

People, planet & profits
an act of commitment



The global debate continues



Sustainable development

Sustainable development is about balance and integration. Integrating the economic, social and environmental aspects of everything we do and balancing short-term wants with long-term needs. Sustainable development applies to everyday choices we make like how we dispose of our waste as well as to large regional projects.

To contribute to sustainable development we must approach our business in a different way. A way that meets the needs of the present without compromising the ability of future generations to meet their own needs*. Finding this balance between the long-term and the short-term requires us to think about more than just how much money we will make today. We must take economic, environmental and social considerations into account in everything we do.

Because sustainable development means taking a broader, more integrated approach to our business it opens up exciting business opportunities in emerging markets and new customer groups. Sustainable development is a way of developing and safeguarding our reputation and it will help us develop our businesses in line with society's needs and expectations.

Society is still exploring exactly how to put sustainable development into practice but it is clear that we are on a journey and not aiming at a known end point. For Shell this journey is part of our transformation to become 'top performer of first choice'.

Our aspirations, our commitments

We aspire to be a leader in the economic, environmental and social aspects of everything we do; first choice for our shareholders, our customers, our employees, those with whom we do business, society and future generations.

We believe that our commitment to contribute to sustainable development holds the key to our long-term business success. The values that underpin sustainable development are embodied in our Business Principles that provide the foundation for everything we are and everything we do.

We will strive to help to build a better world in which current and future generations enjoy greater economic, social and environmental security.

We will embrace the concept of sustainable development in our business decisions, large and small. In this way we will continue to create value for our shareholders and society, while being responsive to society's changing expectations.

We will participate fully in the development of sustainable, commercially viable alternatives to fossil fuels.

We will evaluate the economic, environmental and social impact of our options and strive to get the balance right in our decisions. This will mean that some business decisions will be made differently and some may have different outcomes from the past.

We will seek out and value the views of others. We may not always agree about everything with every stakeholder but we will participate in an open and honest process of engagement to develop a shared understanding.

We will be open about our progress; wherever needed, we will provide external verification.

We believe too, that sustainable development is everybody's responsibility. We will therefore actively encourage our service providers, partners and contractors to support us in our commitment.

*This is the Brundtland Commission definition of sustainable development which is commonly used in Shell



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Inside cover

Sustainable Development – our aspirations, our commitments

Introduction

Mark Moody-Stuart, Chairman of the Committee of Managing Directors, explains why we publish this sustainable development report at a time of harsh financial pressure on the Group.

Sustainable Development Performance

Look here for evidence on how well – or not – we live up to our Business Principles. The information is organised to reflect the three components of sustainable development:

Our Principles

Economic

Environmental

Social

Verification Statement

Business Focus

Our five core businesses are working to ensure that they balance economic, environmental and social issues when making decisions. We report on progress in two businesses: Exploration and Production, and Chemicals.

Social Investment

We explain our new social investment programme and its emphasis on sustainable energy, youth development and enterprise.

Issues

Find here our view on three critical issues facing our business. Shell's approach and actions follow a short introduction to each.

Human rights

Climate change

Renewable energy

Sustainable Development Road Map – our progress

Judge for yourself our progress along the Road Map we set out in the first Shell Report.

Annex

'Tell Shell' Reply Card

Statement of General Business Principles

Why bother?

Why bother producing a report on our contribution to sustainable development when the Group is under such harsh financial pressure? Should we not put all our efforts and resources into ensuring a profitable future?

This, we believe, is exactly what we are doing. Our values, Business Principles, commitment to contribute to a sustainable form of development – and the candid reporting of our performance in those areas – are inextricably linked to our long-term commercial success. Sustainable development builds the platform on which business thrives and society prospers.

My job takes me to many different parts of the world. People in regions as diverse as Asia and North America ask the same questions about the same issues. Most want economic development and the personal freedom that comes with it, including personal transportation. But they also worry about the resulting gridlock, the fumes and the impact on the global climate.

People feel uncomfortable about the great disparities in wealth and living standards in different parts of the world and often within their own countries. They worry about how the mass of the world's population could be elevated to even moderate levels of development without the world's resources buckling under unsustainable demands.

These people are, or could be, our customers. We need to provide them with solutions and products that address some of these dilemmas. We have to show them that our activities, and their support for us, do not lead to unsustainable social differences but create wealth that can benefit society as a whole. And we need to show, through action, that there is a clear path for the future development of our industry that will benefit future generations.

This is why we wholeheartedly embrace sustainable development, and work to ensure our actions meet the needs of the present without compromising the ability of future generations to meet their own needs.

Far from being a drag on our performance, such a commitment helps us understand the world better and improves our chances of success. Sustainable development is forward-looking, embodies the notion of progress, and encourages new liberating ways of interpreting the world. Our businesses can best thrive by enthusiastically embracing this agenda and providing energy and other products in line with society's expectations for a sustainable future.

In the first Shell Report we showed how our Business Principles are central to the way we do business. We presented evidence of how well – or not – we were living up to them. We also outlined our plans to manage and measure our contribution to the three spheres of sustainable development: economic, environmental and social.

This second report reflects our progress along the Road Map we published last year (an updated version is on pages 36 to 39). Most significantly we have:

- Designed a management framework that will help us make sustainable development an integral part of the way Shell companies manage their daily business. The framework will be implemented at the Group level and in key areas of the businesses in 1999 (see page 37). A Sustainable Development Council exists to encourage and monitor progress across the Group. The council comprises senior chief executives from each of our five core businesses and the heads of the corporate centre directorates. I chair this council and together with my fellow managing directors I'm responsible for ensuring the framework is implemented effectively.

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my colleagues and I are totally committed to a business strategy that generates profits while contributing to the well-being of the planet and its people. We see no alternative.

- Made the transition from reporting on our performance under each of our Business Principles to presenting the information according to the three components of sustainable development. This is essentially a re-organisation of data rather than a fundamental change because our commitment to performing well in all spheres is embodied in our Business Principles.

- Begun the process of getting independent verification of the social information we publish, as we do already with our financial and Health, Safety & Environmental (HSE) data. Verifying social information is a new and complex task. We are working with our verifiers to ensure steady progress (see their statement on page 20) because we need it and know that the public demands open, candid and honest reporting.

Last year we asked readers to tell us what they thought about the Report and its coverage. The overall reaction was favourable but you wanted improvements. In response, this report is shorter, features the views of Shell people as well as external organisations, and contains more data. We've kept the things you most valued, like the issues section and improved the website and its interactive 'Tell Shell' feature.

Over the past year, we have made much progress in meeting our objectives but we are conscious that the pace has been slower than we intended in some areas. We need to be more systematic in the way we engage with our employees. We intend to improve and have launched the first of what will be regular surveys to seek the opinions of those who work for Shell companies around the world (see page 15). It is essential that the views of Shell people are used in helping to define the future direction of the Group. Listening and learning is critical if we are to offer our customers the quality of products and services they demand.

I am pleased with our progress in understanding human rights issues and their relevance to our business. We have received considerable help and support from respected experts and human rights organisations. This has led to the production of a practical guide to human rights that is being distributed to Shell companies world-wide. You can get the guide directly from our website (www.shell.com), together with supporting material. A guide on combating bribery and corruption is being prepared.

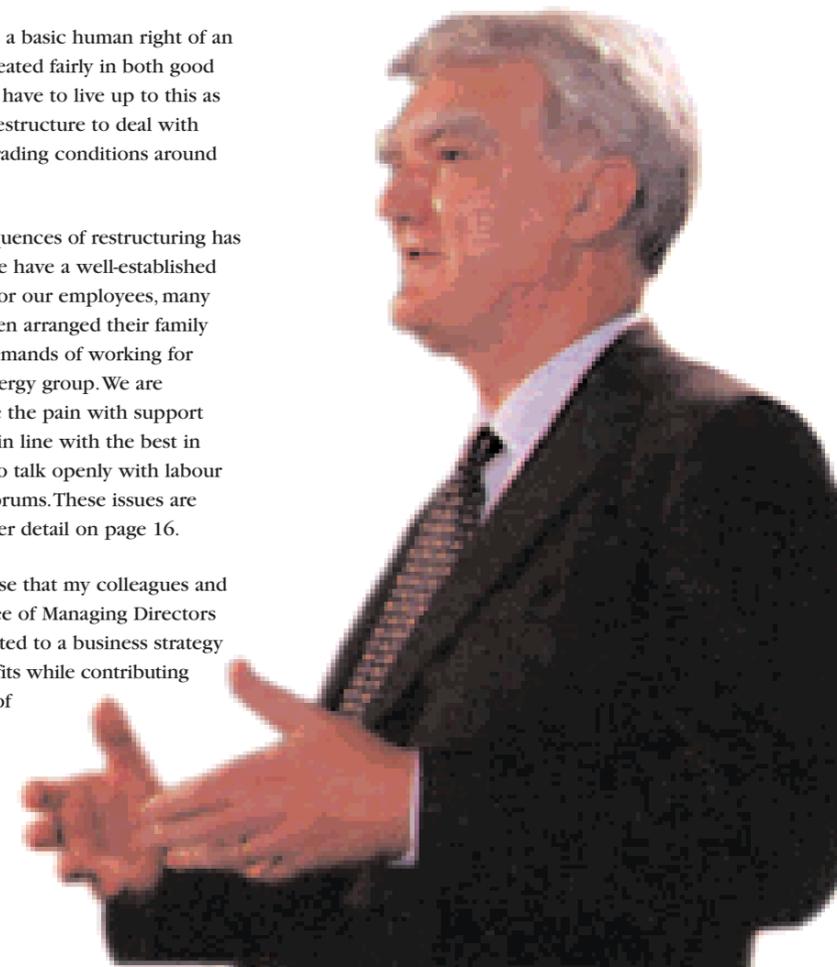
We know that it is a basic human right of an employee to be treated fairly in both good and bad times. We have to live up to this as Shell companies restructure to deal with extremely harsh trading conditions around the world.

One of the consequences of restructuring has been job losses. We have a well-established culture of caring for our employees, many of whom have often arranged their family lives to suit the demands of working for a multinational energy group. We are committed to ease the pain with support packages that are in line with the best in the industry and to talk openly with labour unions and staff forums. These issues are described in greater detail on page 16.

I want to emphasise that my colleagues and I on the Committee of Managing Directors are totally committed to a business strategy that generates profits while contributing to the well-being of the planet and its people. We see no alternative.

Mark Moody-Stuart

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



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Our Principles

We have nine Principles, which apply to all our business affairs and describe the behaviour expected of every employee. The Principles are based on honesty, integrity and respect for people – our core values. We believe in the promotion of trust, openness, teamwork and professionalism, and in pride in what we do.

All Group companies are expected to comply with the Principles as a matter of course. In joint ventures we use our influence to persuade our partners to operate the joint venture in a manner compatible with our Principles. We also expect contractors in their work with Shell companies to conform to the Principles in so far as they relate to the conduct of that work. If this causes difficulties we will work with contractors to resolve problems. If this fails, we will find other parties who can meet our standards.

More information: inside back cover and www.shell.com

Making company guidelines work

Company guidelines are of little value unless there are rigorous procedures to make them work.

Every year managers of Shell companies world-wide are required to write and sign three different letters covering performance in the areas of: Business Integrity; Health, Safety and Environment (HSE); and the Statement of General Business Principles. These provide confirmation to the Directors of the Group Holding Companies that the policies have been adopted and procedures are being – or have been – implemented to ensure compliance.

Taken seriously

Writing the letters is a mandatory part of a senior manager's duties and the task is taken very seriously. Failure to do this part of their job properly has grave consequences.

Furthermore, the managers who sign the letters are held personally responsible for the accuracy of the contents. Those who give false information, or fail to reveal the truth, can be dismissed.

There are three letters:

1. Letter of Representation (Business Integrity)

The overall objective of this letter, signed by the Chief Executive and Chief Financial Officer of each Shell company (see page 41 for a description of the Group), is to demonstrate that the company is complying with applicable laws and operating with integrity. This includes confirmation that sound internal financial controls exist, transactions are properly recorded and any detected instances of bribes or illegal payments are recorded and dealt with (see page 17). The process, which has been in place since 1978, is reviewed by the External Auditors who report the results of their review to the Group Audit Committee.

2. Health, Safety and Environment Letter

A common HSE policy has been adopted by Shell companies, and all are committed to set up a certifiable HSE management system by the end of 1999. The HSE letter – submitted by the senior manager of each Shell company – is designed to give assurances that the Group HSE Policy is being adhered to and that the necessary management procedures – including systems and audits – are being implemented. The process has been in place since 1997.

3. Assuring conformance with Shell's Business Principles

A system was introduced in 1997 that makes it mandatory for Country Chairmen* world-wide to write an annual letter to the Group Managing Director responsible for their region on issues relating to the Statement of General Business Principles.

Country Chairmen* are encouraged to share fully how the Principles are being applied, and the nature and extent of any difficulties that are encountered. A summary of the contents of the letters is sent to the Committee of Managing Directors (CMD).

As part of the assurance process, each signatory of a letter receives a confirmation noting any concerns and confirming issues for action in the coming year. During the year the Group Managing Director has a formal meeting with the Country Chairman* or their Cluster Manager** to discuss in person the issues noted and plans for applying the Principles in the coming year. This assurance exercise is completed every year.

Each Country Chairman* or their Cluster Manager** had a formal meeting during 1998, with the Group Managing Director responsible for their region. This enabled local issues to be discussed face-to-face and, if necessary, action plans agreed. A similar round of meetings is planned in 1999 to follow up on the points raised in the latest annual letters.

This year, a total of 139 annual letters have been received, from 131 Country Chairmen* representing countries or groupings of countries and eight business organisations. This is a 100% response rate.

Letters from the Country Chairmen reveal that:

- Companies in four countries are awaiting the next formal meeting of their board to ratify formal adoption of the Business Principles.
- In one joint venture the local Shell management divested because they were not convinced that their partners would operate in accordance with Business Principles compatible with Shell's.
- Shell's Business Principles are available in 51 languages, covering the local languages of 99.9%*** of Shell employees. This will be extended when businesses are established in new countries.
- Approximately 20% of Country Chairmen mentioned bribery and corruption in their external business environment as being of concern to them. Care is taken to make sure that employees, contractors, suppliers and customers fully understand the standards by which Shell conducts its affairs.
- 39 Country Chairmen* mentioned examples of good practice in implementing the Business Principles in their countries, which will be posted on Shell's internal website. Examples offered included Shell companies working with employees, their representatives, industry bodies, governments and other interested parties to promote the Principles' acceptance in the wider business community.
- Implementation of the Principles is monitored in a variety of ways, such as through audits, surveys, workshops and telephone hotlines.



"Will Shell abandon her principles when it fails to make a profit? If so the Shell Principles are fair-weather principles and everybody knows how bad weather can get."
The Netherlands

Key:

- Target
- Performance
- You told Shell
- Tell Shell at www.shell.com
- To find out more visit our website at: www.shellreport.com

The Principles are based on honesty, integrity and respect for people – our core values

* One manager acts as the senior representative of the Group and is called the 'Country Chairman' in a country or grouping of countries, whether or not he or she is actually chairman of the local companies.
** In some parts of the world, for some activities, countries or groupings of countries are drawn together in so called 'clusters'. A senior manager who is called a 'Cluster Manager' represents the cluster.
*** Based on a data source which is not part of the Business Principles assurance process (therefore not verified).



Judge us on our performance

On the following 13 pages you will find data on how we are striving to live up to our Business Principles (shown in full on the inside back cover). The performance information is organised to reflect the three components of sustainable development: economic, environmental and social (see table). Within these categories, each Principle is listed by number, followed by evidence.

KPMG and PricewaterhouseCoopers have verified certain financial data; certain graphically represented Health, Safety and Environmental (HSE) data; the Business Principles assurance process; and distribution of a practical guide to human rights (for details of verification see page 20). All other information is unverified.

Tell us what you think

Last year's report included nine 'Tell Shell' reply cards that invited readers' opinions on a number of key issues covered in the report. We received 288 paper reply cards from more than 20 countries evenly covering all nine topics. All responses, where permission was given, have been included on the website. We have also included a range of the responses received in the report, denoted as shown in the example below:



'If Shell is going to be performing worse than its competitors even if its media image is much more ethical, environmental etc., then the principles should be questioned.'

Anonymous

This year you can find a 'Tell Shell' card on page 43, to respond on topics of your choice. There is also an interactive 'Tell Shell' facility on the website or you can contact us at the address on page 42. Tell us what you think. We value your views.

Business Principles and Sustainable Development			
	Economic	Environmental	Social
Principle 1 Objectives	●		
Principle 2 Responsibilities	●	●	
– shareholders	●		
– customers	●		
– employees	●	●	●
– those with whom we do business	●	●	●
– society	●		●
Principle 3 Economic Principles	●		
Principle 4 Business Integrity			●
Principle 5 Political Activities			●
Principle 6 Health, Safety and Environment		●	●
Principle 7 The Community			●
Principle 8 Competition	●		
Principle 9 Communications			●



Economic

Profit and growth

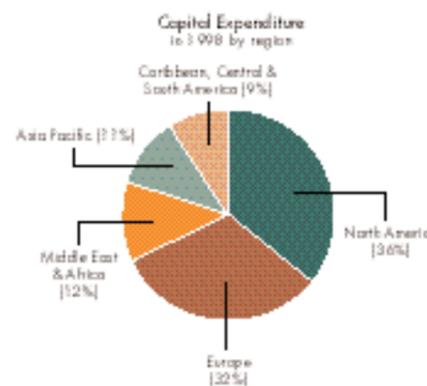
(Principle 1 Objectives)

• Our target is to deliver returns on average capital employed (ROACE) of 14% in 2001* based on certain assumptions, amongst them, US\$ 14/barrel Brent oil price.

• In 1998, mainly due to reserves revisions, we added (net) proved reserves** equivalent to some 140% of the year's production of crude oil and natural gas liquids and some 250% of the year's natural gas production.

• The total debt ratio at the end of 1998 was 19.3%.

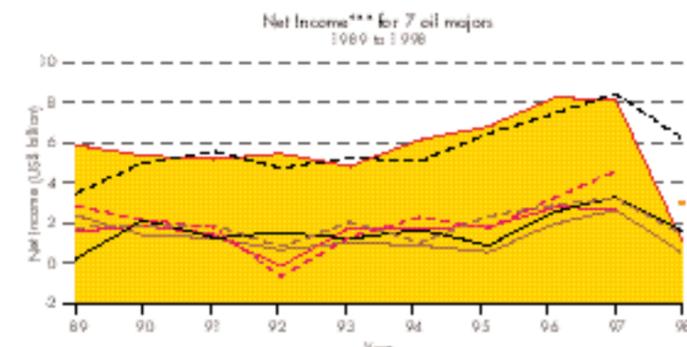
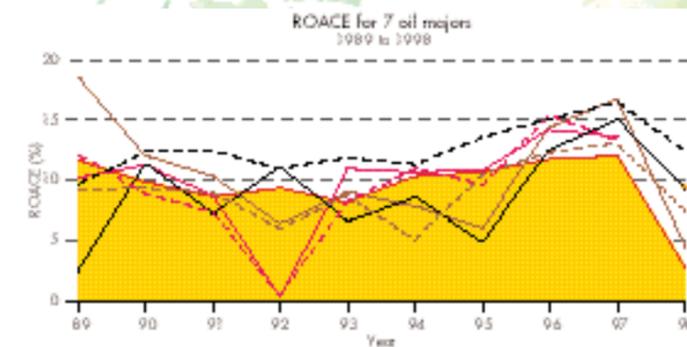
• In 1998 the total capital expenditure was US\$ 12.86 billion.



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To find out more visit our website at: www.shellreport.com

the overall financial performance for 1998 was extremely poor.



'All very good, but how did you manage to lose 25% of the stock value in 2 months? By social activity? Get real!'

USA



'For me, a good investment is a good ethical company, reliably paying reasonable dividends but not at the expense of the third world'

UK

*Our goal reflects the changed business outlook. Planning for an oil price of US\$ 18 a barrel, we looked to achieve a 15% return on capital employed early next century. At our new economic assumptions, including a US\$ 14 oil price, the target is a 14% return, which is much tougher.

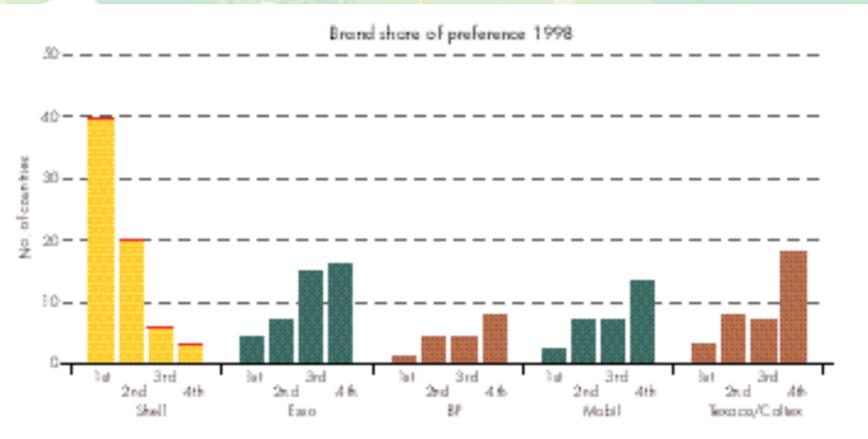
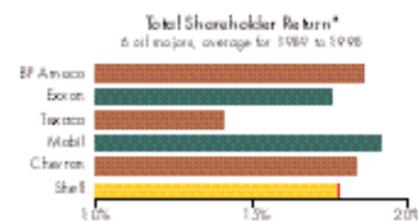
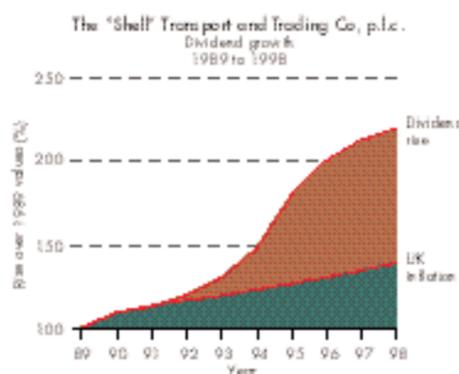
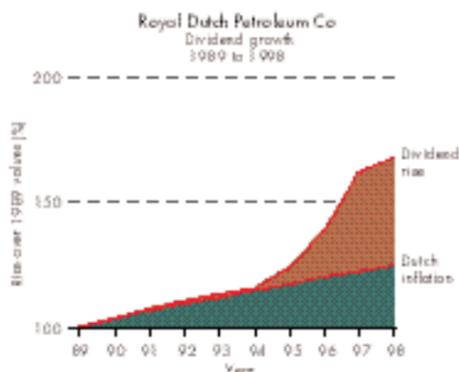
**Proved reserves are the estimated quantities of oil and gas which geological and engineering data demonstrate, with reasonable certainty, to be recoverable in future years from known reservoirs under existing economic and operating conditions.

***For the purposes of a more representative competitive comparison, the net income for Shell is on an estimated Current Cost of Supplies basis.

Dividends and shareholder return

(Principle 2 Responsibilities to shareholders)

- The Parent companies' aim is to deliver dividends that increase at least in line with inflation averaged over a period of years.



Our customers' choice

(Principle 2 Responsibilities to customers)

- There are over 47,000 Shell retail stations serving more than 20 million customers a day world-wide
- In 1998, 26,826 private motorists in 69 countries were asked in our global Brand Tracker survey which brand they would prefer, all else being the same. Shell was most preferred brand in 40 countries and placed second in a further 20 countries.



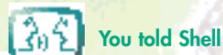
"'Islands of wealth' is preferable to 'Continents of underdevelopment'. What is wrong in paying locals higher wages than the norm? That's ethical."

USA

Employment

(Principle 2 Responsibilities to society)

- Shell companies employ just over 100,000 people, engage some 240,000 contractors and have an interest in operations in over 135 countries (1998 status).
- Shell companies employ anywhere between two and 11,000 staff in any one country. Some 98% of staff are employed in 80 countries. Shell companies employ less than 200 staff in nearly half of the countries in which they operate.



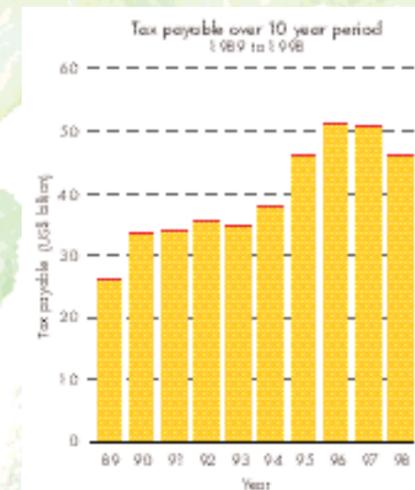
"In many countries Shell has ready access to public opinion through its service stations. Information leaflets should be available there."

France

Tax

(Principle 2 Responsibilities to society)

- In 1998, the tax revenue generated by Shell companies was more than US\$ 46 billion (more than US\$ 50 billion in 1997). Over US\$ 44 billion was sales taxes, excise duties and similar levies, the remainder was corporation tax.
- Context: The United Nations Development Programme (UNDP) Report on Human Development 1997 estimates that the annual universal costs of basic social services to all people in the world are: US\$ 40 billion (US\$ 6 billion for education for all, US\$ 13 billion for basic health and nutrition, US\$ 12 billion on reproductive health and family planning, US\$ 9 billion on low-cost water supplies and sanitation).
- Context: The UNDP Report on Human Development 1998 estimates that the 225 richest people in the world have a combined wealth of US\$ 1,015 billion.
- Context: The National Air and Space Administration (NASA) 1999 budget is US\$ 13 billion.
- Context: The European Union Common Agricultural Policy annual expenditure is some US\$ 45 billion.



Competition

(Principle 8 Competition)

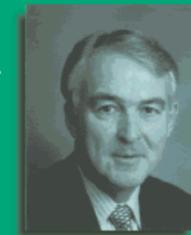
- In 1998, nine competition cases were completed against Shell companies. All of the cases were ruled in favour of the Shell company.

Investment

(Principle 3 Economic Principles)

- In 117 countries Shell companies operate a procedure to incorporate social and environmental considerations into project investment.
- Shell companies expended US\$ 713 million in research and development excluding depreciation in 1998. The underlying expenditure was US\$ 601 million (US\$ 566 million in 1997) with US\$ 112 million of special costs incurred as part of restructuring.
- Capital investment in the year for Renewables amounted to US\$ 67 million which included solar investments and forestry investments in South America.
- Capital employed at the end of 1998 in Renewables was US\$ 306 million.

"Whichever way you cut it - and whatever the excuses - the overall financial performance for 1998 was extremely poor. Shareholders - and I speak as a small one myself - were disappointed with their total return over the last 12 months. This must improve. In the wider economic context however, the Group continues to be a major global contributor to society. In 1998, total capital spend was nearly US\$ 16 billion, sales taxes and income taxes generated US\$ 46 billion, and remuneration paid to staff totalled US\$ 6 billion. When you also take into account the normal 'multiplier' related to the economic impact generated by every dollar of direct expenditure, Shell, I believe, is making an impressive contribution towards a better future."



Rupert Cox

Rupert Cox, Group Controller, Shell International.

"During 1998, the market value of shares in the Royal Dutch/Shell Group fell by US\$ 24 billion. Part of this decline reflects the weakness in oil prices last year, but the decline in market value of 13% for Shell contrasts sharply with a rise of 24% in the market value of BP Amoco and a 19% increase for Exxon. This shows that investors believe that Shell's financial performance in 1998 was disappointing relative to key competitors. If Shell is to avoid relegation to third place in the oil industry, behind new combinations such as BP Amoco and Exxon Mobil, it needs urgently to demonstrate real progress in narrowing the performance gap against the best of its competitors."



Fergus Macleod

Fergus Macleod, Oil Analyst, BT Alex.Brown International.

*Total Shareholder Return is a recognised measure of long-term financial performance. It combines changes in share price growth with dividends. An investment in shares in the Parent Companies in 1989, with all dividends reinvested would now give the returns above.

Environmental

Environmental processes and standards

(Principle 6 Health, Safety and Environment)

There are two mandatory elements concerning HSE, which apply to Shell operated companies world-wide: the Group HSE Policy, and its associated procedure. In addition, the Group Holding companies in their shareholding role (see page 41) have set a number of minimum expectations, some of which are targets, and will take time to achieve, and others are already current practice:

- All Shell companies must have a certifiable HSE management system in place by the end of 1999.
- External certification of environmental management systems, against a recognised independent standard by the end of year 2000, for all major installations operated by Shell companies.
- External verification of all performance data material to the Group's HSE report, by a competent independent body.
- Eliminate CFC/halons from all Shell operations as soon as practicable.
- Gas disposal by continuous venting and flaring from Shell operations eliminated by 2003 and 2008, respectively.
- By the end of 2000 average annual SO_x, NO_x and oil effluent water from all Shell operated refineries/chemical plants to be within ranges permitted within the OECD.
- All Chemicals process water must be treated before discharge.
- Exploration and Production produced water only to be discharged to a compatible receiving environment. In open sea, oil in water discharges to be less than 40mg/l, which is the current North Sea standard.
- No discharge of oil-based muds to sea. All such wastes to shore for recycling or disposal.
- All major Shell operated installations assessed for soil and groundwater contamination and migration detection control mechanisms in place by the end of 1999.
- Full Material Safety Data Sheets available for all marketed oil and chemical products by the end of 1999, in appropriate languages.
- All serious environmental incidents are analysed and reported to a member of the CMD.

- The Group will cut the emissions of greenhouse gases from its global operations by 10% by 2002 compared with 1990 levels. In the longer term, the Group aims to exceed the Kyoto reduction emissions target through the decade to 2010.

- In Forestry the planted area increased by 11,000 ha to 136,000 ha.
- Last year Shell forests absorbed some 1.1 million tonnes of carbon (4.1 million tonnes of carbon dioxide).

 Tell Shell at www.shell.com

Double standards or world-wide standards?

Multi-national enterprises are often accused of lowering their standards - operating double standards - when working in developing countries. They are believed to exploit weaker laws and regulations in some parts of the world to boost profits. Areas of concern range from product specifications and industrial processes, through to conditions of employment and ethical behaviour.

Please see pages (14 to 16) for our position on the broader social and employment issues. We concentrate here on standards for Health, Safety and Environment.

We want to be proud of what we do and to always take a responsible approach to all our activities. Our environmental management policy applies globally. We have minimum standards on which all Shell companies world-wide are expected to improve. These standards are high and conform to what is considered best practice in countries belonging to the Organisation of Economic Co-operation and Development (OECD). You can find a short version of these standards in the adjacent box. A comprehensive list of our minimum standards is available on our website (www.shell.com) or by writing to the address on page 42.

Shell companies co-operate with local governments and regulatory bodies in all countries where they operate and contribute, wherever possible, to the development of appropriate regulatory frameworks for emissions from refinery and chemicals manufacturing facilities. These are designed to take account of local circumstances including potential impact on the surrounding environment.

 You told Shell

"Any multinational that assumes it can have different standards in different parts of the world and still benefit, is sadly mistaken."

South Africa

 You told Shell

"I demand that Shell clean up its mess in Nigeria. I will boycott Shell products until their actions match their rhetoric!"

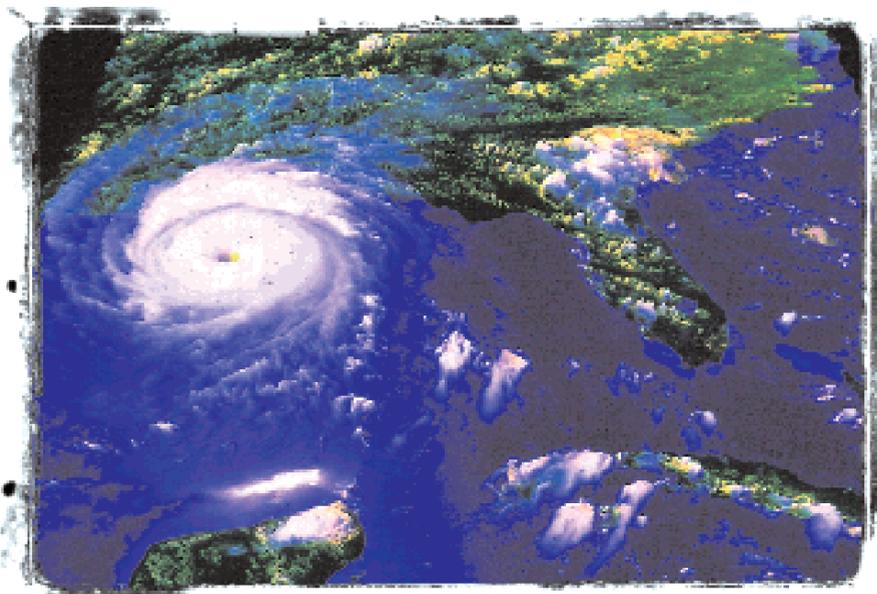
USA

We also have assurance processes in place (see page 4) to confirm that the policy is being followed and that minimum standards are being met. This includes the use of independent experts to verify our HSE performance. Our environmental management systems for our major installations are to be certified to a recognised standard, such as ISO 14001 or EMAS, by the end of 2000.

Nigerian investment

Gas is produced as a by-product of oil production in Nigeria. Until now it has mainly been disposed of by flaring. The US\$ 3.8 billion liquefied natural gas plant, which is due to come on stream at the end of 1999, will change this by enabling us to sell gas that was previously flared. In addition, a further 12 inter-related project investments of some US\$ 8.5 billion are proposed. These include an expansion of the liquefied natural gas plant, and are designed to increase Nigeria's oil production whilst meeting the commitment to end gas disposal by continuous gas flaring by 2008.

 To find out more visit our website at: www.shellreport.com



Legacies of the past

One area of concern is how we and other companies, deal with contamination and other legacies of past industrial activity when standards and social expectations were lower than they are today.

For example, if oil products, such as gasoline, leak from storage tanks or are spilled accidentally, they contaminate soil and could pollute groundwater. Such pollution can be harmful to health. Most countries have strict laws governing such incidents, making companies responsible for prevention and the cost of any clean-up.

Contaminated soil can also be harmful but it is often harmless unless the contaminant is seeping into surrounding areas, or if the property is to be used for another purpose, such as housing. National laws on clean-up differ but in most cases it is up to the company to identify contamination and take the appropriate action, if any is needed.

We have adopted a recognised risk assessment method to find out whether contaminants pose a threat to health or the environment. The system helps us decide what type of action to take, based on a balance between existing and potential risks.

 In 1998, I was inspired as we explored the concept of sustainable development with young people of 86 nationalities from the Group in a series of workshops called Shell Life. Sustainable development is inspiring for anyone who is young at heart because it's about looking forward with fun and enthusiasm and contributing to the future. To me sustainable development is the one right way to go. 



Jorrit van der Togt, Leader Shell Life Programme, Shell International.

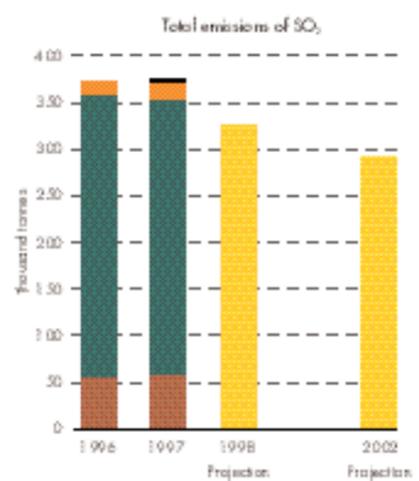
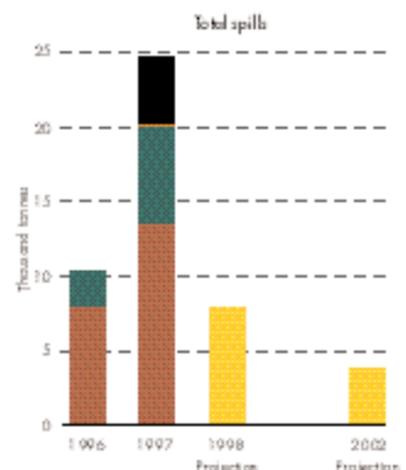
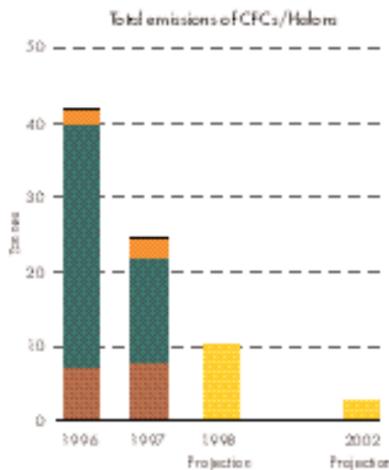
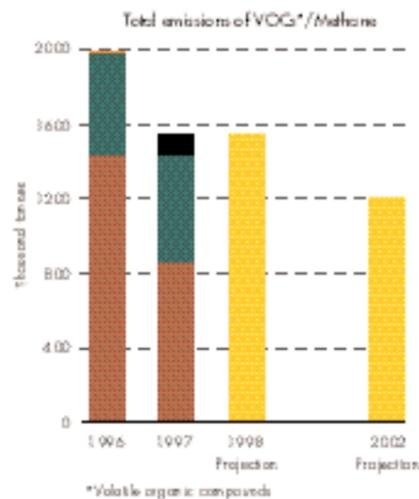
In compliance with our minimum standards (stated in the target box in this section) necessary controls will be in place at major installations by end 1999, to prevent any contamination from moving off the site.

- Shell companies in 75 countries operate a procedure to screen suppliers, contractors, dealers and distributors for compliance with the specified company HSE standards. In 116 countries provisions are written into contracts to ensure HSE standards.

 You told Shell

"Unfortunately there are still too many examples where Shell enters into Joint Ventures without even discussing the HSE policy and principles"

Shell employee, USA

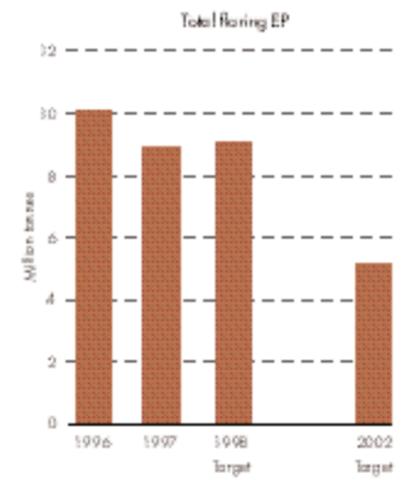
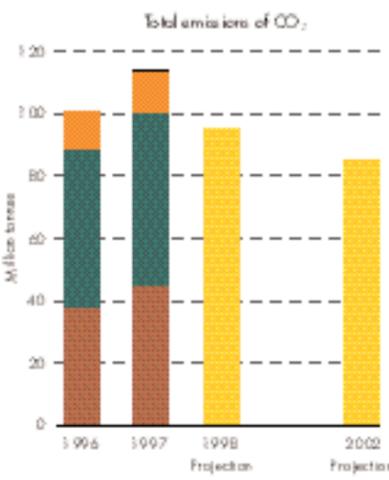
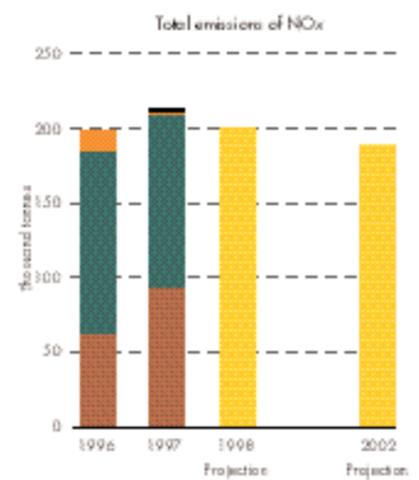
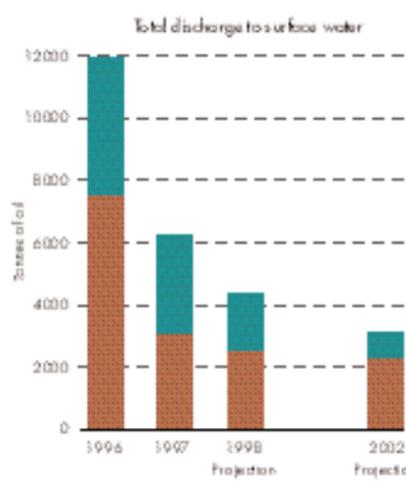


150 HSE fines with a total value of US\$ 608,793 for non-compliance with HSE regulations.

- In 1998, Shell companies paid 31 compliance penalties* with a total value of US\$ 8,524,055. US\$ 8,114,329 of this was paid as penalties for flaring in Nigeria** (see Nigerian investment).

*A compliance penalty is a fine that is proactively paid without prosecution or enforcement by the regulatory authorities because the company fails to comply with HSE regulations. Sometimes, particularly often relating to emissions, the company is unable to comply on a routine basis and regularly pays a compliance penalty.

**This is in line with the Associated Gas Re-injection Act, 1979, whereby in 1998 a flaring fee was paid for fields where re-injection has not been feasible and a permit was issued.



Key: Coal (black), Oil Products and Gas (green), Exploration and Production (brown), Chemicals (orange), Oil Products (teal), Shell Total (yellow)

In the longer term, the Group aims to exceed the Kyoto target through the decade to 2010.

- At the end of 1998, 50 Shell Chemicals companies had Responsible Care® initiatives in their countries of operations. A further 21 companies were proactively promoting the setting-up of a Responsible Care® programme through their national chemical industry association.
- Shell companies in 32 countries received public recognition or awards for efforts in the field of Health, Safety and the Environment. Details can be found on the website or by writing to the address on page 42.

In deep waters off the UK and Norway the cuttings accumulated under the platforms. New and cleaner ways of drilling are now being used, but the industry has a legacy of old cuttings under platforms, known to contain traces of lubricants that have the potential to harm the environment. There are no proven methods to deal with these cuttings.

The oil exploration and production industry in Norway and the UK has started a research and public consultation exercise to discuss the issue with interested parties. It feels that this is the best way to find solutions that are acceptable to all.

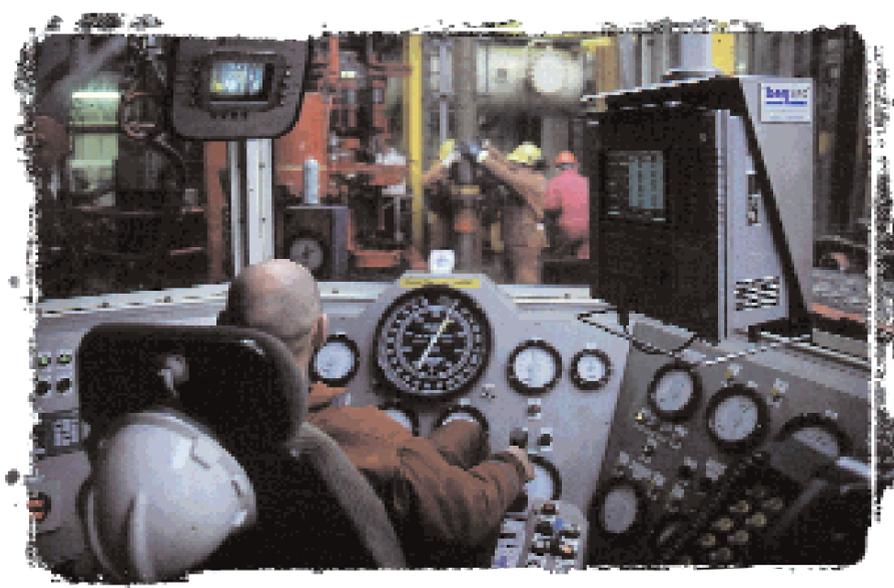
Finding publicly acceptable solutions for old drill cuttings
Our experience with public consultation gained during our handling of the Brent Spar (see our website for an update) is being used to find the best way to deal with large deposits of cuttings produced by drilling for oil and gas in the North Sea.

When wells are drilled through layers of sub-sea rock, small chips of rock (cuttings) are pumped to the surface. Traditionally, these were discharged to the sea.

Many stakeholders, including Greenpeace and other environmental pressure groups, have joined the dialogue.

"A few years ago the industry might never have considered approaching a technical issue in this way," says Eric Faulds, the decommissioning manager for Shell Expro. "Taking open ownership of key issues, seeking a wide range of ideas, and absorbing many values and perspectives is very helpful.

"We do not have all the answers and we will not find the best solutions on our own," he says.



"The environment has always been important to us. We aim to be one of the leaders in our industry, but our performance does not always match this ideal. We are striving to improve our position. Two years ago we revised our HSE commitment and policy. Since then we've developed new standards and systems, consulted widely, set targets and reported verified performance data. That's a start. But we must demonstrate progress toward the real challenges of no more fatal accidents, stopping continuous gas flaring and venting, and playing our role in sustainable development, which will assure us a verifiable licence to operate."



Andy Oliver
Andy Oliver, Vice President HSE, Shell International.

"The environmental performance information shows that gains have been made in a number of areas of impact for Shell. The Group has made encouraging progress in the setting of goals and priorities, and implementation of corporate-wide management systems and internal performance accountability mechanisms."

It is my opinion that certain critical elements of HSE performance are conspicuous by their absence. Participation and accountability by communities and other external stakeholders, and the impact resulting from the use of Shell's products.

Shell's commitment to renewables, while noteworthy, continues to be relatively small, and Shell will need to expand these areas significantly in order to achieve the historic transition to a hydrogen economy it envisions.

In an industry which lacks many leaders, the gains Shell makes toward sustainability have enormous impact on their own, as well as power to influence

the Group's peers fundamentally. It is my sincere hope that Shell will seek to fill the leadership void in its industry through continued engagement and accountability on its central environmental demands.



Judith Kuszewski
Judith Kuszewski, Director of Corporate Programs, Coalition for Environmentally Responsible Economies (CERES).

The environmental data shown here is produced from the Royal Dutch/Shell Group of Companies HSE Report 1998. Full details of the basis of verification, qualifications, limitations and accompanying notes to this data (which are essential to a proper understanding of these graphs) are shown in the original report (and www.shell.com).

You told Shell
"This report is greenwash!" USA

*Responsible Care® is a voluntary programme initiated by the global chemicals industry to boost its performance in HSE.

Social

Diversity and equal opportunities

(Principle 2 Responsibilities to employees)

- Achieve the capability to fill all Operating Unit executive positions within a region with staff from that region by 2003 (excluding new ventures).
- Increase to at least 20% the number of women in senior executive positions by 2008.

Diversity

One of our three core values is respect for people. Creating a culture of valuing differences in people is being promoted by a diversity programme led by a core team of four in Shell International, 12 in Shell Oil, USA and a network of 30 diversity focal points across the Group.

The programme is designed to improve the way Shell companies make the most of people's diversity and, in so doing, compete more effectively.

Valuing differences is an integral part of sustainable development, which emphasises social justice as much as it does environmental protection and economic progress.

Shell's diversity drive is aimed at changing the cultures of Shell companies so that they place greater value on the richness of differences that employees bring. This is in terms of both visible (nationalities, gender, age and physical ability) and underlying (education, experience, religions, sexual orientation, work styles and ways of thinking and communicating) diversity.

"This is not political correctness," says Connie Merrill, leader of the four-person diversity team in Shell International. "It is about unleashing the talent and the full potential of our workforce by creating a more inclusive environment in order to deliver better business results."

Visible and underlying dimensions of diversity

- In 1998 the Group had 5,778 expatriates of more than 78 nationalities working in 108 countries around the world.
- Shell companies in 112 countries operate a procedure to ensure equal opportunities (sex, race, religion, ethnic group and physical ability) for company employees in recruitment selection, career planning, remuneration and pension arrangements. Shell companies in 128 countries have procedures in place to ensure equal opportunities for company employees in one or more of the above fields. Of these, four countries could not ensure equal opportunities in one or more of the above fields because of local legislation. In an additional four countries (representing 133 staff), there were no specific procedures in place to ensure equal opportunities for company employees in any of the above fields. This is a matter of concern, and is being addressed.
- 7.4% of employees of some 6600 senior staff in Shell companies are women. Of the 508 very senior staff in Shell companies 4.9% are women (this compares with a figure of approximately four percent in 1997, obtained in a less comprehensive survey). Last year 24.6% of international staff recruited were women and 43.7% were not Anglo/Dutch.
- Shell's Gas & Power business (one of the five core businesses) is run by Mrs Karen de Segundo and four core businesses now have at least one woman on their executive committees.

"Senior management remains overwhelmingly male, Dutch and British. Best practice indicates that when managers come from a wider background, companies have a better chance of gaining deeper insights, grasping more opportunities and making better business decisions."

The Group has set two targets on diversity (see targets).

 Tell Shell at www.shell.com

 To find out more visit our website at www.shellreport.com



You told Shell

"Please note, that criticism is a way of life the world over. There is no business that does not stand to be criticised either at the individual or collective level."

Nigeria

Unions and staff forums

(Principle 2 Responsibilities to employees)

- In every country where unions exist (126 countries) the Shell company allows employees to join. Of these, in 90 countries the company acknowledges unions in discussions of employment conditions.
- Shell companies in 96 countries (77 in 1997) have organised forums for staff to discuss employment conditions. In 99 countries (82 in 1997) employee welfare is protected by clearly stated grievance procedures. On 412 occasions in 1998, staff either tabled issues or were invited to do so. 250 of these were in the USA where staff grievances are proactively sought and addressed.

The Shell People Survey

A world-wide survey to gather opinions from people working in Shell was performed in January 1999. It was distributed in more than 100 countries and 30 languages. This was the first time that a core set of questions had been posed to such a wide spread of people in the Group.

The survey is part of our commitment to listen more closely to the people who work for Shell, by regularly asking for their opinions on a range of subjects, including their attitudes about Shell and its behaviours, values and position in the world.

The survey - planned to be repeated every 12 to 18 months - was conducted in partnership with an independent company, International Survey Research (ISR). Together with the external verifiers we are reviewing the process for further improvement since the exercise turned out to be very complex. At the time of going to press data was still being processed and no results were available.

In addition to Shell employees, certain contractors with contracts of over one year were included.

The survey did not include all employees of Group companies and a number of Group companies decided not to participate.

Examples of statements against which respondents were asked to reply on a scale of 1 to 5 (from agree to disagree) were:

- I think that my company:
 - a) Acts responsibly in the society/community in which we operate.
 - b) Acts responsibly in relation to the environment.
 - c) Achieves the right balance between its social, environmental and financial responsibilities.
- I believe that my company operates with integrity in its dealings with us.
- I know how I can contribute to Shell's core purpose of 'helping people build a better world'.
- My company has a working environment that respects differences in cultural background or lifestyle.
- I am proud to be a part of Shell.

These results will give an interesting perspective on how our employees currently see Shell's position in the world at a time of unprecedented change. Analysis of the data will be reported in the next Shell Report.

The Shell Poll

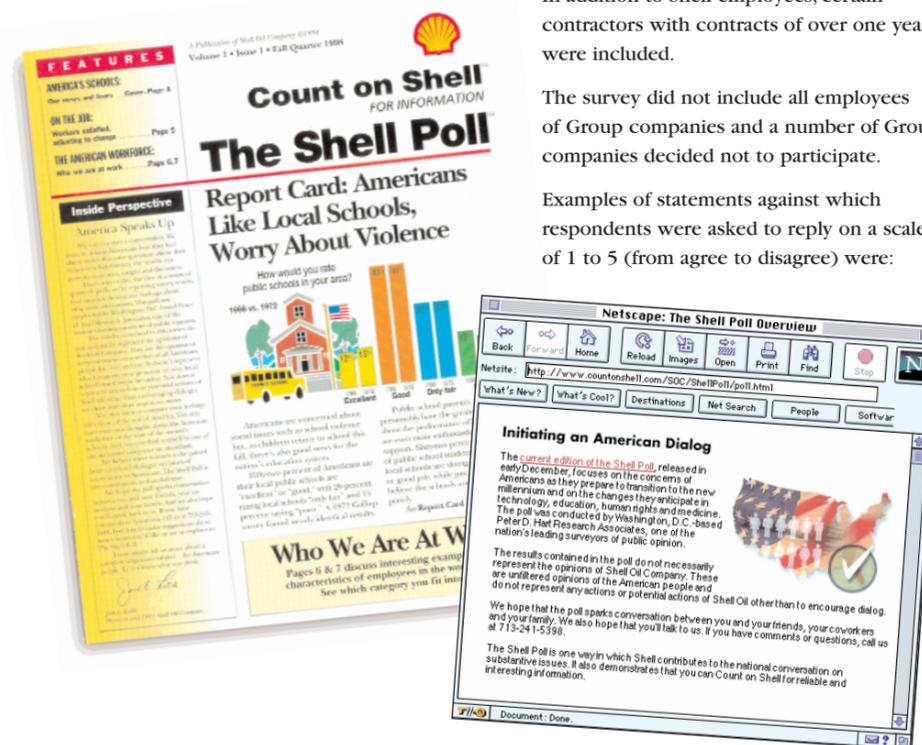
In the USA, Shell Oil Company sponsors a quarterly poll that asks Americans for their feelings and opinions on a range of thought-provoking topics and feeds the results back to the public via a website. Poll findings are also shared with opinion leaders in government, business trade associations as well as the media. Topics explored so far include education, the workplace, morals and ethics.



You told Shell

"As a former employee of Shell Oil and still a shareholder, it is refreshing to see Shell come out of its shell and begin a dialogue on these issues."

USA



Working hours and wages

(Principle 2 Responsibilities to employees)

- The average number of hours in a full time standard working week across the Group is approximately 40 hours. The standard working week ranges from a minimum of 35 hours per week to a maximum of 48 hours per week.
- Shell companies in 129 countries carry out comparisons of remuneration levels to ensure that they are competitive.
- The lowest paid Shell employee earns US\$ 50 per month, which is three times (1.6 times in 1997) the statutory national minimum in that country. In countries where Shell operates the minimum monthly wage is, in most cases, between one and five times, and in all cases between one and 150 times any statutory national minimum.

Job losses in Oil Products Europe

The global economic downturn, combined with a dramatic drop in the oil price and over-capacity in some markets, has forced Group companies to cut costs and restructure to remain competitive. This has led to plant closures and the loss of jobs.

In our oil products business in Europe (which refines, distributes and markets petroleum products, such as gasoline) there is chronic oversupply. We, like our competitors, have to close some of our refineries to ensure that this part of our business remains profitable in the long-term.



You told Shell

"I feel that if a company through its activities, can provide the necessities of life, either directly or indirectly, their efforts should be acknowledged, not criticised."

India

Before deciding on the future of a site we follow a procedure to ensure that the decisions take into account not just financial but also environmental, social and political factors. Proposals are put through a severe internal challenge covering all of these aspects. Any recommendation to close a plant is first put to the people affected with an invitation to comment and put forward counter-proposals. This is the start of a full consultation process involving staff and other interested parties.

Decisions to close plants and cut jobs are not taken lightly. The human pain for individuals is very real to us, as are the social consequences, particularly around major sites. We pride ourselves on being a fair employer and we strive to offer those who lose their jobs the best possible opportunities to continue their working lives.

Our support packages are in-line with the best in the industry. We provide professional assistance for finding new positions. We work closely with local and national governments to help regenerate local economies. In Provence, France, for example, we set up a venture capital company 'Investir en Provence' to help attract new employers to the area following the restructuring of our Berre refinery complex. The venture has a capital base of US\$ 16 million and the full backing of the local and national government.

The energy industry is consolidating. It is inevitable that this trend will continue and the industry will employ fewer people in future. We are determined to build a robust business that offers long-term, sustainable employment. "I would be irresponsible if I can't find a sustainable solution to our business in Europe. I must be honest about sites that do not have a long-term future and work to sustain the viability of those that do," says Carmine Falcone, Vice President of Shell Oil Products Europe.



You told Shell

"You shut your eyes to political situations as long as you can make money. Our commitments are to the communities and the nations in which we operate." What hypocrisy!"

China

Promoting our Principles

(Principle 2 Responsibilities to those with whom we do business)

- In 97 countries (88 in 1997) our Statement of General Business Principles is provided or explicitly discussed as a normal part of major contract negotiations with both contractors and suppliers.
- In 1998 at least 69 contracts (95 in 1997) were cancelled because of non-compliance with our Business Principles or specified HSE standards.
- In 64 countries the company operates a procedure for screening for compliance with the Statement of General Business Principles for both contractors and suppliers. Of these, in 32 countries this procedure extends to sub-contractors.
- Shell companies are helping local suppliers and contractors to reach Shell's required standards in 67 countries. Help ranges from management support and discussions to HSE training.

What we spend where

(Principle 2 Responsibilities to society)

- In 55 countries, more than 75% of the money spent by Shell companies on goods and services is spent inside the country of operation using local suppliers and contractors, and in 27 countries, between 50-75%.

We have a policy and a target of zero bribes.

Security

(Principle 2 Responsibilities to society)

- Shell companies in 25 countries reported security incidents that had a significant impact on business operations in 1998. Nine of these faced war, imminent war or major community disturbances.
- Security personnel are engaged in 107 countries to manage security risks. Security personnel routinely and legally carry firearms in 23 countries either because local regulations require it or because of the violent environment in which they operate. In five of these countries, armed security guards are employed directly by Shell companies. Efforts are continuing to find alternative solutions to armed security personnel wherever possible.
- In all countries where security personnel carry firearms they are trained in the responsible use of force. In addition, in 20 countries the armed security guards are trained in accordance with the latest (1st Jan 1998) Group Security guidelines on the use of force, which are based on UN principles and codes of conduct and on international human rights standards. Urgent efforts are in hand to ensure consistency with the latest Group guidelines in the remaining three countries.



You told Shell

"Oil companies like Shell are perfectly aware what the money paid for some types of consultancy services is really buying."

UK

Child labour

(Principle 2 Responsibilities to employees)

- In every country where we operate, our employees are above the local legal age of employment. The youngest company employee, who is 15 years old, is employed part time and works in Europe.
- Shell companies in 84 countries have a specific policy to prevent the use of child labour in any of their operations. Contractors and/or suppliers are screened against the use of child labour in 52 countries.

A practical guide to human rights

We have published an introductory guide to human rights. The booklet, written with the help of independent experts, helps in the understanding of human rights, its history, vocabulary and the dilemmas that a belief in such rights can pose.

It is designed to help Group companies discuss their roles and responsibilities in understanding and supporting human rights. The guide forms part of an awareness programme designed to help staff deal with the issue in their work.

The guide is also part of a broader management process designed to identify responsibilities in this area and help Shell companies manage, measure and report on their progress (see page 29). Included in this process are the Business Principles assurance letters (see page 5).

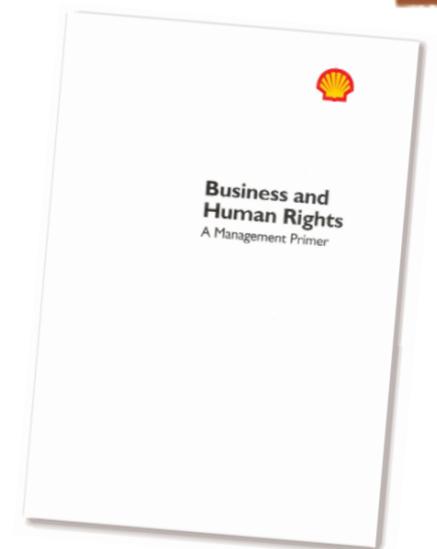
The booklets are being distributed through Country Chairmen. They have been asked to hand out copies to staff who deal with human rights issues.



Tell Shell at www.shell.com



To find out more visit our website at www.shellreport.com



A special human rights site was launched on Shell's Intranet (internal computer network) on 10 December 1998, the 50th anniversary of the Universal Declaration of Human Rights. The practical guide itself is available to the public and can be downloaded from the Shell website (www.shell.com) where there are links to other relevant websites on the Internet.

No bribes

(Principle 4 Business Integrity)

- We have a policy and target of zero bribes.

- In 94 countries Shell companies operate a procedure to prevent and identify possible breaches of the 'no bribes' policy above and beyond the Group control measures.

- In 1998, Shell companies reported four instances (in 1997, 23) in which a total of six Shell staff were detected soliciting or accepting bribes directly or indirectly in any form. The total financial value was less than US\$ 75,000. As a result three employees were dismissed and a decision is still pending for three employees (in 1997, all cases ended in termination of employment).

- In 1998 there was one case in which a Shell employee was asked for, and paid on his own account, an unauthorised sum of US\$ 300 to a third party. The company refused to reimburse the sum and the employee resigned.

No political payments

(Principle 5 Political activities)

• We have a policy and target of no political payments.

• As part of our anti-corruption commitment, Shell companies in 108 countries operate a procedure to prevent and identify possible breaches of the 'no political payments' policy (last year we reported that Shell companies in 108 countries have a clearly stated policy forbidding payments to political parties). One joint venture company (just over 20% Shell interest), which was not included in last year's data, made 16 political payments in 1998 (with a total value of US\$ 35,700) as part of a company policy to contribute to all major political parties in the parliament. This will cease in the course of 1999. (Last year no political payments were reported.)

Health and Safety

(Principle 6 Health, Safety and Environment)

• We deeply regret that eight employees of Shell companies and 61 employees of contractors lost their lives in 1997 world-wide, mostly in road accidents.

• Shell companies won awards for road safety campaigns in three countries. In Ghana in 1998, Shell opened a Defensive Driving Institute and Truck Workshop for vehicles.

TRIPOD safety system

Shell has donated the copyright of the accident analysis and prevention system called TRIPOD to a non-profit foundation in The Netherlands. Phil Watts, Group Managing Director said "There are no competitors in safety." Tripod helps accident investigators to probe underlying failures rather than just looking at the incident. It is also a tool for identifying organisational weaknesses that can lead to accidents.

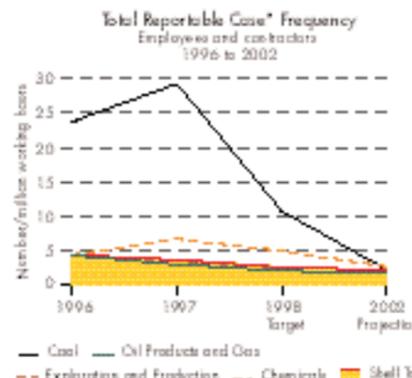
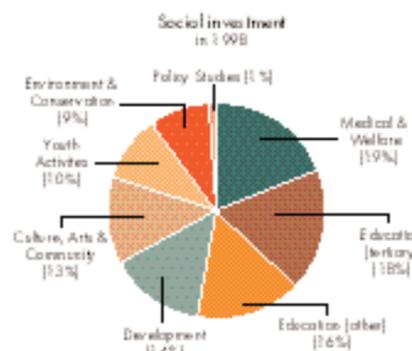
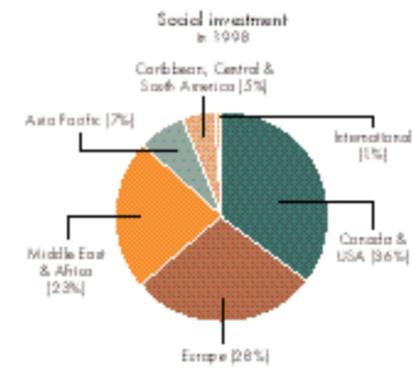
Contribution to the community

(Principle 7 The Community)

- The total value of Social Investment contributions in 1998 by the Shell companies was some US\$ 92 million. This represents an increase of 18.1% on the previous year. Some of this increase is the result of improved data gathering.
- Over the five years from 1994 to 1998, we have contributed on average 1.18% (1.05% average from 1992 to 1996) of net income after tax – equivalent to 0.63% net income before tax.
- Shell companies in 65 countries have processes in place to evaluate the community benefit of their contributions.

Youth support in Brunei

Shell Brunei is supporting the government in a youth entrepreneur development programme. Job seekers enrol to learn a trade and how to run a business. Shell Brunei guarantees bank loans made to participants who are treated as business partners. The scheme started in June 1998, with 17 partners who have developed a 45-acre site into a showcase for agro-tourism, including vegetable plots, fruit orchards, fish ponds and a restaurant.



You told Shell

It is true of the African saying that a dancer does not see the movement of his waist except when the spectator tells him.

Nigeria

Engagement and open communication

(Principle 9 Communication)

We define engagement as the process of talking and listening in order to develop a deeper shared understanding. Engagement, as an integral part of business decisions, remains an area to improve upon across the Group.

- In 91 countries Shell companies have processes in place to engage with its communities on issues of local concern.
- In 67 countries Shell companies produce reports for external audiences.
- In 48 countries Shell companies measure the effectiveness of their engagement/communication procedures.

- In 1998, Shell International issued 75 press releases (compared to 74 in 1997).
- In 1998, Shell International published 55 public documents including position papers and 24 speeches.

• Shell companies currently have public websites in 35 countries in 17 languages. The Shell website records 4,000,000 hits per month from 950,000 visitors (single user session) per month. Some 12% of these are from Shell employees. Visitors spend on average 11 minutes inside the site each time they visit.

- The Shell website receives some 1,500 emails per month, approximately 75% of emails come from North America and Western Europe. We take an average time of two days to respond to queries. The Group forum is completely uncensored.
- More than 3,000 people have requested to be kept up to date with specific issues on the Shell website. They are notified by email when a topic of interest comes up.
- In March 1998, we started a series of press advertisements in a number of global journals and newspapers with sustainable development as their core theme.

• The 1998 Shell Report was published in five languages: English, German, Japanese, Portuguese and Spanish.

• In the 1998 Shell Report we enclosed nine 'Tell Shell' feedback cards with a pre-paid envelope to provide you with an opportunity to let us know your views on a number of issues. We received 288 'Tell Shell' cards from more than 20 countries in the post, and a number of letters about the issues and format of the Shell Report 1998 'Profits and Principles – does there have to be a choice?' Extracts representing the broad range of views have been included in this year's report. See the website for responses where permission was given to publish.

The UNEP Social Reporting report says

'a company doesn't operate in a vacuum.' To me, this is the essence of sustainable development. Companies are an integral part of society and are judged by their



behaviour. But for companies with an ambition to succeed for longer than a generation, there is an additional dimension. Brundtland refers to 'the ability of future generations to meet their own needs'. As a father of two, I want a life for them better than our own – with jobs, clean air and a vibrant society. I want us to deliver superior competitive performance today, create wealth responsibly and in so doing prove our worth to society. We will contribute to the future in ways that new generations will come to appreciate.

(Signature)

Rob Walvis, Director, Planning, Environment and External Affairs, Shell International.

As youth, our future is shaped by today's trends of globalisation, shifting employment, increasing resource disparity and environmental short-term thinking. All these trends are inherently linked to the current practices of corporations, governments and society. As such there is a responsibility on these groups to reflect on their practices from our perspective as youth and work for the preservation and progress of the global community we share. We commend steps Shell has taken like the Sustainable Energy Programme and we will continue to challenge Shell on its results in solving environmental and community problems. We believe that this social responsibility begins with the individual, and that employees in all positions of Shell need to involve themselves in their communities and to bear witness to the real problems that exist in our world. It is only from this individual level that all employees can envision how Shell will, as an organisation, bring about a better future through company practices and results.

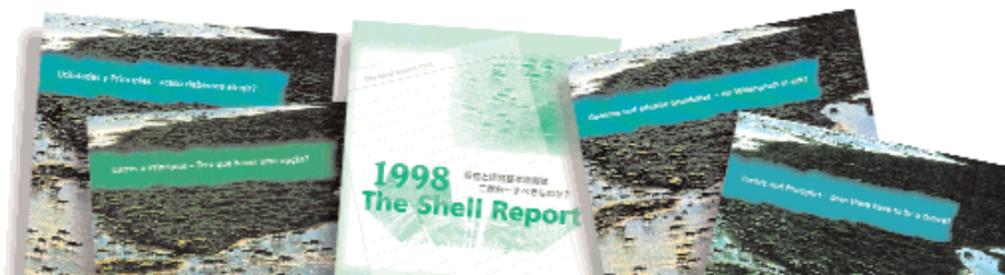


Heather Blahnik, President AIESEC International.

Tell Shell at www.shell.com

The safety data shown on this page are reproduced from the Royal Dutch/Shell Group of Companies HSE Report 1998. Full details of the basis of verification, qualifications, limitations and accompanying notes to this data are shown in the original report (and www.shell.com).

*Total Recordable Cases (TRC) is the sum of fatalities, permanent total and partial disabilities, lost workday cases, restricted work cases and medical treatment cases.



**To: Royal Dutch Petroleum Company
The "Shell" Transport and
Trading Company, plc**

We have been engaged to verify certain assertions and statements with respect to the following areas which are set out on the pages referred to below of 'The Shell Report 1999' prepared on the Royal Dutch/Shell Group of Companies ('the Group'):

- Shell assuring conformance with the Group's Statement of General Business Principles (page 5).
- The distribution of the Shell People Survey and processing of the results (page 15).
- The development and distribution of the practical guide to human rights (page 17).

In addition, we have been requested to provide confirmation that certain data has been derived from the Financial Statements of the Group (page 8 and 9) and certain graphs have been derived from the Health, Safety and Environment Report 1998 of the Group (page 12).

Management are responsible for The Shell Report, the statements and assertions included therein as well as ensuring compliance with these assertions. Our responsibility is to report the results of our work on parts of the report, whether the assertions and statements referred to above are fairly stated and whether certain data and graphs have been derived from the sources stated. We have not been requested to review other parts of The Shell Report.

In the absence of generally accepted international standards for verification of information such as that included in The Shell Report, we conducted our verification exercise in accordance with international standards for financial auditing and reporting suitably adapted. We therefore

planned and performed our work in order to obtain reasonable, rather than absolute assurance with regard to: Shell assuring conformance with the Group's Statement of General Business Principles; the distribution of the Shell People Survey and processing of the results; and the development and distribution of the practical guide to human rights; and we reviewed the processes relating to these areas. We reviewed internal control procedures in relation to these processes in order to establish what reliance we could place on them. We examined, in some cases on a test basis, evidence supporting the statements, assertions and data referred to above. Our work included the following:

- obtaining written statements from all Group Managing Directors and a sample of Country Chairmen and Cluster Managers to confirm that a meeting took place during 1998 to discuss the annual Statements of General Business Principles letter;
- reviewing the 139 Statements of General Business Principles annual letters received from Country Chairmen and Businesses in January and February 1999;
- obtaining written confirmation from a sample of Country Chairmen that they received the practical guide to human rights.

We have also reviewed the adequacy of presentation of the information on the pages referred to above. We believe that our verification work provides a reasonable basis for our report.

We report as follows:

- In our opinion, within the context of The Shell Report, the statements and assertions set out on page 5 under the heading 'Assuring conformance with Shell's Business Principles', those set out on page 15 under the heading 'The Shell People Survey' and those set out on page 17

under the heading 'A practical guide to human rights' are fairly stated in all material respects.

- We have examined certain data in The Shell Report 1999 comprising dividend growth from 1989 to 1998, and tax payable over the 10 year period 1989 to 1998, and the level of annual expenditure in research and development in 1997 and 1998.

Based on our examination we confirm that this data has been derived from the Financial Statements of the Royal Dutch/Shell Group of Companies for each of the ten years in the period ended 31 December 1998 on which we issued unqualified audit opinions.

- We have also examined certain graphs in The Shell Report 1999 setting out total flaring EP, total discharge to surface water, total spills, and total emissions of: Volatile Organic Compounds (VOCs)/Methane; Chlorofluoro carbons (CFCs)/Halons; carbon dioxide; sulphur dioxide and nitrous oxide.

Based on our examination, we confirm that these graphs have been derived from the performance data tables and the accompanying notes (which are important to a proper understanding of the reliability of the data) in the Health, Safety and Environment Report 1998 of the Royal Dutch/Shell Group of Companies upon which we issued a verification statement confirming that the performance data tables properly reflect only the 1997 data within the context of the notes accompanying the performance data tables together with the summary of Health, Safety and Environment Reporting Policies and Limitations on page 33 of that report.

PricewaterhouseCoopers
PricewaterhouseCoopers
London

KPMG Accountants NV

KPMG Accountants NV
The Hague

Exploration and Production

The theory of sustainable development is becoming a reality in Shell companies, affecting the way that everyday business is carried out. We report here on progress in two of our five core Businesses: Exploration and Production, and Chemicals.

The Group's Exploration and Production (E&P) business is responsible for finding oil and gas and getting it out of the ground. In E&P much of what is covered by the new Sustainable Development Management Framework (SDMF – see pages 36-37) is already part of normal business activities.

"A lot of our social and environmental activities are very much part of the broader demands of sustainable development. The new framework encourages us to look afresh at our activities, especially in the way we engage with stakeholders," says Paul Mann, HSE Manager, Shell International E&P.

We are encouraging a 'just do it' approach using the framework as a guide.



The framework has put three areas of E&P's operations under the spotlight: how investment decisions are taken; the way Health, Safety and Environment is managed; and engaging with stakeholders.

"We are now thinking about a broader range of issues much earlier in the decision-making process for new projects. This encourages people to solve potential social and environmental problems in innovative ways at the same time as they are considering the technical and financial aspects of investment decisions" explains Paul.

A sustainable development self-assessment guide was issued to operating units in 1998 and a specialist website set up to exchange best practice. Considerable experience has been gained in installing standardised HSE management systems in operating companies. The framework will further enhance these systems, especially in the encouragement of dialogue with stakeholders and verified reporting.

"We see the SDMF as a useful tool to help us improve and make sure we cover all aspects of sustainable development, rather than another new initiative," says Paul Mann.

Operating companies will be asked to produce a sustainable development strategy by the end of 1999 and to report back on their progress in applying the framework. This is being done through the E&P HSE assurance letters (see page 4).

He continues "we are working on a specific Road Map and issuing guidance to our operating units by the middle of 1999. There will be a lot of experimenting over the next couple of years. We are encouraging a 'just do it' approach using the framework as a guide."

An example of this approach is Shell Expro.

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No one is under any illusions about the difficulties ahead.

Shell Expro breaks the mould

Breaking the conventional management mould was Shell Expro's first step in turning the theory of sustainable development into practice.

The company explores for and produces oil and gas in the North Sea, off the UK. It employs around 3,200 people and is a major contributor to Group revenues.

The Group made a formal commitment to contribute to sustainable development in 1997. The questions 'What does it mean to us?' and 'How can we meet such a commitment?' were put to a group of employees that had volunteered their interest. In doing so, senior management ignored the conventional wisdom that would have dictated a formal instruction from the top.

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"We have learned from our company's history that an open approach and a willingness to listen and to respond to the concerns of interested and affected parties are essential ingredients to good business decisions," says Kerst Troost, Finance Director.

His view is underlined by Ben Taylor: "I was nervous about joining a business that is known for the Brent Spar and which only has another 30 years of raw materials left. But I was really surprised and encouraged when I heard about the attitude to sustainable development. It was clear that it was not a fad, but a way of life for us."

An open invitation from Robert Kleiburg, sustainable development co-ordinator at the time, to all staff to attend a two-day workshop for 40 people was heavily oversubscribed.

"It was a success and 42 ideas were raised, in eight categories. After the workshop the attendees developed those ideas further and they were presented to management. This led to the Expro business plan for sustainable development" said Robert

The emphasis was on finding practical solutions, which included:

- A study of the feasibility of renewable energy sources, such as offshore wind and wave
- Ways to minimise the consumption of material and energy in developing new oil and gas fields
- Systems to discover how to ensure that the most environmentally sound choices are made when buying supplies, materials and services
- Work with the two communities that support Expro's operations, Aberdeen and Lowestoft. Projects have included trials with 'green' transport systems and energy efficiency schemes
- Publications, including a Sustainable Development Assessment Guide and a plain English guide to sustainable development.

"One of the most important projects concentrates on how we can integrate sustainable development into our decision-making processes, such as budget proposals and asset plans. We also need to measure our progress and we have started developing sustainability indicators to do this," says Robert.

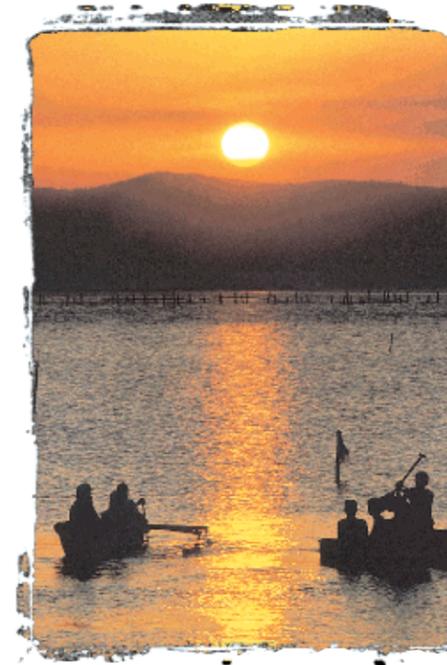
The SDMF (see pages 36-37) complements Expro's pioneering work in developing a new two-year strategy. Projects running under the original plan will continue.

But no one is under any illusions about the difficulties ahead. Fran Monks, an Expro environmental advisor warns: "There is real commitment to get to grips with sustainable development throughout the company. We have moved from the talking to the walking phase but there are still many who need to be convinced of the benefits and relevance of sustainable development before the company can move forward with total confidence."

Malampaya

Shell Philippines Exploration B.V. (SPEX) is operator of the Malampaya Deep Water Gas to Power Project, which comprises the development of natural gas reserves located in deep water offshore of the island of Palawan. The natural gas will be processed offshore prior to export via a 504 km pipeline to Luzon where it will be used to generate electricity through combined cycle power generators in late 2001.

Gaining approval to route a gas pipeline through an environmentally fragile region – which includes coral reefs, commercial fishing grounds, pearl farms, tourist areas, sites of archeological interest and ancestral domains – called for a highly responsible approach. Right from the very start of the project, SPEX committed itself to minimising environmental and social impacts and involving key stakeholders in addressing issues of concern.



Shell commissioned detailed, independent, environmental studies to establish the baseline, assess potential impacts and recommend measures for their mitigation. These included use of state-of-the-art under water survey techniques to map and assess coral cover and bio-diversity. An inventory of fauna living in the corals was made, as well as marine surveys of the mangroves and sea grasses. In addition, detailed socio-economic and cultural studies of the area were conducted.

Key stakeholders were consulted at various stages. Initially, scoping workshops were held to introduce the project and identify issues and concerns. Following the environmental assessment, workshops were held to share the result of the study and to explain and discuss the mitigation measures on the identified impacts. Participants included local governmental agencies, NGOs and representatives of indigenous communities. Key concerns expressed included:

Safety

Concern on the pipeline's safety was expressed by local stakeholders. To address this issue, Shell explained it had carried out a detailed

pipeline route survey and will be routing the pipeline to avoid areas of sensitivity such as pearl farms, areas of sub-sea instability and seismic activity. Detailed simulations of the pipeline under various seismic and sea-bed movement situations were modelled and the data used to confirm design integrity.

Pollution

Concern was expressed by fishermen and pearl farmers of pollution resulting from the project impacting on their livelihoods and the pristine waters of the region. Facility and pipeline design and routing decisions took these concerns into account. The platform is being designed to ensure containment of potential pollutants. In addition, in the unlikely event that a leak should occur response plans are in place to ensure rapid containment and clean-up.

Ancestral Domain

An indigenous sea-faring tribe, the Tagbanuas, informed Shell of their claims of ancestral domain in marine areas, which include burial sites, sacred coral formations aside from traditional fishing grounds. Shell has obtained information on the claim areas and has routed its pipeline to avoid these areas. In addition, Shell is continuing communication with the tribe to obtain the boundaries and ensure these are placed on Company maps for future reference.

Disruption of fishing activities

The possible disruption of fishing was expressed by groups from Palawan to Batangas. Shell explained how the pipeline construction activities would have minimum temporary impact and that a joint monitoring team will be set up to assess and minimise any disruption.

To encourage wide participation in the consultation process with the key stakeholders and raise awareness, booklets, posters and videos, were used in addition to public hearings and workshops.

The work of the Shell Philippines Exploration team was helped by the well-established and highly respected Pilipinas Shell Foundation Inc., which has been working with local communities since 1982. Communities have been assured that the Foundation will receive extra funds from the project to enlarge the scope of its continuing activities, which include training farmers and young people.



You told Shell

"Shell has an absolute responsibility to put the people and communities it operates in as their top priority; otherwise, you have no right to be there."

Anonymous

The people in Shell's Exploration and Production businesses

have a long history of developing creative and innovative solutions to complex, technical problems. These capabilities will serve us well as we address the new challenges presented by sustainable development. But why be concerned about sustainable development at all? Many valid business reasons are presented elsewhere in this report. Personally, however, I need no more motivation than my own three children. They surely deserve a future, and a world, no less healthy or diverse than the one I was given.

Linda Cook

Linda Cook, Business Services Director,
Shell International Exploration and Production.

Shell Chemicals

Shell Chemicals has already begun to integrate sustainable development into its organisation. Last year it published a set of five-year goals and has embarked on an eight-point programme of actions for 1999 (see opposite). One of the first steps has been to merge the Group's Sustainable Development Management Framework (SDMF, see pages 36-37) with the Shell Chemicals Business Framework (a management process), to ensure that social and environmental issues are addressed as part of normal business activities.

This change is significant and goes to the heart of the business, including capital investment proposals, business performance reviews and research and development. This means every significant decision will address the need to balance economic, social and environmental issues.

Shell Chemicals will also pilot the SDMF in one of its global product business units - Higher Olefins. The experience in applying the framework will provide a way to develop good management practices, to be shared with the other businesses.

"Our products are used in making detergents. We introduced fully biodegradable products a long time ago. We are now working with our customers on products that clean better, save energy and conserve materials. The SDMF will give us a more complete management process and helps us identify further opportunities to satisfy customers," says Bill Colquhoun, Vice President of Higher Olefins.

The change is significant and goes to the heart of the business.

Stakeholder engagement is a process for open discussion with interested parties. This is an essential part of the SDMF and a key difference from many other management frameworks and systems. Shell Chemicals Canada, which has been advised by a Sustainability Advisory Panel since 1993, has already seen the benefits from such dialogue (see page 25). And in September 1998, Shell Chemicals took the first steps in starting these discussions when they held the first of a series of meetings with potential stakeholders.

New products are increasingly being developed with sustainable development in mind. For example, Corterra is a new synthetic fibre which carpet makers are keen to use because it is fully recyclable, needs less energy and no solvents in the dyeing process and should have a longer life than competing products.

Involvement with industry groups on joint research into the health risks of some chemicals and commitment to the industry-wide Responsible Care® initiative are examples of working with others in society - all essential parts of sustainable development thinking. The SDMF will encourage Chemicals to do far more of this, and to do it better.

The sustainable development programme comes at a difficult time for Shell Chemicals because 40% of the Group's chemicals business is to be sold and substantial job losses are expected as the remaining parts are restructured. This business decision, aimed at securing satisfactory levels of profitability, has been made to focus on areas of strength while selling businesses that have a better long-term fit with other owners.

The Shell Chemicals eight-point sustainable development programme

- 1 Update the Chemicals Business Framework to incorporate sustainable development principles using the new Group Sustainable Development Management Framework (SDMF).
- 2 Introduce sustainable development criteria to business performance reviews and capital investment proposals.
- 3 Identify key stakeholders for Shell Chemicals engagement.
- 4 Launch sustainable development 'Pathfinder' projects. Higher Olefins to lead and develop own programme, including stakeholder engagement.
- 5 Assemble tools for portfolio assessment.
- 6 Plan and implement internal and external sustainable development communications.
- 7 Assess current activities and processes against sustainable development requirements. Identify gaps and make plans to fill them.
- 8 Participate in the Group's initiatives on climate change such as greenhouse gas emissions trading.

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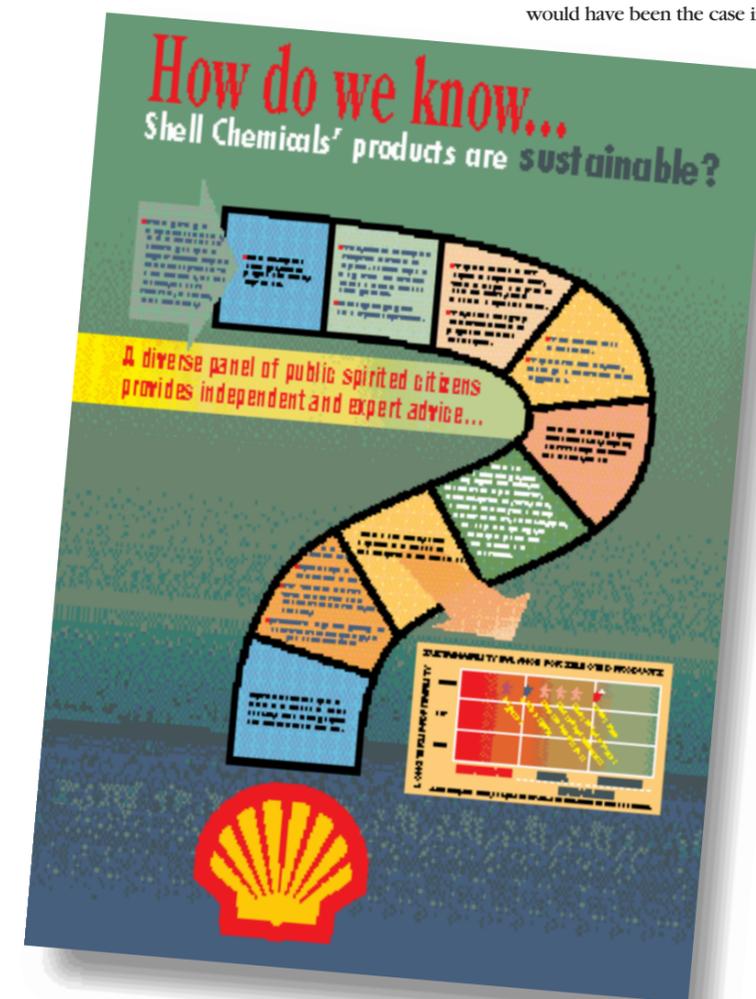
Asking for advice

Shell Chemicals Canada has a Sustainability Advisory Panel to examine the impacts of its chemical products on the environment, health and safety, on natural resources, society and the economy.

The 12-member panel, reflecting social and environmental interests, developed a scoring system to judge the sustainability of products. This looked at the potential impacts from product design through to disposal. It combined panel insights with standard criteria and a scoring method, which highlighted problems.

The panel tested the system on styrene monomer, which is used in products such as home insulation and plastic utensils. A group of environmentalists was asked to judge the usefulness of the system, which was then further refined according to their suggestions.

In 1998, the panel was involved in the design phase of a new ethylene glycol plant at Scotford. The panel's comments prompted the design team to rethink various aspects of the project and produced a solution that was more sustainable. For example, waste carbon dioxide, which was to be released to the atmosphere, will now be recovered and sold. Heat and power will be supplied by a new co-generation plant that is far more energy efficient and releases less greenhouse gases than would have been the case in the original design.



Sustainable development strikes a chord with people in Shell Chemicals. The thinking draws together a lot of what we strive for, improved profitability, reduced emissions together with safe and better products. Giving combined emphasis to profitability, environmental care and social responsibility provides us with an even greater sense of purpose.

Thinking about what we do under the unifying principles of sustainable development creates a consistent platform for progress in the future. What will be different in future will be greater stakeholder engagement together with business decision-making that more fully reflects sustainable development principles.

James Smith

James Smith, Executive Vice President, Technology, Portfolio and Sustainable Development, Shell Chemicals.

You told Shell

"The company has to look to the people who will have to buy the products. You have to listen to your customers."

The Netherlands

You told Shell

"Your self-interest is also the self-interest of the community and environment within which you operate. You have no choice but environmental and social responsibility."

Country unknown

Refocusing support

The Group is refocusing its support to community and social causes. Over the past 10 years Shell companies have given an average of US\$ 69 million a year to such causes, equivalent to 1.2% of net income after tax. Our new social investment programme will:

- Reinforce our commitment to sustainable development
- Maximise the value to those we support and to Shell.

Recognising the enormous range of needs around the world, our aim is to ensure that our social investments are both effective and appropriate to the nature of our business. In particular, we want to respond to growing concerns about how energy production and use affects the environment and peoples' lives.

As one of the world's largest groups of companies, we have opportunities to use the experience gained in one country or region to help others elsewhere. We can also help build effective partnerships with other local and international organisations because we have a wide range of skills, varied resources and a global perspective. By combining resources and expertise in this way we can all tackle social concerns more effectively.

To meet these objectives we are introducing international programmes focused on the environmental, economic and social spheres of sustainable development, complementing and strengthening the local activities of Shell companies. These are:

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Social investment is not a substitute for good business practice.

- A Sustainable Energy programme to help stimulate society's progress towards the use of sustainable sources of energy
- An international expansion of our already successful LiveWire scheme that encourages youth development and enterprise. We will also look for other local social development programmes where our international experience can be of help.

Social and environmental responsibility means fully integrating these issues into the way we do business. By making our social investments more relevant to our business, we will encourage an integrated approach. We believe the social benefit will also be significantly increased.

Sustainable Energy Programme

Many of the world's environmental challenges are fundamentally social ones, because they are to do with the impact of people on the environment. For example, fossil fuels, while highly effective, are polluting and may contribute to climate change. But access to energy is critical to social progress. A key challenge for the next century is to provide energy in a cleaner and more sustainable way.



This is an area where Shell's commercial interests are closely related to the wider social objectives of sustainable development. It will demand creative partnerships and leaps of imagination to discover new approaches. That is why Shell has set up an initiative to promote sustainable energy solutions as one of its key social investment programmes. There will be three areas of focus:

- Reducing the environmental impact of continued fossil fuel use
- Making sustainable energy available to poor communities in developing countries
- Encouraging sustainable energy policies and practices.

The scheme has been developed after consulting widely with environmental and sustainable energy experts around the world. They were enthusiastic about Shell, as a mainstream energy group, starting such a programme, alongside its commercial activities.

The initiative, valued at US\$ 17 million in the first three years and with a target of US\$ 22 million a year within 10 years, aims to fund a wide range of projects.



LiveWire

LiveWire encourages young people who want to start and run their own businesses. It aims to contribute to more buoyant economies and to help young people help themselves.

The scheme already operates successfully in Australia, Chile, Hungary, The Netherlands, Oman, South Africa and the UK. Local Shell companies decide how best to provide help and advice, often working with other like-minded organisations. A typical LiveWire scheme provides an enquiry service, personal advice, workshops on how to develop business plans and an award scheme to recognise success. Every year in the UK, where the programme has run for over 15 years, it advises some 20,000 young people.

In Oman, for example, Nashwa bint Salim bin Hamood Al Harthy identified a gap in the market for school uniforms in Muscat where she lives. Nashwa trained with Intilaaqah, the local LiveWire scheme, and then set up her business.

"It has been my dream to start my own business and Intilaaqah has helped me make it possible," she says.

Chilian civil engineering student, Guillermo James, hopes to develop and market CD-Rom based educational programmes. He has been helped by the LiveWire project that Shell Chile funds, called Savia Nueva. Members of the Union of Christian Entrepreneurs and Shell staff give advice.

Guillermo worked with the advisers for three months to develop his business plan. "Savia Nueva recognised the potential strengths in my plan and helped me to work towards making them a reality," he says.

The Group will help expand LiveWire into new countries, working with local Shell companies and providing support with networking and organisation. The international LiveWire programme will amount to some US\$ 1.5 million a year.

Why invest in social causes?

Companies provide products and services that are vital to economic development and to people's living standards. They train and employ people, provide returns to investors and pay taxes that help fund public services. Why do more?

While business creates these social goods, the world remains imperfect. Things that are good for most of society can be less good for others. Social investment reflects the desire of companies to ensure that they are socially responsible and beneficial. At the same time it reflects those companies' self-interest to ensure that society is strong and healthy in a way that maximises the opportunity for business success. After all, business depends on a prosperous and healthy society for its own prosperity.

Reputation is also important because it enhances business success. But social investment is not a substitute for good business practice – it is just one element of what makes companies both successful and socially responsible.

“ The important issue is not how much Shell gives but what this achieves. Energy is one of the key drivers of social progress. So I believe Shell's main programmes should focus on the social and environmental challenges of being a sustainable energy business. That means a business that can provide energy in ever more environmentally and socially sensitive and sustainable ways. I joined Shell a year ago because it is a Group that looks beyond the short-term and really does want to make the future a better place. **”**



Tim Hollins

Tim Hollins, Social Investment Manager, Shell International.

“ When the first Shell Report was published, we were surprised to find ourselves agreeing with much of what was written. However, our enthusiasm was tempered with a healthy and traditional dose of NGO scepticism. Was this not just more corporate rhetoric with reputation enhancement as its key objective? Nevertheless, it was enough of a statement of intent for us to start a conversation. **”**

The challenge for Shell is to close the gap between its rhetoric and the reality of doing its business in a more socially alert and sustainable manner. As one of the leaders in this process, Shell will be carrying it out in the face of sceptical audiences, both amongst the business financial community, which may see

profitability and shareholder value as paramount, and within a development sector more used to seeing companies as part of the problem than the solution. **”**



Will Day

Will Day, Chief Executive, CARE International UK.

Here we discuss three critical issues facing the Group: human rights, climate change and renewables. Shell's approach and actions follow a short introduction to each issue.

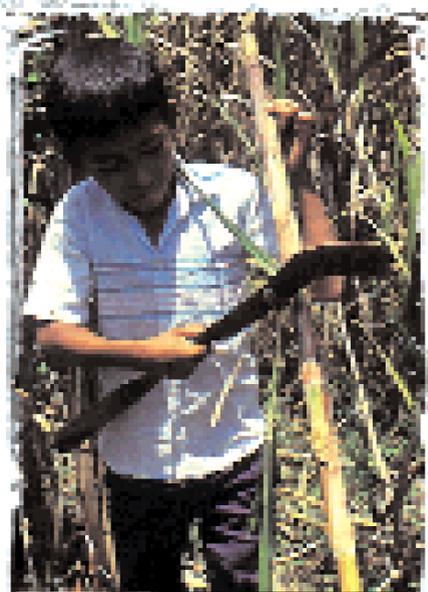
These issues are topics of continuing debate, both in society and Shell. Our Business Principles give us basic guidance on how to approach them, but there are many areas where no one yet knows the best solution. We are committed to continuing to work with others to find the right path and we invite your views – use the 'Tell Shell' card on page 43, the facility on our website or write to us at the address on page 42.



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Human rights

Human rights are the universal rights that every human being is entitled to enjoy and to have protected. These are enshrined in the Universal Declaration of Human Rights adopted by the United Nations in 1948. The declaration covers two broad sets of rights: one is known as Civil and Political Rights; the other as Economic, Social and Cultural Rights.

We support human rights and we make specific reference to this in our Business Principles (see inside back cover and page 17). This is a deep felt commitment and at the very heart of our core values of honesty, integrity and respect for people. We have acted to ensure that we improve our understanding of human rights and behave in accordance with our commitments. Over the past year we have made good progress (summarised on these pages), but we continue to face challenges and dilemmas.

Please see our website (www.shell.com) for greater detail on our approach. Also see the websites of the UN (www.un.org), Amnesty International (www.amnesty.org) and Human Rights Watch (www.hrw.org).

Recent progress

The Universal Declaration of Human Rights and other comparable documents are aimed primarily at governments. Our challenge is to determine the specific responsibilities of Shell companies and then to provide managers with the necessary tools to meet their obligations.

We work with human rights organisations to help guide our actions. We see this as a continuous process of understanding and improvement. This is what we have done recently:

- We have published a practical guide to human rights (see page 17). This is the first in a set, which will include 'Indigenous People' and 'Child Labour'
- We are developing a 'map' of the way we see human rights issues in our daily work (see page 29)

- We are continuing our efforts to engage in more dialogue with communities wherever we operate (see pages 19,23 and 39)
- Our letters of assurance process (see page 4) includes specific references to human rights
- We are in discussion with human rights organisations to ensure that our policy on how we protect the security of staff and equipment is sensitive to current thinking
- We broadly support the aims of the 1998 International Labour Organisation (ILO) 'Declaration on Fundamental Principles and Rights at Work' (www.ilo.org).

Child labour

In Brazil, sugar cane is the raw material used to manufacture alcohol which the fuel distribution industry is legally obliged to offer on its forecourts and to include a percentage in its gasoline. Fuel distributors purchase alcohol from independent manufacturers. The alcohol regulations were introduced in the 1970s to reduce Brazil's dependence on imported oil.

Sugar cane harvesting provides a valuable source of income for the many migrant families which harvest it, especially in the north east of the country where unemployment is high. We are concerned that children of migrant farm labourers may be working in the sugar cane fields. The national minimum working age in Brazil is 14 years.

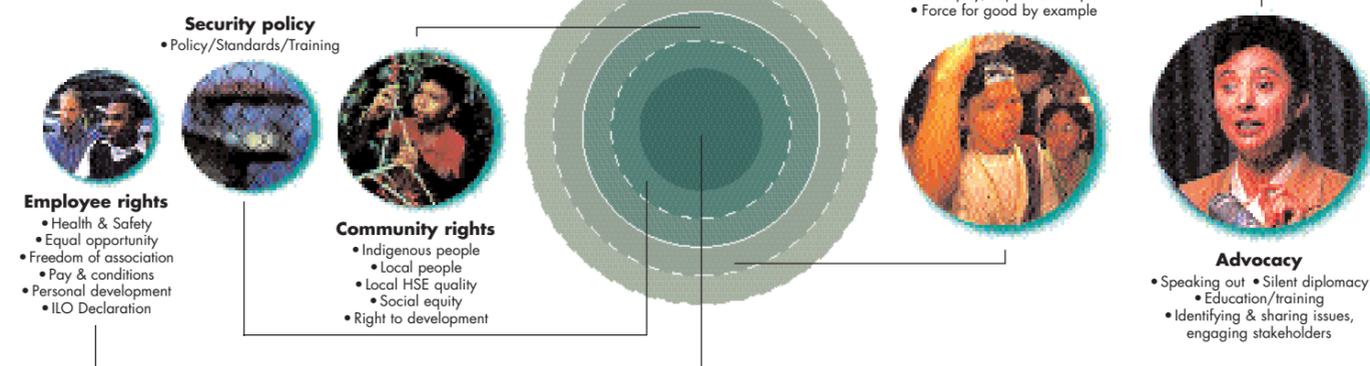
Shell Brasil would like to see an end to the use of children in the sugar cane industry. In this instance, it is difficult for us to take action because we have no direct control of the farmers.

We believe the best action is to develop alternative forms of employment and better educational opportunities for migrant workers. Shell Brasil believes that the most responsible way to do this is by working with the alcohol producers, sugar cane farmers, non-governmental organisations, the fuel distribution sector, other alcohol users and the authorities.

It starts with the most fundamental human right – the right to life.

Human rights and business responsibilities map

Values • Mindset • Engagement



To help kick start the process, Shell Brasil is working with interested groups to increase awareness of the problem and to commence the move towards constructive solutions in partnership with others.

Human rights and business responsibilities map

The term Human Rights has many meanings to different people. A big challenge for companies is to understand how it relates to them in practice and to have that view shared broadly. This will enable managers to understand the issues, set priorities and targets, measure their performance and report on progress.

The subject, as a business issue, is relatively new and there are no established management models. To overcome this we are developing a human rights and business responsibilities 'map'. Based on our Business Principles it starts with the most fundamental human right – the right to life. This is at the heart of our responsibilities as an employer – the health and safety of our staff. The first orbit covers other clear employer responsibilities such as those covered by the ILO declaration, fair remuneration, equal opportunity, personal development.

The map moves out through security policy into community rights, then national rights, to the broad area of speaking out on human rights. The process of engagement underpins the framework and is essential to its success.

It gets progressively more difficult to assign relevant performance measures (metrics) that can be verified as one moves from the inner to the outer orbits. This suggests that new approaches to measurement and verification are required here. These could be based on verifying that *processes* are in place to manage key aspects of performance. Actual performance could be judged by stakeholder perception surveys. Such perceptions would be a function of performance and a company's ability to engage. A combination of traditional and new verification methods will be needed to cover the whole map (see page 37 for our views on verification).

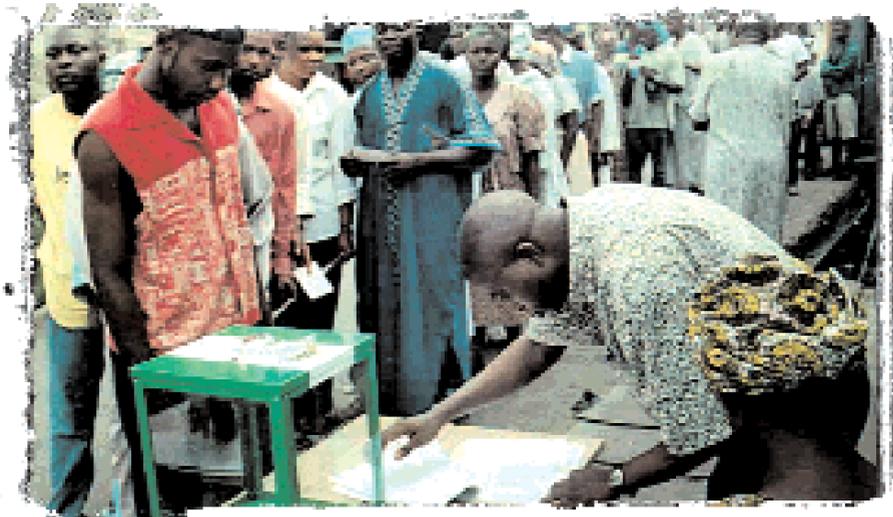
We invite comment on this map to help bring clarity to business responsibilities and continuous improvement in performance. We hope this map will also be useful in discussions with governments and other institutions in helping to define respective roles and responsibilities and areas of partnership.

Nigeria update

The human rights situation in Nigeria has "improved under the country's new military regime, but more needs to be done" according to Solil Sorabjee, the UN Rapporteur on human rights in the country, speaking in November 1998.

Nigeria has held a series of elections, leading to a return to democracy in May 1999. People in the oil producing areas remain determined that the federal government should return a greater share of the oil revenues to their region. Global oil prices have dropped dramatically, reducing the amount of money available for investment by the government and making it more difficult for all oil companies working in Nigeria.

The Movement for the Survival of the Ogoni People (MOSOP) continues to campaign for self-determination for the Ogonis. It has given Shell Petroleum Development Company (SPDC), the Shell company working in Nigeria, an ultimatum to clean up or clear out by 2000. But MOSOP is also working towards broad reconciliation with other Ogoni groups and has acknowledged a limited but significant response by the military to address its demands for improved human rights. SPDC remains in dialogue with a wide cross section of Ogoni leadership through the facilitation of well-respected Nigerian organisations.



Progress towards reconciliation has been slow, but steady. SPDC has, some time ago, resumed community development activity in Ogoni land in the medical, educational and agricultural fields. In December 1998, the company was able to restore electricity to the area.

The Ijaw people and other minority tribes in the Delta continue to make demands on the federal government in pursuit of their political and economic claims. Shell staff, and other oil industry workers, have been held hostage and oil facilities occupied as a consequence of direct action by some groups. Oil production has suffered as a result.

SPDC does not use force or seek armed intervention to suppress demonstrations by communities protesting peacefully, even if it disrupts production (see opposite). It believes strongly that dialogue is the answer to such situations.

Three workshops to discuss environmental and development issues were organised by SPDC in 1998, the first of regular meetings planned with stakeholders. Attendees included community representatives, local and foreign non-governmental organisations (NGOs) as well as state and federal government agencies.

At a meeting in April, SPDC explained its environmental plans. Related issues were discussed openly under the chairmanship of Peter Winsemius, a former environment minister of the Netherlands, and Akintola Williams, a respected Nigerian chartered accountant and public figure. This was followed in November by another workshop where

SPDC reported back on how recommendations suggested had been included in future plans.

In October, a community development workshop, attended by community representatives and Nigerian-based NGOs discussed SPDC's social investment policy and its transition from assistance to development, and working in partnership.

Use of force guidelines

Shell companies, like all companies, have a responsibility to protect the health and safety of their employees and safeguard the investment of their shareholders. We expect the forces of law and order of the State to give us appropriate protection, and seek an assurance that any use of force is in accordance with international standards of law enforcement. In some countries the State may lack sufficient resources to provide adequate protection. In such circumstances managers may seek authority, or be required by law, to employ security personnel as part of their responsibility to safeguard their people and property.

Any use of force must respect human dignity and the human rights of all people. It must be strictly within the law. Only minimum force proportional to the threat should be used, and damage and injury must be minimised. Security personnel must be given clear and unambiguous instructions and training on when and how force may be used, and report any use of force as soon as possible. They must render medical aid to injured persons, including offenders. They must be told that they will be accountable for any excessive use of force.



You told Shell

'Since Brent Spar and the execution of Ken Saro-Wiwa and other Nigerians, I have consciously avoided buying Shell Products. I was therefore pleased to read that you were attempting to confront these issues squarely.'

Australia

If armed guards are used, minimum standards that should be applied include the following: government authority to carry weapons; a definition of weapon type and ammunition, allowing for differentiated use of force and firearms; handling, safety and maintenance rules and procedures; rules of engagement; selection and training standards and certificates of competence, and incident reporting and investigation procedures.

The rules for individuals authorised to carry firearms are based on UN principles and codes of conduct and on international human rights standards.

" In 1998, which marked the 50th Anniversary of the Universal Declaration of Human Rights, it has been pleasing to take part in a more balanced debate about the role which companies like those of Shell can properly play in supporting human rights – alongside governments, UN agencies, human rights organisations and all of us as individuals. Addressing human rights abuses calls for action at many levels from political will and high policy, to 'bearing witness' and practical actions by companies and others, including people in companies like those of Shell. Our job is to work out what realistically we can do to enhance human rights in the context of doing our business – and then do it. **"**



Robin Aram,
Head of External Relations and Policy Development
Shell International.

Climate change

Our environmental performance is shown on pages 10-13. Global climate change is the most controversial and pressing environmental issue we face. Shell companies are reducing their own emissions of greenhouse gases and helping customers to reduce theirs. We discuss our approach here. In the next section, we look to the future and our role in the shift from fuels with a high carbon content to those with lower concentrations, such as gas and renewables.

What is climate change?

The greenhouse effect is a natural process whereby gases present in the atmosphere, such as water vapour, carbon dioxide and methane, keep the earth warmer than it would otherwise be. The gases act as an insulating blanket trapping some of the sun's rays.

Human activities, especially the use of fossil fuels, may be influencing the climate.

The burning of fossil fuels, mainly coal, oil and natural gas, together with other human activities, such as deforestation, releases greenhouse gases, especially carbon dioxide (CO₂) into the air.



Tell Shell at www.shell.com

Concentration of these gases in the atmosphere has been rising since the industrial revolution. There is concern that this is making the world warm up, creating potentially damaging changes in climate and local weather patterns.

Industrialised countries have agreed – under the Kyoto Protocol of the Framework Convention on Climate Change – to reduce their greenhouse gas emissions by at least 5% on average relative to 1990 levels, by the years 2008 to 2012. It is up to each signatory country to establish ways and means of reaching the targets, working with industry and consumers.

The Kyoto agreement signifies an important change in the attitude of nations and shows they are serious about addressing climate change. Reaching the Kyoto targets, however, is not expected to solve the problem and greenhouse gas emissions are set to continue rising well into the next century.

Our commitment on climate change

Shell companies are committed to taking action on climate change, in our own operations and also by helping our customers reduce their emissions. We have a responsibility to promote energy efficiency and a move towards renewable sources of energy.

We want to be part of the solution and we support market mechanisms that will help countries grow their economies in an energy efficient manner.

The Group's businesses are expected to grow by 3% a year overall. We have already taken steps to ensure that the consequent rise in our greenhouse gas emissions will be kept in check by improved energy efficiency and reduced venting and flaring of waste gases. The Group has already met the Kyoto target by reducing our emissions by 5% on our 1990 levels and the Group is committed to reduce this by a further 5% by 2002.

We intend to continue to exceed the Kyoto target throughout the following decade. We will achieve this in six ways:

Reduce our own greenhouse gas emissions
Shell companies will:

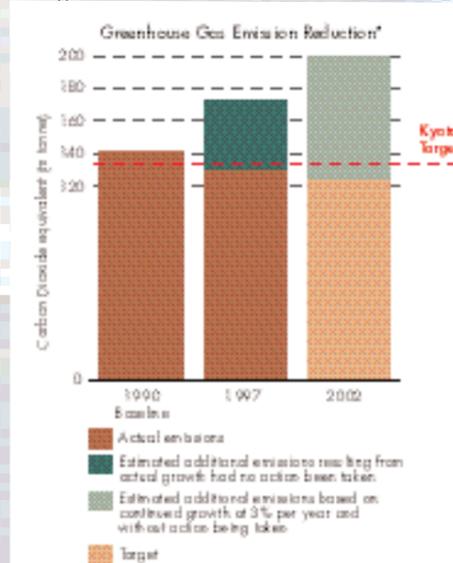
- Continue to invest in energy efficiency in their operations
- Stop the continuous disposal of unwanted gas during oil extraction (by venting and flaring) as early as possible. Our target is to halt continuous venting by 2003, and continuous flaring by 2008.

Help our customers reduce their greenhouse gas emissions

- Where possible, Shell companies will increase the availability of fuels with a lower carbon content, such as natural gas for heating and power, liquid petroleum gas for cars, and by offering renewable energy choices (see page 33).

We will continue to:

- Invest in developing renewable energy, especially solar power and biomass energy
- Increase provision of natural gas, supplying it through liquefaction, pipelines and conversion to liquid fuels
- Develop our business in gas-fired power generation (which produces less than half the amount of CO₂ per unit of electricity generated, compared with coal)
- Develop alternative fuel technologies for automotive applications, such as those based on hydrogen (see page 33)
- Directly contribute to a reduction in atmospheric CO₂ by expanding our forestry businesses and planting more trees
- Explore the commercial potential of technologies that help absorb greenhouse gas emissions.



The most controversial and pressing environmental issue we face.

Make appropriate business decisions

Nations will choose different ways to meet their Kyoto targets. Inevitably, such actions will put a cost on carbon emissions, either through carbon taxes or the value of permits in a carbon trading system. In the future, this will influence the investment decisions of Shell companies.

We will:

- Include the effect of a carbon cost in our investment calculations for new projects
- Investigate ways to reduce carbon emissions – for example, by improving energy efficiency, using low-carbon fuels, and finding ways to store (sequester) or remove carbon from the atmosphere.

Seek market solutions

The Kyoto Protocol establishes three flexible economic mechanisms: emissions trading, joint implementation and the clean development mechanism. If these mechanisms are designed and operated according to market principles, they will lower the cost of reducing greenhouse gas emissions. The price of CO₂ abatement in a market-traded system will be set by lowest-cost reductions.

We will:

- Pilot an internal trading system that will help Shell companies reduce their emissions efficiently and gain experience in such a system
- Provide practical support in the development of national and international emission trading systems
- Seek opportunities to invest in projects using the clean development mechanism and joint implementation.

Improve understanding

We continue to be part of the solution to climate change. Shell companies' knowledge of energy markets enables them to contribute to finding the right sorts of policies and practical measures in the countries where they operate.

We will continue to:

- Take an active part in the public policy debate at the national and international level, directly and through national industry bodies and international organisations
- Expand our support for research into climate change and its impacts

“Kyoto is already having a profound impact on our business world-wide. We are only beginning to assess what the full impact will be. Shell companies are facing up to this new dimension in their investment decisions as well as in the way we operate and meet the needs of customers. To demonstrate how seriously we take these issues, the Group has now set itself a voluntary target of a 10% reduction in our emission levels of greenhouse gasses over 1990 levels, to be achieved by 2002. We wish to do more, in providing energy choices for our customers, in establishing ways of managing emissions and in developing technologies to meet the energy needs of the coming century.”



Aidan

Aidan Murphy, Vice President
Global Climate Change, Shell International.

- Promote a deeper understanding of the 'well to wheels' concept, which enables a comparison of the efficiency of different fuel and engine combinations. Calculations include impacts throughout the life cycle of a fuel, literally from well to wheels
- Contribute to a deeper understanding of the issues through the development of our social investment programmes (see pages 26 and 27).

Measure and report

Shell companies will continue to:

- Measure their greenhouse gas emissions, publish results and seek independent verification of emissions data.



Renewable energy

The fuels we use have gradually moved away from those with high concentrations of carbon relative to hydrogen, such as coal, to those with lower carbon contents, like oil and then to gas. This movement is expected to continue as new fuels, such as hydrogen and energy from renewable resources, get cheaper and become more available.

Clean future – messy transition

Steam and the internal combustion engine have driven the rapid advances of our 20th Century economies. Technical improvement in the fuel cell, a device which converts hydrogen into electricity with very low emissions (see diagram), could create what is being called the 'hydrogen economy' in the next century.

Hydrogen can be used as fuel itself and serve as a carrier of energy which is converted by the fuel cell. But there are still many problems in storing and distributing hydrogen economically.

Shell Germany has contributed to one of the European Union's first hydrogen filling stations in Hamburg. It will provide fuel for experimental vehicles used by the local authorities.

Shell is a partner in a venture in Iceland to test the potential of hydrogen as a replacement for fossil fuels and create the world's first hydrogen economy. An early project could be the development of a bus service using fuel cells. Shell is working with Daimler Chrysler and Norsk Hydro on this.

The fuel cell, while an exciting prospect, has powerful competitors and its future is by no means certain. Emissions from the internal combustion engine are being reduced through the use of improved technology and cleaner fuels. So-called hybrid vehicles that combine different technologies – internal combustion engines with electric motors – are also becoming available.

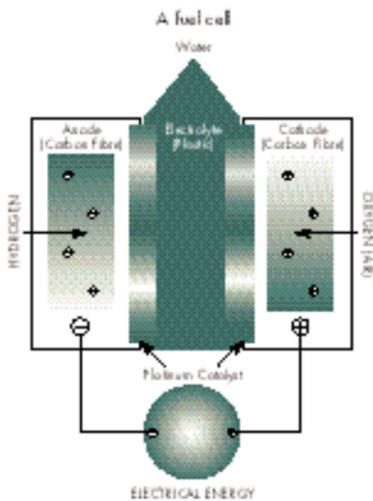


Environmentally, the next few decades look brighter because technical advances are leading to lower emissions. But commercially, the number of competing options make the transition from a carbon to a hydrogen economy look rather 'messy' because it is far from certain which technologies will become commercially viable.

Shell is committed to developing a range of renewable technologies (see page 34) while also investigating opportunities presented by the fuel cell. For example:

- We are working with Daimler Benz Ballard in the development of a fuel processor to produce hydrogen feedstock for cars using fuel cells
- Our technology, called Catalytic Partial Oxidation (CPO), converts hydrocarbons into hydrogen and carbon monoxide. This process can be adapted for use in different situations, such as in a car (to make hydrogen from a liquid hydrocarbon) or on the service station forecourt using liquid or gaseous hydrocarbons.





How a fuel cell works

Hydrogen and oxygen combine to form water and the energy released produces an electric current. The reaction is electrochemical and the electrical conversion efficiency is up to three times better compared with the useful energy harnessed from combustion.

Fuel cells convert hydrogen into electricity with low emissions and could eventually replace the internal combustion engine, leading to a hydrogen economy (see 'Clean future - messy transition').

The cost of producing photovoltaic panels could drop at the rate of 6-8% each year over the next 20 years. In 10 years from now the cost of solar electricity could be three times cheaper than it is today. Solar-generated electricity is already cost-effective in certain situations (see opposite).

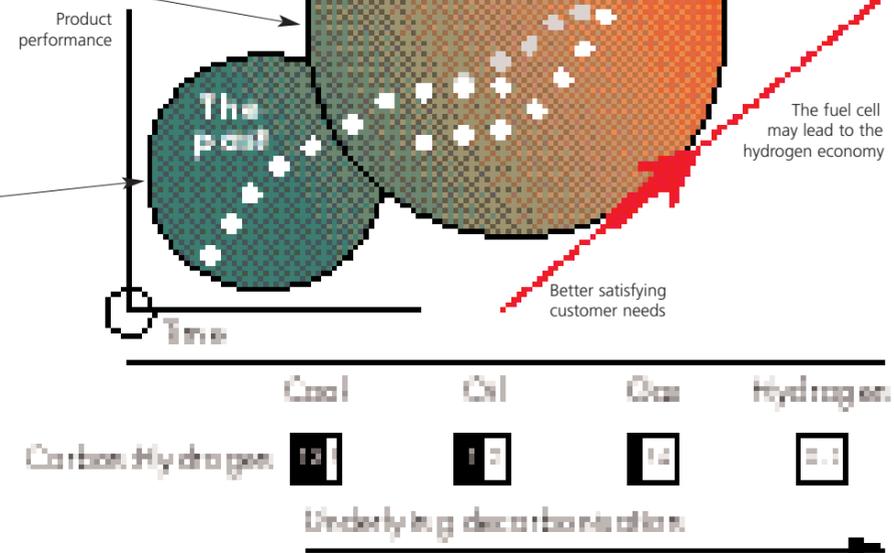
Renewable energy sources are well adapted to rural electrification schemes. These may be hybrids, combining for example, solar and biomass in what we call 'sun stations' capable of supplying villages and small towns with an uninterrupted supply of electricity.

Shell International Renewables will focus its efforts on solar electricity. Forestry as a business in its own right, biomass and wind power projects are also under serious consideration.

Sustainably grown wood is a key source of renewable energy. It can be converted into energy by combustion or other processes and is suitable for small-scale power generation in many locations.

The need to ensure a sustainable form of development world-wide is helping drive the market for renewables, as is the global pressure to reduce the amount of carbon dioxide emitted to the air.

In 1997 we set up Renewables as the fifth core business and made a commitment to invest US\$ 500 million over five years.



Lighting up rural South Africa

People living far away from the national grid in rural South Africa will soon have the option of using solar-powered electric lights at a cost no higher than conventional lighting fuels.

In a joint venture with the state electricity supplier, Eskom, Shell Renewables is to offer a solar solution to about 50,000 homes over the next three years, in areas that cannot realistically expect to be connected to the grid.

The system, developed by Shell Solar and a local company, Conlog, has three parts: a solar panel, a charge-controlled battery and a security and metering unit. Families will use magnetic cards storing prepaid power units at a cost of about US\$ 8 a month.

It is hoped that this, the largest commercial solar rural electrification scheme ever, will create much needed jobs and opportunities for education and entertainment in remote regions of the country.

You told Shell

Development of renewable energy will require a tremendous financial sacrifice. So there cannot be a going alone.

The Netherlands

You told Shell

Shell should be looking at some more fundamental shifts. For example the opportunity exists to look at the public transport options that may be possible for the 21st century.

Australia

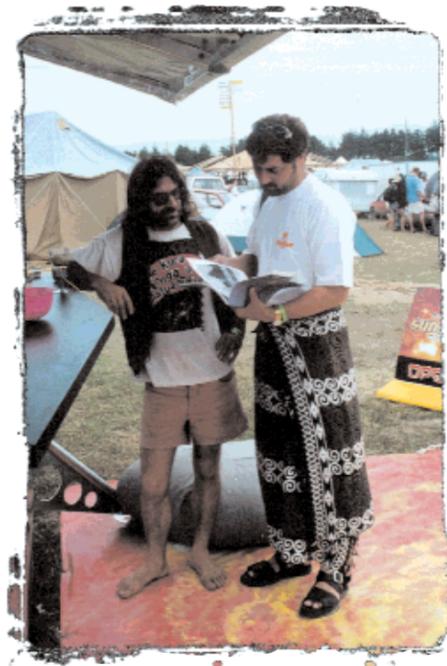
Biomass power for Norway

Shell Renewables has started its first commercial 'biomass' operation with the acquisition of a district heating plant in Norway fuelled entirely by wood. "This is an important step for us in the development of our renewable energy portfolio," says Jim Dawson, Chief Executive, Shell International Renewables.

Shell already has a wood-pellet business in Denmark selling biomass fuels to the domestic market.

Solar power for Chad

Deutsche Shell and the regional power supplier in the Hamburg region of Germany are co-sponsoring a solar power generator to supply all the electricity needed by a United Nations education institute in Chad, Africa. The institute is promoting sustainable agriculture and the use of renewable energy.



Shell and Greenpeace at the Shell Solar Café in New Zealand

Developing our Renewables businesses means we can provide more solutions to customers in a sustainable way. It looks like a great thing to do - but I don't kid myself it will be easy. It's clearly the right move for the long-term, but in the short-term we're faced with low energy and other raw material prices, together with deregulating markets. Against this tough environment, it is important that we deliver commercially viable projects. It will then encourage the investment necessary for growth in the future.

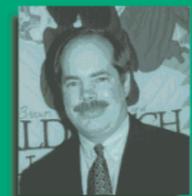


Jim Dawson

Jim Dawson, Chief Executive, Shell International Renewables.

The inexorable rise of carbon dioxide concentrations in the atmosphere demands profound changes in the world energy economy in the decades ahead. Starting from a small base, solar power and wind energy have already become the world's fastest growing energy sources, averaging annual growth rates of 16% and 25% respectively in the last decade. Just as the 20th century has been fueled by fossil fuels, so is the 21st century likely to see the advent of a solar-hydrogen economy, one that is far more efficient, decentralized, and less polluting than the fossil fuel system is.

Shell's decision to accelerate its commitment to renewable energy and hydrogen is a well-timed and historic step by a Group of companies that has been a major player in the petroleum business throughout much of the last century. Many companies have failed to anticipate past technological shifts in their industries and consequently found their market shares rapidly eroded. Shell's decision to enter the solar-hydrogen era via a portfolio of new investments will give it the chance to remain a major player in the energy industry as a new era unfolds in the decades ahead.



Christopher Flavin

Christopher Flavin, Senior Vice President, Worldwatch Institute.

Where we were in 1998

In the first Shell Report we presented a Road Map of how we planned to integrate sustainable development into the way we do business over the next few years.

We foresaw the need for a management structure to help us achieve this. At the time, we called this a Social Responsibility Management Framework. This has evolved into our Sustainable Development Management Framework (SDMF). The framework is built on our values and Principles and brings the necessary structure and consistency to our efforts.

Tell Shell at www.shell.com

Where we are in 1999

A Sustainable Development Council exists to steer the implementation of the SDMF across the Group. The council, chaired by Mark Moody-Stuart, comprises senior executives from each of our five core businesses and the heads of the corporate centre directorates. The council is accountable to the Committee of Managing Directors.

Systems

A diverse team from across the Group designed the SDMF to include best practice and our existing systems to minimise the need for new procedures. It is essentially a standard management process adapted to embody sustainable development. It consists of a series of eight inter-linking steps (see opposite). Key features include: integration of the economic, environmental and social elements in our everyday business; engagement; open reporting; and verification.

The framework can be applied over any time frame and to everything we do, including business planning, project management and daily activities. We already carry out many of the steps described, but the framework increases our focus and enables us to appraise, report and continuously improve performance.

The SDMF provides a structure to identify systematically all areas for improvement while stimulating new relationships and opportunities.

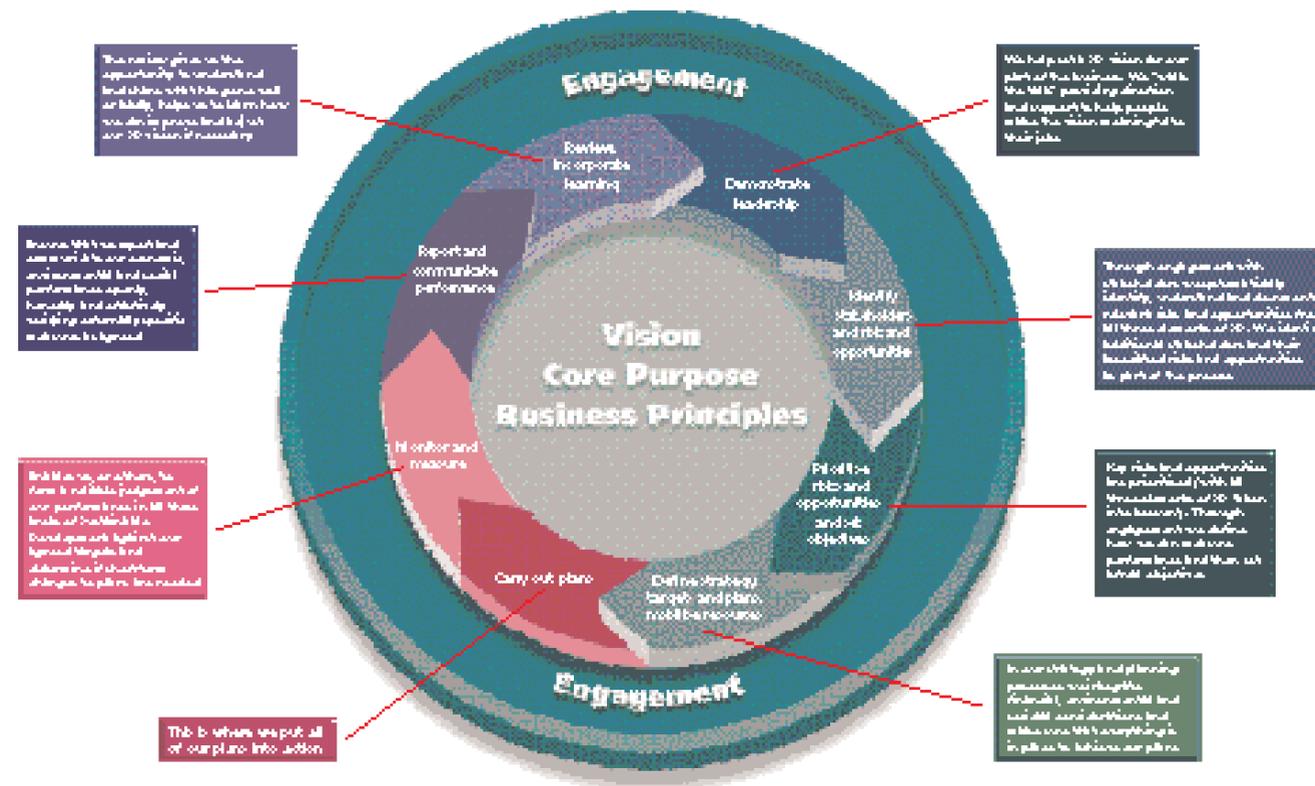
Supporting the SDMF is an extensive toolkit of best practice and procedures to guide users on how to apply it to their own activities.



You told Shell

"I think the trend is correct but I think the speed is not ambitious."
Brazil

Sustainable Development Management Framework



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

Standards

Implementing the SDMF involves, amongst other things, engaging and agreeing with stakeholders on how our performance may best be judged. This may vary and be tailored to suit particular needs. However, a degree of consistency of approach is required for reporting overall Group performance. We are developing a set of key performance indicators (KPIs) based on a set of common definitions, processes and standards for use across the Group.

KPIs should help stakeholders compare the relative performance of companies and encourage managers to focus continuous improvement efforts on critical areas of stakeholder and business concerns. KPIs need to be few, effective, simple to understand and easy to apply. We will continue to pioneer thinking in this area for our own purposes and, at the same time, work with others in the search for generally accepted KPIs and standards for corporate reporting. This is a very complex activity, which we expect will take many years to put in place.

Verification

We are using our Group financial auditors, KPMG and PricewaterhouseCoopers, to verify our HSE data. This is a relatively new area, but they have made good progress in 1997 and 1998.

The auditors have made a start in verifying social data in the three areas covered in the Verification Statement on page 20. This is the beginning of a learning process for both parties. We are committed to increasing the scope of verification in the social area but real progress can only occur once agreement on, and introduction of, KPIs has been achieved. A number of different organisations are also working in this area. Progress, which is slow, can best be achieved by co-operation.

Traditional verification methods may not be able to encompass all aspects of social performance (for example, in some areas of human rights). While such methods can verify certain facts and figures and the existence of processes they cannot normally

make judgements on performance. For this, alternative approaches may be needed. For example, performance could be judged by stakeholder perception surveys, arguably the most relevant measure of assurance.

Other methods might include inviting an independent organisation to review policy and performance in areas such as human rights, or bribery and corruption.

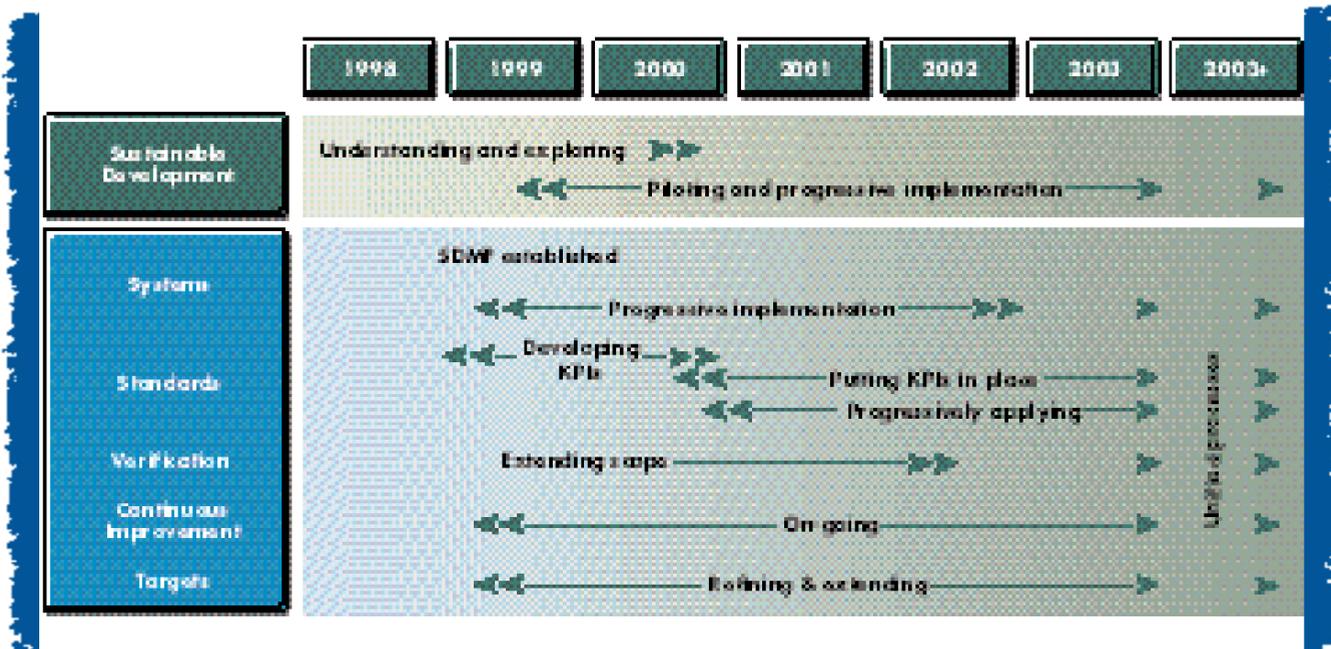
We are committed to working with others in finding the best combination of traditional and new methods of verification and assurance to satisfy stakeholders, without introducing unnecessary procedures.



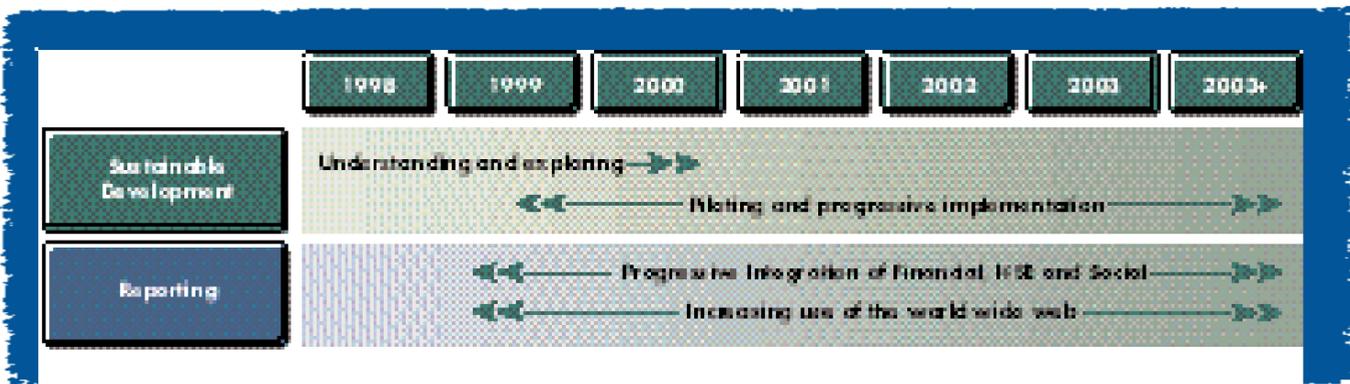
You told Shell

"In regards to this report the jury is now out. Ask me in 1, 2, 5, 10 years time."

Australia



In 1998 we were not as systematic in engaging as we said we would be.



Targets

Financial and HSE targets are well established within the Group. The absence of generally accepted standards in the social area makes it more difficult to set meaningful targets, such as the impact of our social investments.

Until such time as KPIs emerge to give a logical platform for targets we will continue to experiment with metrics. This year we have expanded their scope in areas including diversity, bribery and corruption and political payments.

Tell Shell at www.shell.com

To find out more visit our website at: www.shellreport.com

You told Shell

"If you continue to report developments in this way I will be very content."
UK

Reporting

In addition to The Shell Report, separate reports are published on the Group's performance in the areas of finance; HSE; and social investment (see page 40 on how to get these publications).

The financial reports of the Parent companies of the Group are a statutory requirement and contain verified data. The Group HSE report conforms to the emerging standards of HSE reporting and will be published for the third time this year, with verified data for 1997 and 1998.

The Shell Investment in Society report contains information about our activities in this area.

There is a move towards multinational companies producing one report covering financial, environmental and social performance. Our long-term objective is to achieve a truly integrated annual report. The Institute of Chartered Accountants* have published an integrated prototype report to stimulate debate. Much progress needs to be made in agreeing standards and definitions acceptable to stock exchanges, regulators and stakeholders. This is beyond our remit and poses huge challenges to the traditional verification and auditing profession.

You told Shell

"Use all public communication platforms to get the message across and receive messages. If need be use an executive with a megaphone riding on a cart to get the point across."

India

The Shell Report is our prototype annual report. We will pursue its development over the coming years so that we are prepared for the emergence of international reporting standards. We will help by pioneering thinking, standards and verification processes.

We have taken a first step by bringing together financial, environmental and social data into a single report. Last year we arranged data under our nine Business Principles. This year it is organised to reflect the three components of sustainable development.

Engagement

In 1998 we were not as systematic in engaging as we said we would be. This was particularly so with staff, and with a range of stakeholders on the subject of KPIs.

We have taken steps to remedy this. The Shell People Survey (see page 15) and follow-up events with staff and their managers will provide opportunities for hearing and responding to staff concerns and views on Group performance and future direction.

The development of thinking on KPIs within Shell has now reached the point where we have something to contribute to the wider debate. We are working with others such as the World Business Council for Sustainable Development (WBCSD), the Institute for Social and Ethical Accountability (ISEA) and the CERES/UNEP** Global Reporting Initiative, to develop generally accepted metrics and KPIs.

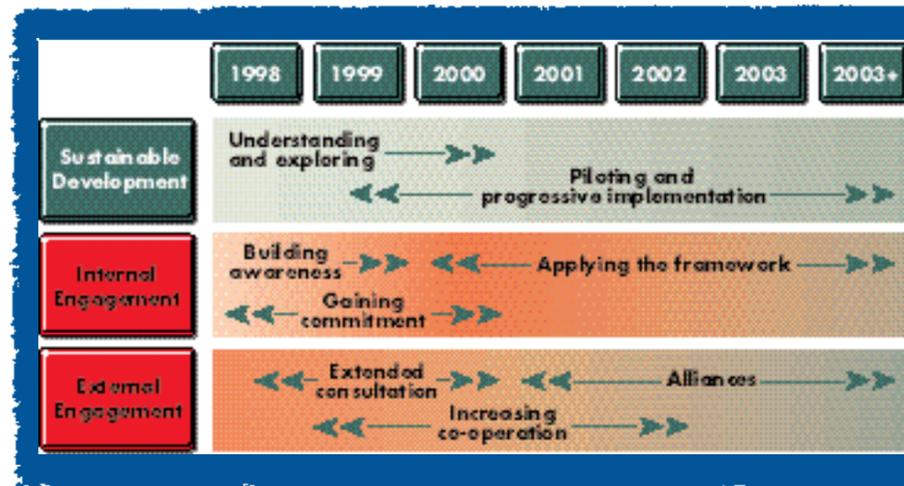
In other areas Shell people continue to step-up their engagement activities on a wide range of issues at many levels. This approach is built into the SDMF and will become a prime feature of the way we do business in future.

The number of interactions is too numerous to list, but the following aims to illustrate that we are serious about seeking out and valuing the views of others. Directly or indirectly this

process has led to the following developments in Shell over the last year:

- Human Rights dialogues (page 17)
- Niger Delta dialogues and Ogoni reconciliation (page 29)
- Dialogues in the preparation of a guide to combat bribery and corruption (see website)
- Giving broad support to the aims of the 1998 International Labour Organisation (ILO) 'Declaration on Fundamental Principles and Rights at Work'
- Climate change commitments and carbon trading initiative (page 31)
- WBCSD sustainable development scenarios
- Sharing experiences gained from managing major projects in sensitive regions, including Peru and the Philippines (page 22)
- The Shell Report, SDMF and 'Sustainable Development - Aspirations and Commitments' paper (inside front cover).

Please tell us what you think. Use the 'Tell Shell' card on page 43, the website (www.shellreport.com) or write to us at the address on page 42. Examples of the range of views expressed last year are shown throughout this Report and in full on our website. For statistics on the use of our website see page 19.



The consultants SustainAbility and Arthur D. Little are commissioned by Shell International to help in developing the thinking and tools needed to meet the Group's commitments to sustainable development. Here they give their view on progress and the challenges ahead.

"In February 1999, Shell reported its worst ever financial results, in terms of overall profitability. Chairman Mark Moody-Stuart warned that Shell faces one of the toughest challenges in its history. But what has this got to do with sustainable development? Long-sighted stakeholders might argue that Big Oil is intrinsically unsustainable, so get used to vanishing profits. Shorter-sighted shareholders might argue that Shell must drop distractions like sustainable development and concentrate on the real bottom line. But the real lesson is that business success now requires economic, environmental and social value added. That's why the sustainability and corporate governance agendas will be inextricably linked."



John Elkington, Chairman of SustainAbility Ltd.

"Shell has made excellent progress against its Sustainable Development Road Map and public commitments, by grounding the concept of sustainable development into something that really can be part of their everyday business. The SDMF is a pragmatic approach to doing this. It is built from and into existing business processes making it easy to understand and use. It should allow the Group, its individual businesses and employees to plan and act on embedding sustainable development into all its operations. This will, in time, create a 'direct line of sight' between Shell's aspirations and their every day activities. The challenge for Shell now is to be able to measure its SD performance credibly and to link this performance to corporate and individual objectives and incentives."



Jonathon Shopley, Vice President, Arthur D. Little International, Inc.

*The Institute of Chartered Accountants in England and Wales and the Centre for Tomorrow's Company Prototype plc Core Company Report 31 December 2000.

** Coalition for Environmentally Responsible Economies/United Nations Environment Programme

For more on Shell

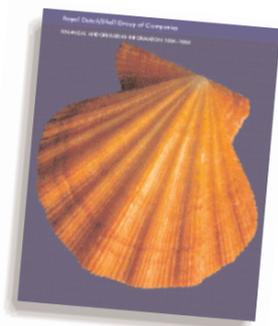
Annual Reports of Royal Dutch Petroleum Company and The "Shell" Transport and Trading Company, p.l.c.

Reports and financial statements of the respective Parent Companies and information on the Royal Dutch/Shell Group of Companies including details of the accounting policies employed.



Financial and Operational Information 1994 - 1998

Five years detailed financial and statistical information about the Group, including maps of exploration and production activities.

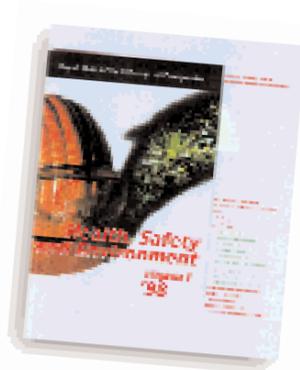


The Report on Group HSE Performance in 1998

Facts about Group companies performance in the areas of health, safety and the environment.

It also discusses Group views on pertinent issues related to those areas.

1998 report (shown here) available now. New report available June 1999.



Shell's Investment in Society

Information about the Group's social investment programmes, which aim to support the development of local communities and to help address major national and international social issues.



Statement of General Business Principles

Fundamental Principles that govern how each Shell company conducts its affairs.



<http://www.shell.com>

World Wide Web site where the Parent Companies Annual Reports, all published Group information as listed on this page, and other information about the Royal Dutch/Shell Group of Companies can be accessed.



For copies of these publications (including the Shell Report) contact us at the address on page 42 or via our website (www.shell.com).

This is Shell

Shareholders

There are some 600,000 shareholders of Royal Dutch Petroleum Company and some 283,000 of The "Shell" Transport and Trading Company, p.l.c. Shares of one or both companies are listed and traded on stock exchanges in eight European countries and in the USA.

Parent Companies

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

The Parent Companies directly or indirectly own the shares in the Group Holding Companies but are not themselves part of the Royal Dutch/Shell Group of Companies. They appoint Directors to the Boards of the Group Holding Companies, from which they receive income in the form of dividends. Royal Dutch derives most of its income in this way, on the basis of its 60% interest in the Group; the other 40% is owned by Shell Transport.

Royal Dutch/Shell Group of Companies

The Royal Dutch/Shell Group of Companies has grown out of an alliance made in 1907 between Royal Dutch Petroleum Company and The "Shell" Transport and Trading Company, p.l.c., by which the two companies agreed to merge their interests on a 60:40 basis while keeping their separate identities.

Group Holding Companies

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

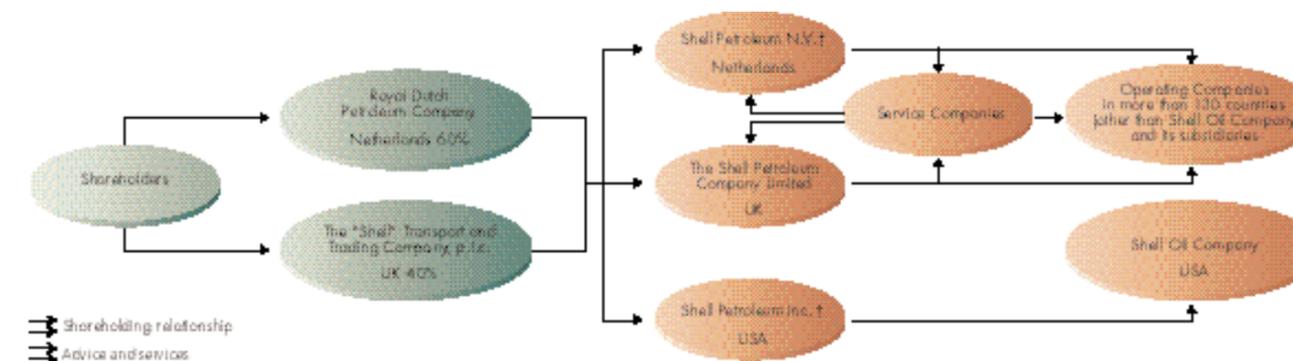
Service Companies

The main business of the Service Companies is to provide advice and services to other Group and associated companies, excluding Shell Petroleum Inc. and its subsidiaries.

Operating Companies

Operating Companies are engaged in various activities related to oil and natural gas, chemicals, power generation, renewable resources and other businesses throughout the world.

The management of each Operating Company is responsible for the performance and long-term viability of its own operations, but can draw on the experience of the Service Companies and, through them, of other Operating Companies.



† Shell Petroleum N.V. holds equity shares in Shell Petroleum Inc. which are non-controlling but entitle it to the dividend flow from that company.

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. In this Report the expressions 'Royal Dutch/Shell Group' and 'Group' are used to refer to the companies of the Royal Dutch/Shell Group as a whole. The words 'Shell', 'we' and 'us' are used in some places to refer to the Group and in others to an individual Shell company or companies where no particular purpose is served by identifying the specific company or companies.

Likewise, reference to "Shell International Renewables" and to "Shell Chemicals" are references to those Shell companies which are engaged in the renewables business and in the chemicals business respectively.

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United Kingdom

covering aspects of the oil, gas and power, chemicals and renewables businesses. For further copies, and for details of other titles available in English or as translations, please contact the External Affairs department of your local Shell company. Alternatively, write to the above address or fax +44 (0)171 934 5555 (London) quoting department reference PXX, or telephone +44 (0)171 934 5293 or contact us on our website www.shell.com.

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Charterhouse for printing.

The paper used in this Report is made from a base pulp extracted from the timber of sustainably managed forests and bleached with oxygen. It has been awarded the Nordic Swan environmental label for low emissions during manufacture, and the manufacturer is accredited with ISO 9002 Quality Assurance and ISO 14001 Environmental Management System.

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*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. Help us learn what we do well and what we can do better.

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 and seal so that the address can be seen on the outside and the comments are on the inside.

4. Post. No stamp is required except if posting from Canada or Laos who unfortunately do not subscribe to the

Fold here

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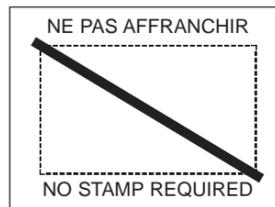
Your name and address (optional):

- Tick here if you would like your view posted on our website.
- Tick here if you are happy for your name to be included with your comment (all addresses will be treated in confidence).
- Tick here if you would like a reply.

Thank you very much.

By air mail
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Statement of General 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.