believe, for example, globalisation (see page 10) can be shaped to benefit humanity rather than a select few. This is why we support initiatives such as the United Nation's Global Compact, the Global Sullivan Principles and the anti-bribery work of Transparency International.

Our lobbying is in line with our Principles:

- we tell the truth and comply with the law
- we don't make payments to political parties, organisations or their representatives or take any part in party politics
- we are a 'no bribes, fair competition' business
- we are open about our dialogue with government where commercial confidentiality permits
- we are open about the industry organisations we support
- we will provide full relevant information on our activities to legitimately interested parties subject to confidentiality and cost.

Case Study “Tell Shell”

“Tell Shell” is now firmly established as a key feature of our engagement activities. It was created to encourage readers of The Shell Report and our ‘Profits and Principles’ advertising campaign to dialogue with us on issues. It is now a much-used route for a wide range of comment, queries and debate. Major topics of interest continue to be renewables, Nigeria and a range of environmental issues. We receive 90 or so such messages a month and strive to reply personally to all those who indicate they would like a response. Only 7% are anonymous. Messages are received by mail (28%), e-mail (64%) and directly onto our uncensored web forum (8%) from all over the world, see graph 38. Senior executives read and discuss the comments that provide an important indicator of peoples’ feelings – good and bad – on issues of concern to Shell, our industry and society.

Engagement

Principle 9 Communications

We see engagement as both a principle and an enabler of sustainable development 40, 42. We continue to make real progress in engaging more fully with a broad range of stakeholders with benefits being felt at all levels across Shell.

We are reaching out to an ever-wider number of people through our global advertising campaign and Shell website with its “Tell Shell” facility (see case study) while extending our local reporting.

Engagement with staff is promoted through the Shell People Survey (page 21), The Shell Report and Shell Television and growing networks of sustainable development champions.

Embedding sustainable development

We are taking a dual approach to embedding sustainable development principles into the way we do business – aligning our systems and processes 40 and providing staff with practical help and guidance, see Road Map page 24.

We have created a sustainable development management framework (SDMF) 42 for bringing the principles into decision-making @. The principles are now the foundation of Group strategy (page 28). Environmental standards have been set for all Shell companies and major project proposals must include social and environmental factors including the cost of carbon in the economics (page 13). With our stakeholders we are developing a set of key performance indicators (KPIs) to broaden the scope of how we achieve and measure success (below).

Each of our businesses is learning how to use sustainable development principles to create value (pages 30–32) and make them live in the hearts and minds of staff. For example, global networks of champions have been set up in Exploration and Production and Chemicals, structured advice is given to operations on how to minimise impact on the environment and maximise benefits to the community in all major projects. The SDMF is being used increasingly with joint venturers. Sustainable development is being embedded in training programmes and widely communicated through speeches, publications, our internal television network and website.

Key performance indicators @

We are developing a set of key performance indicators (KPIs). We see KPIs as the logical basis for the setting of targets and driving

continuous improvement across our operations and for developing standards of reporting and verification.

We reported last year on how we developed with our stakeholders a KPI framework spanning the economic, environmental and social aspects of performance and the underlying values and governance. We identified an initial list of 16 KPIs, five of which we already report. We are testing the practicalities of the other 11, some of which require longer-term study. We report our progress here.

The magnitude of the task we have set ourselves is very apparent. It will be more difficult in some areas, for example innovation and customer satisfaction, which may take years to fully implement. Before being applied each KPI must be shown to add value to our businesses while addressing the expectations of stakeholders. Good progress has been achieved overall and work has advanced to the pilot stage in the following areas:

‘Alignment of business processes with sustainable development principles’ – A self-assessment tool has been tested in the corporate centre and 23 units in all five main businesses. The tool comprises a series of statements describing the degree of alignment of strategy and planning processes with the three key principles of sustainable development 40. If appropriate, the tool will be extended to cover other processes related to the SDMF @.

The self-appraisal results of the ‘Alignment’ pilot showed a range of levels of awareness and competence; emphasised the need for practical tools and guidance and was seen as helpful in raising awareness and identifying training needs.

‘Stakeholder perception of the quality of engagement’, ‘Socio-economic performance’ and ‘Environmental performance’ – A new approach to assessing performance in the three areas will be piloted in four operating units. External experts will be part of a team making a series of on-site visits to provide independent appraisal of management awareness and competence and to evaluate stakeholder views of performance. The approach represents a new model of assurance to complement and/or substitute classical verification (page 5). The learning from the pilots will be used to identify training needs and further develop the KPIs.

In addition, the use of the Shell People Survey (page 21) for measuring ‘Staff feelings on how their company respects them’ is being tested. We shall continue to report on progress in future Shell Reports and dialogue with our stakeholders on their development @.

Strategy – at a glance

- Meeting society's expectations key to long-term success
- Fossil fuels will be mainstay of energy scene for at least 30 years
- Extensive portfolio of opportunities, strong brand, global reach
- Offering customers new products, services, e-business options
- Highly competitive in hydrocarbons – emphasis on gas
- Reducing carbon content of products, growing in hydrogen and renewables

Shell companies need to deliver – and be seen to deliver – in two ways. We need the profitability that provides competitive returns to shareholders and funds investment. Profits are also a vital part of our ability to contribute to society. We must deliver on the economic, social and environmental requirements of sustainable development. Being trusted to meet societal expectations is key to long-term success.

To continue our history of continuous profitable growth, we must respond to a range of issues that define the context in which we do business. These include globalisation, liberalisation of political systems and markets, and the effects of new technologies such as the internet. The trends toward better education and growing prosperity are leading people to demand higher standards, greater choice and value. Prosperity is not universal and poverty in many parts of the world creates social problems. Factors such as lawlessness, corruption and poor education limit the growth of economies.

These trends have created an increasingly fast-moving and challenging business environment, with volatile markets, fierce competition, increasingly discerning consumers and high stakeholder expectations.

While profitability is essential for commercial success, society is demanding that companies should be accountable for more than just financial performance. They should, for example, be ever

more transparent in the way they do business, respect human rights and meet ever stricter environmental and social standards. We believe that companies that understand and respond to these essentials will be best able to thrive.

“ We believe a major challenge facing society today is posed by three inextricably linked issues:

- the world's increasing demand for energy
- the need for economic and social development of a growing population
- the need to assure a viable world for future generations.

This threefold challenge has serious implications for the energy businesses, and concerns over climate change are at the heart of it. ”

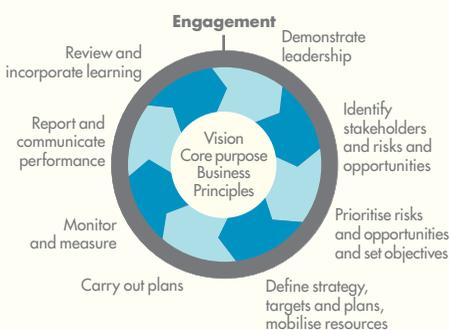
Sir Mark Moody-Stuart
Chairman of the Committee of Managing Directors

Developments in energy

Demand for fossil fuels remains strong and will grow as population and living standards increase. Energy efficiency will help reduce the rise in demand in developed countries, but developing economies will need a lot more energy to grow – there can be no development without energy.

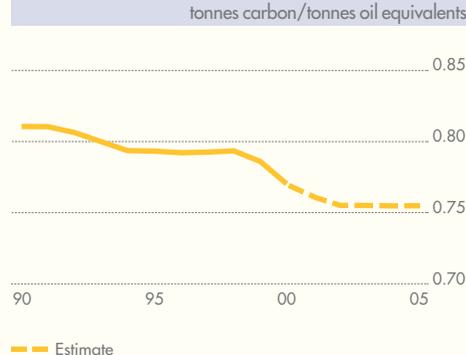
Concerns about the effects of fossil fuels on health and the environment, particularly climate change, are leading to a gradual move to cleaner fuels with lower carbon content. Nevertheless, our

42 Sustainable development management framework



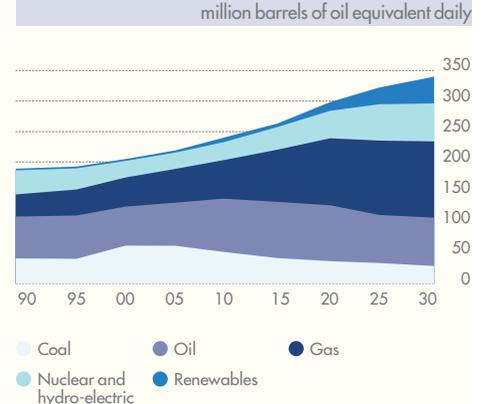
We take economic, environmental and social considerations into account in everything we do.

43 Shell carbon intensity 1990 to 2005 Shell share*



*Shell share of total production of oil, gas, coal and renewables.

44 Total energy demand 1990 to 2030 The New Game scenario*



*Source, Shell Energy Scenarios.

You told Shell

Italy

“I read ‘Our success will depend on selling the sorts of fuels that society demands’. I think your vision should be different. You know what sort of alternative fuels are the viable energy sources of the future, your customers don't. Don't expect your customers will show you the way to the future; drive us towards it and you will be successful!”

You told Shell

USA

“Why would Shell, an oil and gas company, be marketing alternative energy? I am sceptical about your motives.”

view is that hydrocarbons will remain the mainstay of the world energy scene for at least the next 30 years, with gas playing an ever-increasing role and renewables making a growing contribution **44**. Hydrogen as a fuel has great potential longer-term.

Our success as a major energy and petrochemical enterprise depends on us reading these trends correctly and satisfying the demands of our customers and shareholders, while being sensitive to the concerns of the communities we operate in.

The way forward

We will continue to lead in the development of the energy market and set a world-class standard for operating excellence and value growth. We will do this by operating within a clearly defined, transparent financial framework and embedding sustainable development into our strategy and the daily conduct of operations.

This means integrating economic, environmental and social considerations into decision-making and balancing short-term priorities with longer-term needs. It also means engaging widely with those who are affected by our activities at the community and other levels. Our sustainable development management framework is designed to help us achieve the necessary integration **42** and help us manage our business in ways that match society's needs and expectations. Doing so will enable us to maintain our competitive advantage and deliver robust profitability.

Our approach aims to achieve excellent returns on capital employed through:

- active portfolio management – being in the right business(es)
- cost improvements – being the most efficient
- capital discipline – investment proposals must compete internally for funding
- personal accountability – ensuring all individuals are both accountable and empowered to act in ways aligned with the values, commitments and goals of Shell.

Our extensive portfolio of opportunities, together with our competitive technologies, strong brand and global reach, will enable us to deliver strong growth and competitive shareholder returns – even at lower oil prices than those seen recently. Our strategy is structured around three themes:

- making the most of what we have – continuously improving our existing business to provide the foundation for future growth
- gaining new business – expanding current business into new areas
- breaking new ground – creating new types of business.

In pursuing these themes we will:

- use our global spread to be successful in developing economies such as China and India
- deepen relationships with our customers by offering integrated solutions and, where appropriate, selling direct to the consumer
- align our people and resources around major customer groups
- drive innovation in technology, products, services and grasp e-business opportunities.

In the medium-term we will remain highly competitive in the hydrocarbons business with an increasing emphasis on gas. We will use money, materials and energy ever more efficiently to create value and reduce environmental impact by:

- lowering the capital and material intensity of our businesses by adding more services
- decreasing the carbon content of our products **43** and finding new ways to 'fix' or capture carbon to reduce the amount in the atmosphere
- growing our hydrogen and renewables businesses.

The transition to new energy sources will be one with many competing technologies and influences. We will maintain our position as a broad explorer of new energy solutions and, where economic, commit our expertise and financial strength to grow in these exciting areas.

How we succeed is as important as what we achieve. Our commitment to sustainable development encompasses everything Shell companies do, oil and gas as much as renewables. We are committed to a strategy that delivers excellent returns while contributing to the planet and its people. We see no alternative.

Making the most of what we have



More than 98% of the K11 offshore platform was recycled.

30

Strategy in action

We have developed advanced technologies, built up expertise, strong market positions and a powerful brand. We are making the most of what we have – improving financial performance, reducing environmental impact and contributing to the communities we operate in.

Our ‘smart’ wells, for example, are further **improving the way oil fields are managed**. They combine sensors and automated control down the borehole with computer models of what is happening in the reservoir. These wells manage the oil field automatically and re-inject produced water before it is brought to the surface.

Smart wells lower costs and help us reduce our environmental impact, as does **recycling**. For example, more than 98% of an oil platform operated by a Shell-Exxon joint venture, has been recycled or the parts re-used. Only 1.6% of the material was sent to landfill. The platform, which used to stand off the Dutch coast, was transported to the UK for recycling.

Our revolutionary gas processing technology, called Twister, will lead to cheaper, more efficient and **emission-free natural gas processing**. Unwanted water and hydrocarbons have to be removed from natural gas before distribution. Twister is a physical process that has no emissions or moving parts. It needs little maintenance and could reduce conditioning costs by 25%. Licencing it will spread the benefits and generate revenue.

Finding markets for previously unwanted natural gas, currently flared (burnt off), is a constant goal. Flaring is not only

economically wasteful but the resulting carbon dioxide (CO₂) is a greenhouse gas associated with climate change. A third phase of the liquefied natural gas (LNG) plant on Bonny Island, Nigeria scheduled for completion in 2002 will further reduce the amount of gas flared in the region. Shell has a 25.6% interest in the venture, which started production of LNG in 1999. The project provides many jobs during construction – over 6,500 people will work on building the third phase – and has an extensive community programme to improve living conditions and the local environment.

Environmental gains should also flow from **Shell’s ‘Super Site’ strategy** of siting many of our chemical plants along-side refineries. The close proximity of the sites creates greater efficiencies (lower cost, reliable feedstock supply, energy saving and **less waste**) and reduces the environmental and safety risks of transporting hazardous materials long distances by ship, road and pipeline.

Applying the latest e-business techniques such as global e-procurement is important in ensuring our portfolio performs profitably. So is the selling, acquiring and swapping of assets. For example, swapping retail interests in the UK for sites in Greece and buying sites in Africa provide opportunities for **growth**. We have set up a global network to enhance the value of Shell’s trading activities in crude oil, refined products, gas, electrical power and chemicals.

We are offering customers innovative solutions in the form of combinations of products and services often featuring environmental benefits. Komatsu, a leading maker of heavy mining and construction equipment, has chosen Shell for a global lubricants supply agreement, including **biodegradable oils**.



An LNG tanker loading at the new Oman LNG plant.

Gaining new business



Shell Middle Distillate Synthesis plant Bintulu, Malaysia.

As the demand for lower-carbon energy sources and cleaner products grows we see many opportunities to combine our technical and commercial experience with innovative technologies, to satisfy this need and gain new business.

Across the world we are participating in fast-liberalising energy markets and pursuing gas, power and other **trading opportunities**. We are developing new electronic channels to our customers, such as Ocean-connect – an internet-based trading site for the shipping industry. We are looking to begin operations in areas of the world new to us – as we have in China and Iran – and expand in countries such as Saudi Arabia and Brazil.

We are extending the number of countries where we market specially **tailored automotive fuels**, such as Shell Pura and Optimax that offer environmental benefits.

Part of our attraction as a business partner are our advanced technologies that help us provide **energy solutions**, including the production of cleaner fossil fuels. This is especially useful in many regions where coal and gas are in abundant supply and are often the only viable fossil fuels much needed for development.

When hydrocarbons are burnt in conventional ways emissions of carbon dioxide (CO₂) and sulphur dioxide (SO₂) are given off. We have the necessary technology to dramatically reduce these impacts, particularly for coal, centred on gasification. This involves partial combustion and is the key to a range of exciting technologies that make it possible to use gas, coal and other hydrocarbons to produce **ultra-clean fuels and electricity**.

Shell **gasification technology** partially oxidises coal, gas (and even oil and biomass) to make syngas. Syngas is as clean burning as natural gas and when used in combined electricity generation it produces 90% less SO₂ and 15% less CO₂ than conventional coal-fired plants.

Syngas can also be processed to produce chemical feedstock, ultra-clean fuels or electricity using the **Shell Middle Distillate Synthesis (SMDS)** process. SMDS fuels are completely free from aromatic and sulphur components, leading to greatly reduced exhaust emissions. Shell's first SMDS plant has been operating in Bintulu, Malaysia for eight years. Major advances in our catalyst technology have dramatically improved the process

and larger-scale plants are proposed for Egypt, Indonesia, Iran and Trinidad. The potential benefits of the by-product water in desert regions particularly hold great promise.

Alternatively, the carbon monoxide in the syngas can be removed as carbon dioxide on reaction with water and stored underground in depleted oil or gas reservoirs. The resulting **hydrogen** can then be used in fuel cells in vehicles, homes and power stations. Many predict that hydrogen could be the fuel that provides the basis for a future 'hydrogen economy'.

Shell already has a growing renewables business that does not rely on traditional hydrocarbons. We have established a network of **Solar Centres** across Germany to meet the needs of local consumers for solar electricity. Solar Centres are also being opened in Sri Lanka to provide consumers in rural communities with access to electricity for the first time. We have set up a joint venture with a Swedish utility company to operate a combined heat and power plant, using wood-wastes, to supply domestic heat. The use of this renewable **bio-fuel** is carbon-neutral.

- @ Visit Shell Chemicals at www.shell.com/chemicals
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- @ Visit Shell Hydrogen at www.shell.com/hydrogen

Breaking new ground



Shell is a joint-venturer in the North Sea's first offshore wind farm generating electricity off the UK coast.

In response to evolving energy markets and increased demand for quality service from a trustworthy brand we are commercialising technology, developing strategic alliances, getting closer to the consumer and preparing the way for the emerging hydrogen economy.

While new technologies hold much promise, a lot can be done now to create value by **commercialising our non-strategic technologies** and providing **consultancy services to industry**. These include solutions for improving the efficiency, reliability and health, safety and environmental performance of, for example, refineries. This improves our own performance and that of others while generating income.

We are using expertise from across our businesses to provide solutions to governments helping them meet their energy needs and grow their economies. We have signed a **strategic alliance** with Sinopec* in China to develop jointly opportunities in exploration and production, oil products and gas marketing, and coal gasification.

In well-established markets we are **extending the use of our brand** getting closer to the consumer and developing new business opportunities without the need for high capital expenditure. We recognise the vital importance of the internet in growing new e-related businesses. Products and services range from **financial services** (venture capital to car insurance) to providing pick-up points at our service stations for goods ordered on the internet. We are aiming to expand our consumer marketing activity by, for instance supplying gas, electricity and energy advice.

Shell – a major supplier of raw materials for detergents – is an investor in **CleanWave**, an overnight pick-up and delivery laundry service in the USA. Home laundry consumes energy, water and chemicals with limited scope to improve efficiency. This venture gives us the means to evaluate ways to reduce water, energy and detergent use, with benefits to the environment.

We are broadening our investment in alternative energy sources. We are a joint-venturer in the North Sea's first **offshore wind farm** and in Germany we have also installed two wind turbines on our refinery. The electricity generated is sold to domestic consumers.

Geothermal energy can be tapped as a sustainable source of energy. Our new **hot fractured rock technology** involves drilling into rock, pumping water in and extracting steam for heat and power. The condensed water is re-injected.

Hydrogen is expected to be the prime energy carrier of the future with the potential to replace carbon longer-term. The gas can be converted into electricity in fuel cells that emit only water. **Fuel cells** can be used in vehicles to power electric engines and on a larger scale to generate electricity for buildings and the grid.

Hydrogen is currently expensive to make and difficult to store. There are as yet no large-scale distribution systems for it, such as filling stations. We are working with International Fuel Cell, to develop and sell **fuel processors**. These convert fossil fuels to hydrogen emitting CO₂ and water. They provide a bridge to emerging technologies, encouraging new fuel cell applications and paving the way for **future investment in hydrogen** storage and distribution systems.

Fuel cells could also produce **electricity from natural gas without the release of CO₂**. Shell is a partner with Siemens Westinghouse trialing a solid oxide fuel cell power plant in Norway. The plant burns natural gas producing CO₂ and steam. The CO₂ can be stored underground without release to the atmosphere.

You told Shell

Unknown

“The geopolitics of oil and gas is not simple and simplistic, hysterical solutions do not help. We do not live in a post-petroleum world. We have to work with energy companies – and they have to work with us. Congratulations to Shell for trying to sort out their responsibilities in such a complicated world.”

You told Shell

Singapore

“If your research can produce hydrogen cheaper than petrol, ten years down the road you will be distributing hydrogen instead of petrol.”

* China Petroleum and Chemical Corporation (Sinopec Corp.)

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.

You told Shell

Unknown

“I believe that the right to freely communicate one’s views is probably one of the most important rights for society. I think these forums say a lot about the company’s genuine desire to address the concerns of individuals everywhere.”

You told Shell

Unknown

“This is the most obvious Greenwash I have yet to see – well done Shell, you’ve sunk to new levels. It appears your PR agency have successfully managed to convince you that the bulk of the population are morons.”

You told Shell

Zimbabwe

“It is apparent that Shell is persuaded global warming is a fact. Just as well. To have continued the same strategy would have put you into the same bracket as other companies who stubbornly deny that their commercial activities, however well supported in the market place, are not in the public interest.”

You told Shell

USA

“Making energy cheaper, more efficient and more accessible are worthy goals. Making energy earth friendly is even better. We applaud your efforts and will be watching for the results.”

You told Shell

Everett Wesker, employee Shell Global Solutions, Netherlands

“Shell wants to be part of solutions on issues like a possible climate change. Such solutions will require quite a bit of scientific knowledge. It will therefore be necessary to regain the sympathy of scientists disenchanted by the large cuts in its R&D by Shell in the past decade.”

You told Shell

Shell employee, Pernis Refinery, The Netherlands

“Over the last 12 months I feel there has been more attention paid to employees being a prime company asset, and see more opportunities for people to develop their role.”

You told Shell

Shell employee, Oman

“I believe the biggest single integrity/honesty issue for Shell is an internal one, how we treat our own staff. Shell staff are very dissatisfied with the way they are being treated. We are told “people are Shell’s most important asset” but the Group’s actions speak louder than words!”

You told Shell

Honore Dainhi, Shell employee, UK

“I know The Group has decided to make progress with regard to diversity but I think this needs more focus and more clear commitment to achieve real success. As an African and a Black person, I am strongly frustrated that after more than 60 years of presence in the black continent, there is no Black person for instance in the Oil Products African Executive Committee.”

You told Shell

Shell employee

“In terms of the ‘Planet’ I am convinced Shell is the most committed of all the oil companies, however I am less convinced than I was five years ago of the company’s commitment to its own people.”

You told Shell

Shell employee, UK

“I read “We are exploring ways of helping employees achieve the right balance between work and personal life.” Why then am I being forced to change from flexi-time to fixed time when it is well-known that I am a lone parent with two children?”

You told Shell

Colombia

“I am an employee of a former-Shell company in Colombia. I would like to tell you that in the seven years that I worked under the Shell policies, I learned more on HSE and Quality than I did on the rest of my professional life. This knowledge has not only been useful in my work, but also in my home and with my community in general. Please feel proud of having planted in us, the seed of knowledge to contribute to the conservation of our planet.”

You told Shell

Shell employee

“I quote: “We strive to contribute to the welfare of our staff and the communities in which we operate.” All I am able to say is absolute rubbish!! Staff in Shell are mere numbers to management not people for whom Shell has any sense of care or responsibility.”

You told Shell

Shell employee, Offshore Malaysia

“Without values and principles no company can afford such transparency and is able to respond positively to criticism and issues, which can be potentially destructive. Imagine the effort invested for a person like me, a frontline operator working offshore, to have access to information that comes from top. Isn’t this commitment! It made me feel great and important to be able to participate in this worldwide programme.”

You told Shell

Netherlands

“The report states, “in two countries, operation of an equal opportunities policy is prevented by local legislation.” I was wondering why Shell continues to remain in countries where they can not fully practice their Business Principles.”

“Tell Shell”

Please help us learn what we do well and what we can do better. We value your views.

How to use “Tell Shell”

You can use this card to tell us what you think. We really do want to hear your views – about Shell or The Shell Report – about the issues we covered here and anything we didn’t.

1. Enter your comments on the card.
2. Tick the boxes if you would like your views posted on the website or if you want a reply. Tick the box if you are happy for your name to be included with your comment (all addresses will be treated in confidence).
3. Fold along the dotted lines. Seal so the address can be seen on the outside and the comments on the inside.
4. Post. No stamp is required except if posting from Canada or Laos who unfortunately do not subscribe to the international reply-paid postal service. If posting from a country at civil war or under UN sanctions a stamp should also be used.

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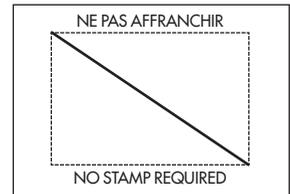
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Basis of reporting

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 the website www.shell.com/annualreport
- 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 Companies can be found on www.shell.com/planet. 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/planet
- 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 the comparability of 1997, 1998 and 1999 data can be found at www.shell.com/planet.

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 revisited 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 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.
- Definitions for less developed indicators continue to evolve as best practice emerges.
- 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.

- Weaknesses in the control environment in Nigeria give rise to some difficulty in confirming the degree of accuracy of the flaring data (this also materially affects the CO₂, NO_x, CH₄ and GWP data), spills volume and oil in effluents to surface environment.
- In some cases data not captured by an Operating Unit were estimated, particularly regarding occupational illness and fugitive emissions sources (CH₄ and VOCs).

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, total reportable case frequency (TRCF), total reportable occupational illness frequency (TROIF), emissions of CO₂, CH₄, SO₂ and NO_x, gas flaring, global warming potential (GWP), energy consumption, volume of spills and amount of fines.

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.



For more on Shell
www.shell.com



Annual Report and Accounts 2000
 The Annual Reports of Royal Dutch Petroleum Company and The "Shell" Transport and Trading Company, p.l.c.
 Also available at www.shell.com/annualreport



Summary Annual Report and Accounts 2000
 Abridged versions of the Annual Reports of Royal Dutch Petroleum Company and The "Shell" Transport and Trading Company, p.l.c.



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



The Shell Report Summary
 Abridged version of The Shell Report.



Financial and Operational Information 1996-2000
 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

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