



How do we stand?



People, Planet & Profits

THE SHELL REPORT 2000

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

# HIGHLIGHTS

## Economic performance

- Strong financial performance
- Major portfolio rationalisation and upgrading achieved
- Cost improvements of US\$ 2 billion ahead of schedule
- Return on average capital employed (ROACE) of 12.1%
- Oil price up, refining margins down
- Motorists rank Shell top for brand preference, brand awareness and repeat purchase
- Shell employs 96,000 staff, hundreds of thousands of contractors, and contributes to the economies of over 135 countries

## Environmental performance

- All Group-level improvement targets and projections met except for spills
- Greenhouse gas emissions down more than 10% below 1990 levels

## Social performance

- Best ever safety performance – encouraging reduction in fatal accidents
- Number of women in senior executive positions up 18%
- Survey shows 75% of Shell people are proud to work for Shell
- Group security guidelines on the use of force conform to UN standards
- Nigeria remains a challenge
- Shell companies contributed US\$ 93 million in social investment

## Managing our business

- 62 contracts terminated and one joint venture divested because of operations incompatible with Shell's Business Principles
- Five breaches of the Group's 'no bribes' policy resulted in four dismissals and one resignation
- Certifiable HSE management systems in place in over 95% of all Shell companies
- Increasing integration of social and environmental considerations in investment and divestment decisions
- Increase in engagement activities on a wide range of issues at many levels

# HOW DO WE STAND?

# This report provides the evidence and documents the actions we have taken in 1999 in striving to meet our commitments.

## How do we stand?

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We really do want to hear your views on Shell or The Shell Report, about the issues we covered and anything we didn't. You can use the freepost card to tell us what you think. We value your views.

## Contact us via

- the internet at [www.shell.com/tellshell](http://www.shell.com/tellshell)
- e-mail at [tell-shell@si.shell.com](mailto:tell-shell@si.shell.com)
- or write to us using the pre-paid reply card at the back.

## MESSAGE FROM THE CHAIRMAN

“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.”



Mark Moody-Stuart  
Chairman of the Committee of Managing Directors

**How well are we delivering on our commitment to contribute to sustainable development? Are we integrating the three essential elements of sustainability – economic, social and environmental and balancing long and short-term priorities? What is our progress in changing the way we make decisions and how we run the business day-to-day? How do we stand?**

Like the surfer on our cover striving to catch the wave, we're starting to get the feel of it. But we know we've got a long way to go before we can stand with absolute confidence, let alone come up first time with the right approach for everything that the turbulent waters of a truly global business can throw at us.

We have done the relatively easy parts of the job, by developing some key management tools to change the way we make decisions. You would expect no less from a Group with a commitment to thoroughness and professionalism – but the real challenge is in making this come alive in the hearts and minds of all Shell people.

Financially, we are in much better shape than last year, mainly because of our disciplined use of capital, attention to costs, the reorganisation of our portfolio and, of course, a rise in the price of oil. New ventures in alternative energy solutions, such as hydrogen and fuel cells, as well as Shell Capital and E-business, expand the scope of our businesses.

Economically, Shell companies continue to make a major contribution to society through capital investment, taxes generated, employment and local procurement as well as providing clean, convenient and economic energy choices.

Socially, we are feeling the benefits of engaging with our stakeholders, including human rights groups and local communities in politically sensitive regions such as Nigeria. I'm particularly pleased we participated in the development of the Global Sullivan Principles, which we support, and we readily accept the challenge of Kofi Annan's Global Compact.

We have also learned some truths from our own people. In a global survey they spoke frankly about what they like and dislike about

working for Shell. We are acting on this. I am pleased by the fact that a very high proportion (71% favourable, over 15% more than the norm for high performing companies) say that 'where I work, we can question our conventional ways of working'. Additionally 68% of people felt that 'leaders in my unit trust the judgement of people like me' (7% above the norm for high performing companies).

I deeply regret that 44 contractors and three company staff lost their lives during 1999, 26 of them from road traffic accidents. This number is unacceptable, but I am encouraged by the 25% reduction compared to 1998. Our broader measures of accidents and incidents improved in all our businesses and 1999 marked the best ever safety performance by the Group.

We have implemented health, safety and environmental management systems in virtually all Shell companies and I expect that they will form the platform to drive further performance improvement. We are well on track to have the environmental component of the management systems covering all major installations certified to international standards by the end of 2000.

## MESSAGE FROM THE CHAIRMAN

**“By creating wealth and transferring skills, we contribute to economic and social development and generate resources for social and environmental improvement.”**

**Maarten van den Bergh**

Vice-Chairman, Committee of Managing Directors  
Finance  
East Asia and Australasia



We have met all of our Group-level environmental targets and projections except spills. Whilst we continued to reduce our greenhouse gas emissions to a level which is better than our 2002 target, this was partly as a result of reduced activity in our refineries. However, unit rates have increased in some cases as we use more energy-intensive processes to produce higher specification products for our customers. We have also started to include the possible cost of carbon in assessing the feasibility of large new projects.

A major task for the Committee of Managing Directors is to ensure that the sometimes lofty assertions we make on sustainable development make practical sense to all our staff. I know that many who work at the sharp end of Shell companies – on the rigs, in the chemical plants and on the forecourts – still find it difficult to understand what this means to them and how they can best contribute.

There are plenty of reasons for this, notably our size and complexity – 96,000 employees, 51 different languages and operations in over 135 countries. The changes to how we take decisions is part of the answer, for example making it clear that for project proposals to succeed they must take into account environmental and social considerations as well as financial ones. Visible, clear leadership and support are essential. I am determined that we shall accelerate the drive to make sustainable development part of our culture and continue to meet the promise to live up to our Business Principles.

Compiling and verifying this report makes us measure our progress in a rigorous way. Our aim is to give you the necessary information to form a view. This year we have combined the Group Health, Safety and Environment report with The Shell Report to provide you with a consolidated overview of our activities. Read on, judge for yourself and then tell us how we stand.

**“Just as the Stone Age did not end for a lack of stones the oil age will not end for a lack of oil. Our progress towards developing commercially viable renewable resources must continue.”**

**Jeroen van der Veer**

Chemicals, Renewables, Shell Hydrogen  
Shell Capital, Group Research  
Europe, CIS, Middle East  
North Africa and South Asia



**“The most basic human right is the right to life. Safety is paramount. Cost cutting does not mean cutting corners.”**

**Phil Watts**

Exploration and Production  
Downstream Gas and Power, Coal



**“A real dialogue must be a two-way conversation. We must listen, engage and respond to our stakeholders. We will be judged by our actions rather than our fine words.”**

**Harry Roels**

Shell Services International, Planning  
Health, Safety and Environment, External Affairs  
International, E-business  
Central and South America and Sub-Saharan Africa



**“Our challenge is to develop innovative, profitable and sustainable products that satisfy customer needs.”**

**Paul Skinner**

Oil Products



## TRANSPARENCY

Transparency is important to build trust and credibility. Conventional verification methods alone do not provide the assurance needed. We are committed to working with others to challenge traditional thinking and make progress in this area.

## TRANSPARENCY



SHEET OF ICE Photograph by Walter Schmid

**We recognise the importance of accountability to stakeholders and are learning to be more open, through greater engagement with our stakeholders, the publication of this report and providing an opportunity for people to tell us what they think of our performance (see page 1 on ways to do this).**

### Why verify?

An integral part of transparency and confidence building is the publication of data and information that is verified by respected independent organisations. Beyond assuring accuracy and reliability, verification increases stakeholder confidence that what is being reported is a fair picture of performance. It also improves our ability to monitor and manage our business. We have made good progress on the verification of our critical health, safety and environmental (HSE) performance data and parameters. We are looking at ways we can give the same level of assurance on the rest of the social information we publish.

### HIGHLIGHTS

- Good progress made in environmental and social verification
- Focus on the parameters that reflect the significant health, safety and environmental (HSE) impacts at the Group level
- Transparency enhanced through clear identification of what is verified
- Working with others to explore new ways of providing assurance

### What we have done to verify HSE data

We started with verification of the 1996 data in the upstream business and extended this to the rest of the Group in 1997 and 1998, when we commissioned the most extensive verification ever undertaken by a large multinational organisation. This involved the verification of 25 parameters and visits to 40 operating units around the world.

The rigour of the verification in the last three years gave the verifiers, and us, a better understanding of the quality of our underlying systems and processes.

With this knowledge we worked with the verifiers to focus our attention on the 12 HSE parameters (see tables in Annex, page 49) that we – supported by our verifiers – believe reflect the significant HSE impacts at the Group level.



[www.shell.com/hsepolicy](http://www.shell.com/hsepolicy)

We continue to publish data on all parameters reported last year and we stand by their integrity. But other than the 12 key areas, these data are not verified.

For the 12 parameters, data have been verified locally at those companies that the verifiers consider to be major (material) contributors to Group totals.

This has reduced the number of operating unit visits from 40 to 16 without diminishing the quality of the process. The verification process extended from data collection at the individual sites to final consolidation at Group level, where data from all contributing companies were reviewed.

### How we have approached verification of social data

There is no universally accepted way to verify such information, although it is generally accepted that it is important to do so. Companies and organisations are experimenting with various methods, such as surveys and testimonials.

We wanted to make a start and have asked our verifiers to look at the reliability of selected processes and data. They have verified aspects of some of the key processes we use to manage social issues, such as the completeness of the Business Principles letters process (page 31) and the compliance of the Shell Group security guidelines with UN standards on the use of force (page 26). Verification extended to stakeholder engagement processes such as the Shell People Survey (page 24) and the development of our key performance indicators (page 32). The verifiers have also looked at data such as analysis of the 'Tell Shell' responses (page 33). All the verified sections are marked with the coloured symbol  in the Report.

## TRANSPARENCY

## REPORT FROM THE VERIFIERS



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

We have been asked to verify the reliability of selected performance data and statements. We have done so and marked these sections with the different coloured symbols illustrated below within The Shell Report 2000 of the Royal Dutch/Shell Group of Companies. The preparation of The Shell Report is the responsibility of management. Our responsibility is to express an opinion on the reliability of the data and statements indicated, based on the verification work referred to below.

#### In our opinion:

- the data on financial performance marked with the symbol  are properly derived from the audited Financial Statements of the Royal Dutch/Shell Group of Companies for each of the ten years ended 31 December 1999
- the health, safety and environmental (HSE) statements and graphs, together with the explanatory information, performance data tables and notes in the Annex (see pages 48-49), properly reflect the performance of the reporting entities for each of the HSE parameters marked with the symbol 
- the statements and data marked with the symbol  relating to the systems and processes Shell has put in place to manage social performance are supported by appropriate underlying evidence and present a balanced view.

#### Basis of opinion

There are no generally accepted international standards for the reporting or verification of environmental performance data or of processes to manage social performance. We have adopted a verification approach that reflects emerging best practice, using

a framework based on the principles underpinning international standards on financial auditing and reporting. Therefore, we planned and carried out our work to obtain reasonable, rather than absolute, assurance on the reliability of the performance data and statements tested. We believe that our work provides a reasonable basis for our opinion.

#### Verification work performed

In planning and conducting our work, we included environmental and social experts within our team. The work carried out is described in the Report:

- Financial – page 13
- Environmental, including health and safety – page 19
- Social – page 27.

In addition, we examined the draft Report to confirm the consistency of the information reported with the findings of our work.

#### Considerations and limitations

It is important to read the HSE statements and graphs in the context of the explanatory information and notes in the Annex and the notes to HSE graphs and performance tables.

HSE data are subject to many more inherent limitations than financial data given both their nature and the methods used for determining, calculating or estimating such data.

We did not carry out any work on data reported in respect of future projections and targets.

It is also important to note that the financial data reported are not sufficient to ensure a thorough understanding of the financial results and the financial position of the Group.

**Malcolm Bailey**  
PricewaterhouseCoopers  
**Alexander M. van Drunen Littel**  
KPMG  
Shell Global Lead Partners

“We are actively supporting the development of standards and guidelines governing corporate sustainable development reporting to bring greater transparency and value to companies and stakeholders.”

#### Improvements

We also wanted to make verification more approachable and meaningful. We worked with the verifiers to present the verification work in an innovative style and language. In particular we have introduced verification symbols to show what has, and has not, been verified.

#### Verification in the future

With the increased confidence and maturity of our reporting system we believe that the next steps in improving the efficiency of the HSE verification process will come from the increased use of self-appraisal and internal controls.

Proving the reliability of data is only half the story. We recognise that this needs to be supplemented by independent views of what the data mean in terms of good or bad performance. We are working with industry groups to agree standard benchmarks and we are exploring ways to gather independent views.

Judging social and ethical performance – such as the effectiveness of anti-bribery processes or human rights performance – is difficult because those topics are hard to verify using traditional auditing techniques. For this, alternative approaches will be needed along the lines envisaged for HSE above.

We see key performance indicators (KPIs) as the logical basis for focusing verification effort (see page 32).

Our ultimate ambition is to achieve a level of public trust and respect that will reduce the need for formal verification. This might be some years away, but we hope that widespread efforts to build better relationships between companies and civil society will lead to the emergence of trust through alliances and greater involvement.

KPMG Accountants NV  
The Hague

PricewaterhouseCoopers  
London

*KPMG Accountants NV* *PricewaterhouseCoopers*

## WHY SUSTAINABLE DEVELOPMENT?

We believe that sustainable development is the right approach – because values and principles are important to us, and it makes good business sense.



### Why sustainable development?

Many still question the wisdom of striving to integrate the principles of sustainable development into the way we do business, saying the ideas are either silly or too difficult to explain. We have found just the opposite. More than three years down the road (see Road Map, page 29), we believe more than ever that this is the right approach because values and principles are important to us, and it makes good business sense.

### As an expression of values

Our core values of honesty, integrity and respect for people are at the heart of our Business Principles (see inside back cover and page 29), the basis on which we do business. In these Principles we undertake to contribute to sustainable development.

Sustainable development offers a means of tackling some of society's most pressing concerns – extremes of poverty and wealth, population growth, abuses of human rights, environmental destruction, climate change and loss of biodiversity.

We recognise that Shell is part of society. We share the same agenda. As people we all breathe the same air and have the same basic hopes and concerns for the welfare of our children and their future.

Our success as an organisation is intimately linked to that of society. We wish to play our part responsibly – by maintaining and enhancing natural and social capital, as well

as contributing to the global economy's capacity to generate and distribute wealth. Sustainable development provides the best model to see these elements together in an integrated way while creating business value.

### As a creator of business value

Our sustainable development management framework (SDMF), see page 31 and the figure opposite, is designed to help us achieve the necessary integration and create the conditions for building long-term value and a strong brand in line with our Business Principles and society's expectations. Engagement is a critical activity and driver of the SDMF. Other elements ensure that we can derive value through four key levers:

- **Reducing costs** – in the short-term by becoming more eco-efficient (doing more with less) and in the long-term working with others to ensure that nothing is wasted
- **Creating options** – anticipating new markets driven by people who want a more sustainable world, and evolving business portfolios and supply chain relationships to match
- **Gaining customers** – enhancing the brand by providing services and products built on sustainability thinking to create customer loyalty and market share
- **Reducing risk** – managing risks better by understanding what represents responsible behaviour. Focusing on managing existing assets in the short-term and evolving the business portfolio longer term. Achieving recognition from financial institutions for success in this area.

## WHY SUSTAINABLE DEVELOPMENT?

 You told Shell

“It gives me sheer pleasure to know that there is a company out there doing something to ease the lives of other people.”

Philippines

You told Shell 

“Some years ago, I did not like to mention I was employed by Shell, I knew people would turn their noses up disapprovingly. The direction taken by the company is therefore most encouraging.”

Shell employee - France

### Sustainable development management framework

A practical tool for embedding sustainable development into decision making



We believe that matching these levers to the strengths of our businesses, in ways that show commitment and responsible performance, will enhance our reputation and in turn attract and retain talent and capital.

By these actions – which are aligned with and support the wider conditions required for sustainable development – we will generate short, medium and long-term financial value, not just for shareholders but for society at large.

### Enough words – show us the performance

We know that translating our sustainable development aspirations and commitments into the way we do business will take time. That is why we developed a Road Map showing our plans to guide us in our actions and for stakeholders to chart our progress (see page 29).

On the next 26 pages we present evidence of our performance. Data are catalogued under the three elements of sustainable development: economic, environmental and social. Our progress in integrating these elements into our standards and systems and in promoting awareness across the organisation is shown in ‘Managing our Business’ (see pages 28-33).

We indicate how each of our Business Principles relates to particular aspects of performance. The corresponding Principle is shown under each heading.

In each performance section we discuss relevant issues and present case studies to illustrate some of the challenges we face – and successes we have had – in striving to make sustainable development part of daily business.

 [www.shell.com/sustain](http://www.shell.com/sustain)

## GUIDE TO PERFORMANCE SECTION

### Economic

- Profits and growth
- Assets and liabilities
- Dividends and shareholder return
- Our customers’ choice
- Tax
- Employment
- Competition
- Investment and divestment
- What we spend where

### Environmental

- Emissions to air
- Effluents
- Spills
- Waste
- Fines, settlements and liabilities
- Awards

### Social

- Safety and health
- Working hours and wages
- Child labour
- Equal opportunities and diversity
- Unions and staff forums
- Security
- Contribution to the community

### Managing our business

- Standards
  - HSE Commitment and Policy
- Promoting our Principles
- Business integrity
- Political payments
- Systems
  - Letters of assurance process
  - HSE management systems
  - Sustainable development management framework
  - Key performance indicators
- Targets
- Reporting and verification
- Engagement

### Key to symbols:

   Information verified, see page 5

 Issue

 Find out more at [www...](http://www.shell.com/sustain)

 You told Shell

## ECONOMIC

“A year of real progress and this is only the start. Through the vitality of our organisation and the creativity of our people we can now realise the value in our enormous portfolio of opportunities.” *Mark Moody-Stuart*

## ECONOMIC



Violent protest against globalisation at the World Trade Organisation summit, Seattle, USA.

Drama on the trading floor – typical of the fast pace of today's global economy.



## HIGHLIGHTS

- Strong financial performance
- Major portfolio rationalisation and upgrading achieved
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- Oil price up, refining margins down
- Motorists rank Shell top for brand preference, brand awareness and repeat purchase
- Shell employs 96,000 staff, hundreds of thousands of contractors, and contributes to the economies of over 135 countries

**The Royal Dutch/Shell Group is commercial in nature and its primary responsibility has to be economic – wealth generation, meeting customer needs, providing an acceptable return to investors and contributing to overall economic development. In this section we report on our economic performance.**

We have been reporting verified financial data in detail for many years in the Parent Companies Annual Reports. [www.shell.com/annualreport](http://www.shell.com/annualreport) This year, like last year, we repeat key financial data in this report as well as reporting data in the wider economic context.

### Profits and growth

#### Principle 1 Objectives

We had a strong performance in 1999 after an extremely poor 1998. Full year adjusted earnings\* (which exclude special items) were US\$ 7,093 million, an increase of 38% compared to last year. This was mainly due to higher crude oil prices and cost improvements, partly offset by the effects of reduced refining and marketing margins.

Cost improvements in 1999 total US\$ 2 billion, well ahead of schedule towards the Group's increased target of US\$ 4 billion annually by 2001 (relative to 1998 levels).

Return on average capital employed (ROACE) – how much return is made on the capital invested – is a standard measure of how well a company uses its capital and assets. Our target is to deliver ROACE of 14% in 2001\*\*. In 1999 we achieved a ROACE of 12.1%, shown in the graph compared with other oil majors.

### Globalisation and growth

The world's economy is the engine that provides the wealth needed to fund a better quality of life for this and future generations. Growth is essential if a fast expanding population is to be catered for, but it should not be at the expense of the environment or social structures that are an essential part of life's quality.

The Shell Group has been growing at about 3% a year (in terms of oil and gas production and sales) and plans to continue to do so but with an

\*Estimated Current Cost of Supplies (CCS) basis

\*\*Based on certain assumptions, amongst them, US\$14/barrel Brent oil price

## ECONOMIC

**John Mahedy**  
Analyst, Stanford Bernstein

“Financially, a year of dramatic change for the Shell Group. Increased competition and volatile margins provided the backdrop for a significant refocusing of the Group’s strategy. While such a transition is likely to take several years, evidence of improvement was seen in operating results. The equity market responded rewarding the stock versus its peers.”

increasing focus on lower carbon fuels such as gas (see pages 35, 44, 46). This means that we have to find ways to balance the positive side of growth – more tax paid to government, more jobs, greater wealth – with the potential to damage the environment and disrupt the lives of those people who might be affected by development but who do not necessarily reap the benefits directly.

These are complex issues and we do not have all the answers but we are determined to work with others to find them. As a minimum, we know we have to continue to reduce our environmental footprints and optimise our social contribution.

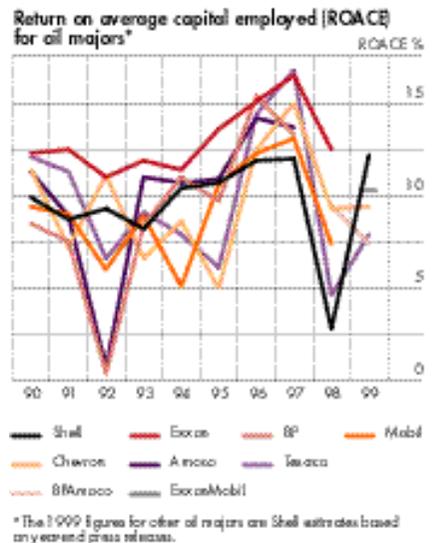
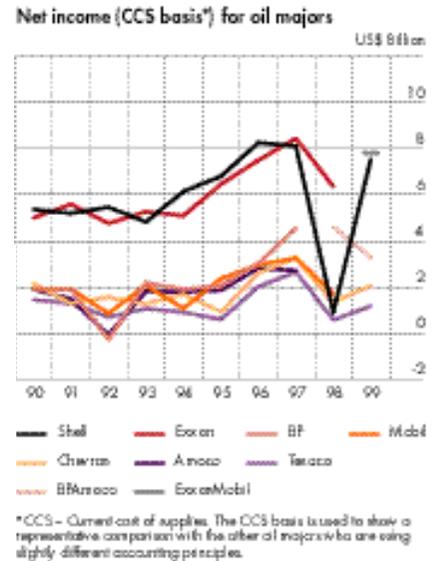
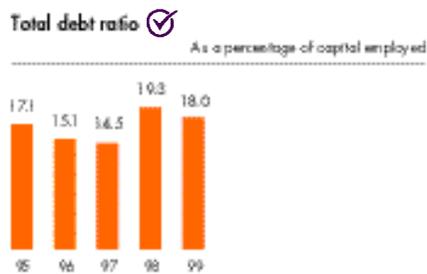
For the environment, this means that we have to become more efficient in the way we work and find ways to make less and less impact while growing – to disconnect impact from growth. This involves such dramatic strides in efficiency that no one yet has devised a clear and practical way forward. We have, though, made some progress, as reported last year, on reducing our global warming potential – cutting emissions of carbon dioxide in absolute terms – while continuing to grow.

We are also improving the way that we engage with the people affected by our activities, to ensure we reduce the potential drawbacks of development and improve the opportunities to live a better life. This is reflected in a broad range of actions, including an improving understanding of human rights, greater engagement with society and a social investment programme that delivers lasting value.

If we are to continue growing, we know we have to fulfil clear social and environmental responsibilities and work more in co-operation with others. Government has an important role too, to provide the structures and conditions that encourage responsible growth.

It is only in this way that we can provide the necessary assurances and choices demanded by those who buy our products – the people who ultimately decide on our future.

 [www.shell.com/global](http://www.shell.com/global)



 [www.shell.com/profits](http://www.shell.com/profits)

**ECONOMIC**



**www.shell.com/intilaaqah**  
With the help of the Intilaaqah programme, 19-year old Wafaa started her own beauty salon in Sur, Oman.



Our priority: to provide customers with a fast, friendly, hassle-free service by a 'one-stop shop'.



The Easypay electronic payment system in The Netherlands. Customers pay with a special micro-chip key-ring, which offers the convenience and speed of paying at the pump.

**Assets and liabilities**

**Principle 1 Objectives**

Cash and other readily accessible funds\* were US\$ 4 billion at the end of 1999, up US\$ 1.3 billion on 1998, while the total debt (both short and long-term) decreased by US\$ 0.9 billion to US\$ 12.9 billion. As a result the total debt ratio decreased from 19.3% in 1998 to 18.0% in 1999.

Net assets increased by US\$ 1.2 billion to US\$ 56.2 billion during the year. Fixed and other long-term assets decreased by US\$ 4.0 billion to US\$ 83.5 billion mainly due to the effects of asset sales.

**Dividends and shareholder return**

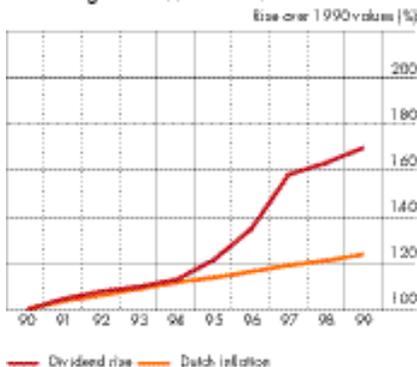
**Principle 2 Responsibilities to shareholders**

The aim of the Parent Companies of the Royal Dutch/Shell Group of companies is to deliver dividends that increase at least in line with inflation averaged over a period of years.

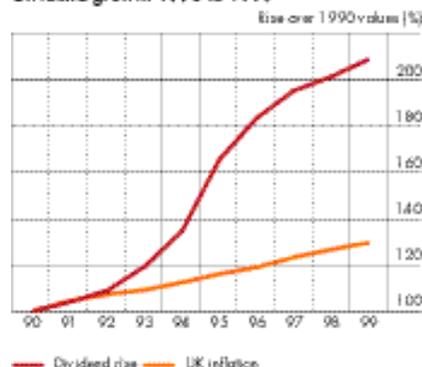
Dividends for 1999 of Euro\*\* 1.51 per share for Royal Dutch Petroleum Company (up 4.0% from 1998) and of 14.0p for The "Shell" Transport and Trading Company, p.l.c. (up 3.7% from 1998) have been proposed.

Both Parent Companies have announced they are considering a multiple year share buy-back programme. A major hurdle under the Dutch fiscal regime seems likely to be removed when new tax laws are implemented with effect from January 2001.

**Royal Dutch Petroleum Company**  
**Dividend growth 1990 to 1999**



**The "Shell" Transport and Trading Company**  
**Dividend growth 1990 to 1999**

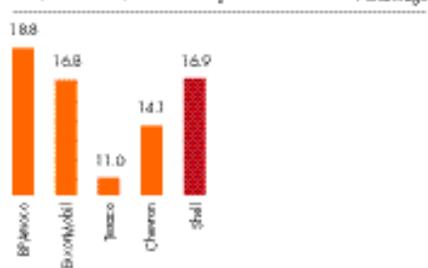


**Shell in sustainability index**

The Royal Dutch/Shell Group of companies has been included in the Dow Jones Sustainability Group Indices with an overall ranking above the industry average.

[www.indexes.dowjones.com/djsgi](http://www.indexes.dowjones.com/djsgi)

**Total shareholder return\* 1990 to 1999 for oil majors**



\* Total shareholder return is a recognised measure of long-term financial performance. It combines changes in share price growth with dividends. An investor 10 years ago in shares of the listed companies, with all dividends reinvested quarterly, would yield the indicated return at the end of 1999. The calculation is based on gross dividends expressed in dollars and base country currencies. Royal Dutch/Shell Group total shareholder return is a weighted average based on a 50:50 split between Royal Dutch and "Shell" Transport and Trading Company shareholder returns. Source: Bloomberg

**CASESTUDY**

**Triple A credit rating**

A corporate credit rating reflects the current opinion of independent credit analysts of the company's overall creditworthiness. Ratings are one of the tools that investors use to make sure that their investment decisions are in line with the risk they want to be exposed to.

Long-term credit ratings under Standard & Poor's definitions vary from AAA, for financially extremely strong companies, to D for companies that are highly vulnerable or even in default of their obligations. The Shell Group of Companies is one of the few commercial organisations in the world with an AAA credit rating.\*

\*Standard & Poor's Corporate ratings, September 13th 1999, showed 16 companies having a AAA credit rating.

\*Cash equivalents and short-term securities  
\*\*1 Euro is equivalent to US\$ 0.95 (as on 30.03.2000)

See message from the verifiers page 13

See message from the verifiers page 27

## ECONOMIC

You told Shell 

“One of the difficult things about stepping out from behind the curtains is that you are now in the spotlight! I will be watching.”

South Africa

### Our customers' choice

#### Principle 2 Responsibilities to customers

Shell serves over 20 million customers a day in a network of over 45,000 retail stations. Customers come to Shell – the largest branded retail network in the world – to satisfy more than just their fuel needs. We are one of the world's largest retailers of LEGO™ toys and convenience goods.

Shell is also one of the biggest marketers of liquefied petroleum gas (LPG), with a global customer base of more than 40 million. In many developing countries, clean-burning Shell LPG is replacing environmentally damaging alternatives such as wood or dried dung.

We serve major industrial customers as well: every four seconds, on average, an aircraft is refuelled with premium Shell aviation products at one of 650 airports worldwide.

In 1999, 20,000 private motorists in 52 countries were asked in our global Brand Tracker survey which brand they would choose – all factors being equal. For the third year running, Shell was ranked number one globally for brand preference, brand awareness and repeat purchase – a convincing indication that we are meeting our customers' needs.

#### Brand share of preference 1999



Results of our global Brand Tracker survey of over 20,000 private motorists in 52 countries.

### ✓ Tax

#### Principle 2 Responsibilities to society

We have a responsibility to our shareholders to decrease our tax burden and have made good progress in 1999 in doing so. Nevertheless we make a substantial contribution to society. In 1999, the tax revenue generated by Shell companies was more than US\$ 50 billion (more than US\$ 46 billion in 1998). Over US\$ 44 billion was sales taxes, excise duties and similar levies, the remainder was corporation tax.

To put this in context the United Nations Development Programme (UNDP) Report on Human Development 1999 reports that the total external debt of the 41 heavily indebted poor countries in 1996 was US\$ 245 billion.

#### Tax charge over 10-year period ✓



## CASESTUDY

### LiveWIRE

Shell LiveWIRE is an investment initiative that helps young people interested in starting their own business. LiveWIRE is now operating in eight countries and last year advised over 30,000 young entrepreneurs.

Entrepreneurial spirit and a thriving small business sector are key ingredients of a mixed and healthy economy and an important component of continuing economic development. LiveWIRE encourages young people to develop their ideas into practical business plans. It also helps them to see what skills and resources they need and gives recognition to those who have succeeded.

Shell LiveWIRE provides core information in English, Dutch, Hungarian, Arabic and Spanish and the programme is adapted to each country where it operates.

Examples of young entrepreneurs who benefited from Shell LiveWIRE's activities last year are:

- a company in Tasmania designing and producing internet and multimedia interfaces which has created a niche for itself in providing training-focused IT developments across Australia
- a luxury knitwear designer and producer in Ireland which sells to both the domestic and overseas markets
- a company in Eindhoven which organises and plans tailor-made tours for the adventurous, independent Dutch traveller to remote destinations around the world
- an Oman-based business which produces and sells ice-cream, confectionery and juices to the local market.

 [www.shell.com/LiveWIRE](http://www.shell.com/LiveWIRE)

 [www.shell.com/case](http://www.shell.com/case)  
for more case studies

Lucy Downes, a client of the new LiveWIRE Ireland programme, is a luxury knitwear designer who benefited from LiveWIRE's Business Growth Challenge course.



**ECONOMIC**



“The over-riding imperative of the corporation today is profit maximisation – don’t tell me maximum profitability and respect for the external world are compatible – it just simply isn’t true!”

Unknown



“The observance of a good corporate moral code is the soul of the company and its life for survival in future. A good corporate image is better than gold and silver.”

Nigeria

**Employment**

**Principle 2 Responsibilities to society**

Shell companies employ 96,000 people (year-end figure), engage hundreds of thousands of contractors and have an interest in operations in over 135 countries. In any one country the number of people employed by Shell varies between two and 11,000 staff. Some 98% of staff are employed in 80 countries spread around every region in the world.

**Competition**

**Principle 8 Competition**

In line with Principle 8 of our Business Principles, Shell companies seek to compete fairly and ethically within the framework of applicable competition laws. In 1999, two competition cases (nine cases in 1998) were completed against Shell companies.

In one case a Shell company was found to be in breach of commerce laws in that country for the withdrawal of a car wash promotion at a number of service stations in 1996.

The ruling in the other case was in favour of the Shell company.

In 1999 Shell Chemicals lost its appeals in the European Court relating to the imposition of fines by the European Commission for infringements of European Competition Law in the polypropylene and PVC businesses in the 1980s. The fines imposed (including interest) were Euro\* 18 million and Euro 1 million respectively.

**Investment and divestment**

**Principle 3 Economic principles**

Capital investment plans for the next five years have been cut by a third but still represent a major investment in the future.

✓ Shell Companies invested a total of US\$ 9.5 billion in 1999 (through capital expenditure, exploration expense and new investments in associated companies), a reduction of nearly 40% compared with 1998.

Significant investment decisions included projects in Nigeria (offshore development and further investment in LNG), Iran, Malaysia (LNG investment and new licences) and Brazil (deepwater licences and an additional 5% interest in Comgas, the largest gas distribution company in Brazil).

investment and divestment. In 100 of these, decisions also take the full life cycle into account. Find more details of our progress in embedding sustainable development thinking into our business decision-making on page 31.

**Shell and Iran**

Shell has re-started its exploration and production activities in Iran. In November 1999 Shell Exploration signed an agreement with the National Iranian Oil Company to redevelop the Soroosh and Nowrooz oil fields.

A shift in the international environment has encouraged foreign oil companies to return to Iran as the government there seeks to rebuild relationships with the outside world.

Iran’s oil reserves are among the top five in the world and its natural gas reserves are second only to Russia’s. But the years of relative economic isolation since the Islamic Revolution of 1979 have meant that the country has not fully realised the economic and social potential of its substantial natural resources.

Shell welcomes the opening up of Iran to international companies and the fostering of closer relations with the international community. We support the emphasis on increased dialogue and engagement with Iran and believe that commercial relations can help encourage rapprochement between Iran and other countries.

As it does in any other country, Shell observes its Business Principles in Iran (see inside back cover). Prior to the signing of the Soroosh and Nowrooz agreement, Shell kept interested groups informed about its plans.

Capital expenditure and new investments in associated companies\* US\$ Billion



\*Excluding exploration expense

✓ Shell companies expended US\$ 451 million in research and development excluding depreciation in 1999 (US\$ 713 million in 1998). The underlying expenditure was US\$ 443 million (US\$ 601 million in 1998) with US\$ 8 million (US\$ 112 million in 1998) of special costs.

Discipline in allocation of capital remains a key focus – ensuring funds only go where the prospect of sustainable performance justifies the investment. Shell companies in 104 countries operate a procedure to incorporate social and environmental considerations into major project



\*1 Euro is equivalent to US\$ 0.95 (as on 30.03.2000)

## ECONOMIC

 You told Shell

“Shell is purely a ‘just talk’ company. I have never seen any concrete evidence. I would like you to contact me and prove that you are more than just talk.”

Unknown

You told Shell 

“In order to survive the company must make profits but to sustain its profit-making activities it has to benefit the community in which it operates.”

South Africa

### What we spend where

#### Principle 2 Responsibilities to society

Global procurement and effectively utilising technology such as e-commerce can, and does, save substantial costs, much of it by procuring capital items, raw materials and products for re-sale globally instead of in every country.

For other goods and contractor services, Shell companies make a substantial contribution to the social and material progress of the local

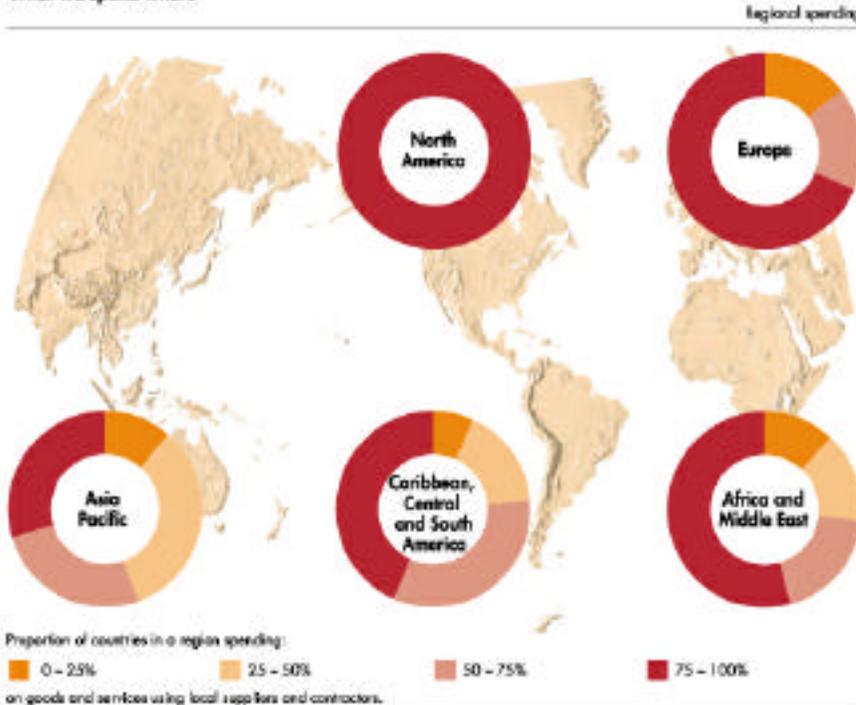
community through their use of local contractors and suppliers. In 54 countries Shell companies have a policy to promote the use of local contractors and suppliers. In 103 countries (74% of the total number of countries), Shell companies spend more than 50% of the total spend on goods and services inside the country, using local contractors and suppliers. Shell companies in only 13 countries spent less than 25% of the total spend on goods and services inside the country in which they operate.

### Message from the verifiers

We reviewed the financial data marked with the coloured symbol  to confirm they have been properly derived from the full Financial Statements of the Royal Dutch/Shell Group of Companies for each of the ten years ended 31 December 1999 on which we issued unqualified audit opinions.

Our opinion on this financial data is on page 5 of The Shell Report.

### What we spend where



This gives a regional overview of how much of the total spend on goods and services is spent locally. For example in just over half (see pie chart for Africa and Middle East) of the countries in which we operate in Africa and Middle East more than 75% of total spend on goods and services is spent inside the country of operation using local suppliers and contractors.

## CASESTUDY

### Minority sourcing

Shell Oil of the USA has a target to spend 10% of its expenditure\* with supplying companies owned by women or people from ethnic minorities. The company also asks its main suppliers to adopt a similar programme and to commit to use such suppliers on Shell projects.

Shell Oil's minority programme started in the early 1970s, prompted by legislation encouraging affirmative action in government subcontracting. The women's programme started in the early 1980s. Besides the legal obligations, Shell Oil's commitment in this area is based on its broader social and economic responsibilities.

Excluding qualified suppliers increases Shell Oil's costs. But it feels that doing business with minority- and women-owned businesses has overall benefits for society and improves relations with existing and potential consumers of Shell products.

 [www.shell.com/case](http://www.shell.com/case)  
for more case studies

\*Excluding raw materials such as crude oil

## ENVIRONMENTAL

Reducing emissions to air, water and land is critical to our contribution to sustainable development. We set ourselves tough improvement targets and projections for the Group and were successful in achieving all but the one for spills.

## ENVIRONMENTAL



At Shell's solar service stations in Germany drivers of electric vehicles will be able to charge them with solar electricity.

Buenos Aires refinery – where significant reduction in the oil discharged to water has been achieved by investment in effluent treatment facilities.



## HIGHLIGHTS

- All Group-level improvement targets and projections met except for spills
- Greenhouse gas emissions down more than 10% below 1990 levels

**We have been reporting annually on our environmental performance in a separate publication for three years, with the data independently verified for the past two. This year we include most of that information in this publication.**

**The following five pages show our performance against the main environmental parameters.**

## How we organise data

## Principle 6 Health, safety and environment

We group our environmental performance data into the main categories: emissions to air, discharges to water (effluents), spills and waste. The graphs throughout this section contain the relevant information and are mostly self-explanatory. Where this is not so, such as targets not met or movement against the trend, we provide an explanation in the text under the appropriate heading. The table on page 48 shows activity levels in our main businesses and the denominators used for the graphs on energy consumption and unit emissions, where trends are affected by the amount of business we do.

The Annex on pages 48 and 49 summarises the HSE data and tells you about some of the limitations on their reliability. On our website [www.shell.com/planet](http://www.shell.com/planet), the data are broken down into the contribution of individual businesses. In addition, some of the information

reported in last year's Group HSE Report (refinery energy index, chemical oxygen demand, priority substances, EP spills and certification) can also be found at

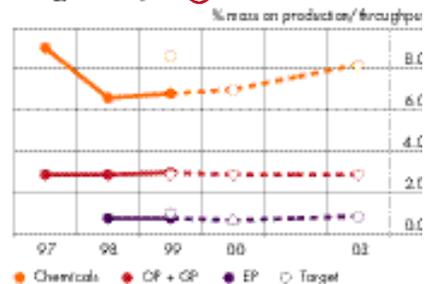
 [www.shell.com/planet](http://www.shell.com/planet)

## Emissions to air

We discuss first our emissions that relate to global climate change, one of the most challenging issues facing the world. This is followed by data on other emissions to air.

## Greenhouse gas (GHG) emissions

Emissions of carbon dioxide (CO<sub>2</sub>), the principal GHG, declined by 2.1 million tonnes in 1999, mainly due to reduced refinery activity and reduced flaring and venting in our upstream business. The average level of emission per unit of production was higher in our refineries, reflecting a relative increase in the use of more energy-intensive upgrading facilities which are

Energy consumption 

**ENVIRONMENTAL**

**You told Shell**

**“I would like to be a member of an environmental pressure group... but I think I am already, by being a member of the public.”**

*Shell employee UK - forum posting*

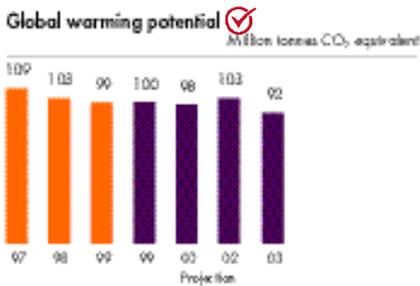


Climate change – one of the most urgent and challenging issues facing the world. Shell has adopted the precautionary principle on greenhouse gas emissions.

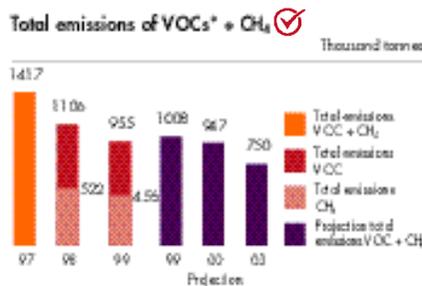
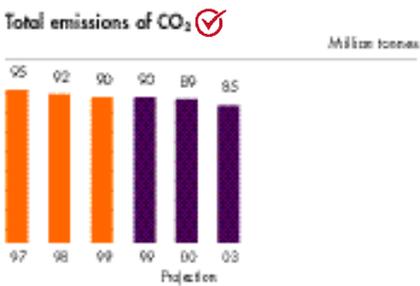
required to produce higher specification products. Reduced activity levels, improved energy efficiency and greater use of energy-intensive processes are also the main factors governing changes in our energy consumption. In addition to these figures, our forests sequestered an estimated 700,000 tonnes of CO<sub>2</sub>.

Much of the CO<sub>2</sub> emission in the upstream business is a result of flaring – burning off unwanted gas produced as a by-product of oil production for safety reasons or because there is no market. Because this is a waste of energy and contributes to GHG emissions, it is important that flare volumes are reduced.

Flaring was 11% below the 1998 level and ahead of our projection, mainly as a result of reduced oil production in Nigeria. With the start up of the Nigeria LNG plant during 1999, further reduction in gas flaring can be expected.

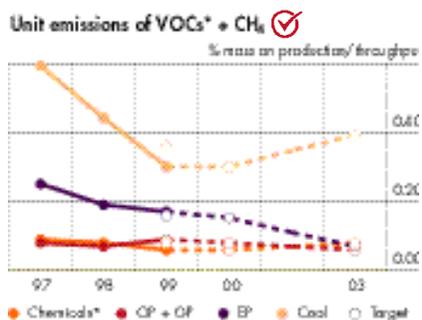
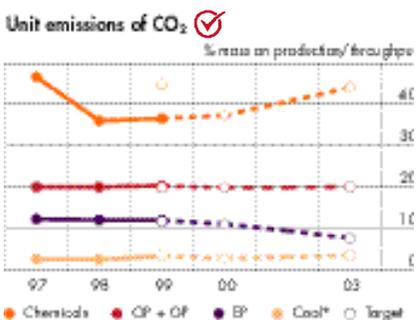


Methane (CH<sub>4</sub>) emissions were 13% down in 1999, mainly as a result of reduced flaring and venting in the upstream business. Historically we have reported methane together with volatile organic compounds (VOCs), and emissions of both have declined in line with our projections for 1999.



We also report for the first time emissions of the other gases covered by the Kyoto Protocol (see Annex, page 49), although their contribution is negligible.

Because some GHGs contribute relatively more to global warming than others, we also present our emissions in terms of their Global Warming Potential, an indicator which expresses them as a CO<sub>2</sub> equivalent. In this way, we provide a consistent picture of our impact. The overall level, which is 3% down on 1998, is ahead of our projection for 1999 and ahead of our 2002 target. The figure includes all six Kyoto gases.



**Ozone depleting substances**

The production of substances that deplete ozone in the upper atmosphere is being phased out under the Montreal Protocol. All businesses have plans to phase out their remaining inventories. While inventories remain on site, small losses will inevitably result from maintenance and testing of appliances to ensure they are fit for service. Such losses were 11.8 tonnes in 1999 compared to 11.1 tonnes in 1998.

\*Data not verified in 1999  
✓ See message from the verifiers page 19

## ENVIRONMENTAL

 You told Shell

“Shell’s action over the Kyoto agreement is both prudent and politic, but it casts aside various scientific arguments that the theory of global warming is flawed.”

Unknown

Eileen Claussen  
President, Pew Center on Global Climate Change

“One of the greatest challenges of the 21st century is addressing climate change while sustaining a growing global economy. With the world’s leaders still grappling with exactly how to forge an effective international response to this issue, it is refreshing to see leadership coming from the business community, where many progressive companies already acknowledge the need to reduce emissions, and are working to do so.”



### Progress on climate change

Climate change is one of the most controversial and pressing environmental issues we face. We remain committed to take action and we have made good progress over the past year. We have:

- further reduced our greenhouse gas emissions from our own operations (see page 14), ahead of our target to reduce these by 10% below our 1990 levels, by 2002. This is double the Kyoto target for emissions reduction and well ahead of the Kyoto schedule\*
- started to include the effect of a possible carbon cost in our investment decisions for new projects that could produce emissions over 100,000 tonnes a year of CO<sub>2</sub>

- set up an internal emissions trading system covering over 30% of the Group’s total CO<sub>2</sub> and CH<sub>4</sub> emissions. Starting in January 2000 the pilot will run for at least three years



[www.shell.com/steps](http://www.shell.com/steps)

- identified eight potential clean development mechanism projects. These are projects that could deliver benefits in the developing world, and could, under the Kyoto Protocol, help offset emissions in the developed world. Case studies of the projects are described on the website of the World Business Council for Sustainable Development (WBCSD) Foundation, and have been published to encourage dialogue



[www.foundation.no](http://www.foundation.no)

- established that more than 24 greenhouse gas mitigation technologies are being pursued by Shell
- continued to work with partners, such as the WBCSD, the World Resources Institute, the Pew Center, the Massachusetts Institute of Technology and the International Energy Agency, to foster dialogue and understanding on climate change
- continued to develop cleaner fuels to help customers reduce their emissions.



[www.shell.com/climate](http://www.shell.com/climate)



### Product impact - automotive fuels

By enabling mobility, our automotive fuels provide an important benefit to society. However, we know that their use results in vehicle emissions. The level of those emissions depends heavily on factors outside our control, such as engine design, maintenance levels and the driving habits of individual motorists.

However, as part of our product stewardship responsibilities we are acting in a number of ways to reduce impacts.

We work with vehicle manufacturers to understand how changes in fuels specification can enable improvements in vehicle technology which reduce emissions. The introduction of lead-free petrol, for example, allowed the introduction of catalytic converters which, in turn, have resulted in a major decrease in ground level smog. Lower sulphur fuels are making possible far more energy-efficient engines.

We are also active in the collaborative programme in Europe, known as ‘Auto-Oil’, between the European Union and the oil and automotive industries, which aims, via new fuels specifications and engine designs, to meet governments’ air quality targets at the lowest economic cost.

## CASESTUDY

### Athabasca oil sands project

Shell Canada and its joint venturers are to mine over a billion barrels of oil from sands in northern Alberta and convert it to transport fuel for sale in North America.

At first glance, this may appear to be a surprising project for Shell to do. Oil sands had a reputation for being a high-cost and environmentally unfriendly source of energy. But, with new technology, costs and impacts on the environment have dropped dramatically, to the point where we are now able to do this project in line with our sustainable development commitments.

Our approach to the project, which is supported by the local community, takes an integrated view of the economic, environmental and social needs. This includes:

- widespread consultation with the local community as well as interested parties in Canada, Europe and the US
- commitment to environmental best practice, including energy-efficient extraction, progressive rehabilitation of mined land and a closed loop system for re-using water
- reducing full-cycle greenhouse gas emissions to the same level as the main alternative – imported crude oil. This requires a 40% reduction in the project’s direct emissions. A supporting programme using offsets and project-based reductions is being developed
- reducing North American dependence on imported oil

- generating more than US\$ 3 billion in royalties and taxes over 25 years
- creating 1,000 permanent jobs.

The project – scheduled to start production in 2002 – involves the removal of oil and sand from just below the surface, using mechanical shovels and trucks. This material is mixed with warm (30°C to 40°C) water and agitated to separate out the oil.

The sand will be used to refill the mining pits. The oil will be sent through an underground pipeline to Shell’s Scotford refinery near Edmonton, for processing mainly into very low sulphur, light synthetic crude. This will primarily be used to make very low sulphur, low aromatic transport fuels.

New techniques have reduced the costs and environmental impacts of mining oil sands. The project combines these gains with improvements at the Scotford refinery, including new environmental design features and stakeholder consultation.

Shell is looking to set up an independent panel made up of representatives of local communities and environmental organisations to help to ensure that Shell meets its sustainable development commitments on this project. External auditors will play a part in checking that Shell fulfils the promises made to the panel.



[www.shell.com/case](http://www.shell.com/case)  
for more case studies

\*Under the Kyoto Protocol, industrialised countries have agreed to reduce their greenhouse gas emissions by at least 5% on average relative to 1990 levels, by the years 2008 to 2012

## ENVIRONMENTAL

You told Shell 

“Your products have made a significant contribution to the destruction of the environment on a global scale, you shrug it off with excuses like ‘it’s not our responsibility what our customers do with our product’.”

Germany

We are making cleaner fuels such as low-sulphur diesel or liquefied petroleum gas (LPG) available in many more locations.

Through our CHOICE marketing programme, we are making available a range of unique fuels such as the Shell Pura™ petrol now on sale in Ireland and Holland or the Shell Optimax™ petrol, launched during 1999 in Australia. Each results, amongst other things, in cleaner engines and reduced emissions and has been developed following extensive consumer research into motorists' willingness to pay for the extra production costs.

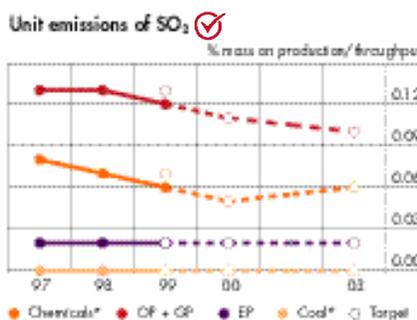
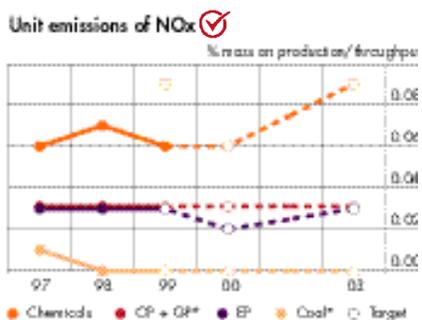
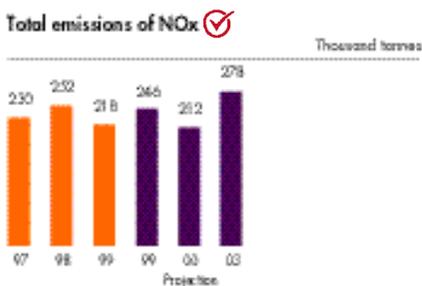
For the longer term, we are working with others on studying practical, clean alternatives to conventional fuels and vehicles (see page 41).

**Nitrogen oxides and sulphur dioxide**

Nitrogen oxides (NO<sub>x</sub>) and sulphur dioxide (SO<sub>2</sub>) are emitted when fuel is burnt in our operations and can contribute to local air pollution and acid deposition.

The reduction in the absolute level of nitrogen oxides was 11% lower than our 1999 projection. The principal reduction occurred in the upstream business where emissions were 14,700 tonnes lower than in 1998 due to lower flaring and energy consumption. Unit emissions were broadly on target. The installation of low NO<sub>x</sub> burners at the Norco plant in the United States contributed to the NO<sub>x</sub> reduction in the Chemicals business.

Reductions in SO<sub>2</sub> emissions were in line with the reduced refinery throughput.



Exploration and Production (EP)  
Oil Products and Downstream Gas and Power (OP + GP)

\*Data not verified in 1999  
 See message from the verifiers page 19

## CASESTUDY

**Sustainable energy programme**

The Sustainable Energy Programme, a Shell grant-giving initiative to promote sustainable energy solutions, has approved funding for 19 projects in more than 15 countries spread across four continents. The initiative – part of the Shell Group's broader social investment programme – funds projects that:

- reduce the environmental impact of continued fossil fuel use
- increase the access of poor communities in developing countries to modern forms of energy.

Examples of approved projects include:

- assisting poor families living in nature reserves in the Chinese province of Yunnan to use 'bio-gas' and natural fertiliser generated from pig waste. This reduces their dependence on firewood for cooking and enables them to grow and sell greenhouse vegetables in winter. In addition, their use of bio-gas will mean they no longer collect wood from local forests (up to 1.5 tonnes a year), which will help protect the habitat of the endangered Golden Monkey
- support for a major programme led by the World Bank that will significantly improve air quality and people's health in South America's five biggest cities: Buenos Aires, Lima, Mexico City, Rio de Janeiro and Santiago
- help for small-scale coconut farmers in the Philippines to produce energy from coconut husks. The energy will be used to provide heating and lighting for their homes as well as powering a new mill to extract oil from raw coconuts. Instead of selling whole coconuts they will be able to earn much higher incomes from coconut oil and get free domestic energy in the process
- funding the design and set up of a new website to provide practical information to help individuals, families and groups to reduce their use of fossil fuels and the associated emissions of GHGs.

Among its future interests, the programme will examine links between the use of biomass in domestic cooking and the health of poor women and children particularly, in Asia and Africa; and the promotion of sustainable transport solutions in cities.



[www.shell.com/alternative](http://www.shell.com/alternative)

## ENVIRONMENTAL



[www.shell.com](http://www.shell.com)

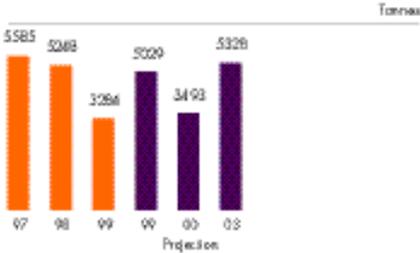
Shell's open and pro-active approach to a spill of crude oil in Gore Bay, near Sydney harbour, won it widespread public support even though a third-party shipping company later admitted liability for the spill.



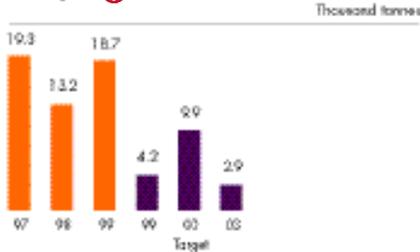
[www.si.edu/simab](http://www.si.edu/simab)

The cover of 'Working for Biodiversity' - a guide prepared by Smithsonian Institution scientists using experiences gained on the Camisea project as a resource for learning more about biodiversity.

### Oil in effluent to surface environment



### Total spills



### Effluents

The main discharges to water from our operations are oil in the water that accompanies oil production (production water) and oil in effluents from refineries\*. We report these together as oil in effluents to surface environment. We have reduced the oil content in such discharges by over 37% compared to 1998, with notable improvements in treatment facilities at the Buenos Aires refinery. Between 1998 and 1999, the concentration of oil in production water dropped from 19 to 16 milligrams/litre (mg/l) in 1999, whilst oil in effluents from refineries was reduced from 7.9 to 4.6 mg/l. The 2003 projection reflects the continuing increase in surface water discharges in our upstream business as oil and gas fields mature.

### Spills

We report, as a single figure, spills of crude oil, oil products and chemicals, caused by equipment failure (including corrosion), human error, acts of sabotage and natural events, such as storms and floods. Our performance in 1999 was disappointing,

with an increase in the volume of spills as compared to 1998. The main incident was a spill of 4269 tonnes of light crude oil when another vessel lost propulsion and steering and collided with one of our ships in the River Plate in Argentina. Not included is the spill incident at Ekakpamre, Nigeria caused by sabotage. Work is continuing to obtain an accurate and reportable figure.

### Waste

Waste includes material from industrial operations for which there was no economic demand and was consequently disposed of, either to landfill or by incineration. It excludes domestic, office construction waste and contaminated soil. This is the second year that we report separate figures for hazardous and non-hazardous waste. The amounts reported in 1999 are broadly similar to the year before, although Chemicals reported a doubling of hazardous waste, largely due to inclusion of material from a demolished furnace.

### Fines, settlements and liabilities

Shell companies paid a total of US\$ 2.83 million in 1999. Not included is the levy we pay in Nigeria for flaring associated gas, amounting to US\$ 6 million.

The number of fines and settlements each year (306 in 1999) has remained broadly constant, but the total amount paid has increased over the last two years. The principal amount in 1999 related to a settlement following soil contamination adjacent to a UK facility. Chemicals have changed their reporting requirements to include Workman's Compensation awards in the United States.

## CASESTUDY

### Cleaning up in Alice Springs

In May 1997, Shell Australia detected hydrocarbon fumes in a stormwater drain at the boundary of its fuel depot in Alice Springs.

The company told the authorities immediately and an investigation began. By July studies showed that petroleum products had penetrated groundwater below the depot and infiltrated the stormwater network through joins in the stormwater pipes. The source was a leak from one of the tanks.

The authorities were told that a plan was being prepared to minimise public health and safety risks, and impact on the environment. Reports on the extent of contamination were presented to them in October and later in January, 1998.

A surface area of some 30,000 square metres of

groundwater was affected and remedial work has since been focused on reclaiming as much of the fuel as possible, and breaking down the rest. Fortunately the land affected is not used for agriculture and water is not extracted there. The contamination is below the depth of plant roots.

Shell Australia was prosecuted for breaking the Water Act. The magistrate criticised the system for checking and reconciling storage tank volumes, but also noted that the company 'was its own whistle blower', had co-operated with the authorities and had instituted remedial plans. Shell Australia pleaded guilty and was fined Aus\$ 75,000\*.



[www.shell.com/legacies](http://www.shell.com/legacies)

\*One Aus\$ is equivalent to US\$ 1.5 (as on 30.03.2000)

\*Discharges from chemicals manufacture, measured as chemical oxygen demand and priority substances, are reported by our Chemicals business at [www.shell.com/planet](http://www.shell.com/planet)

## ENVIRONMENTAL

 You told Shell

“Every facet of the industry from exploration to consumption is at odds with environmental conservation. Is that fact lost to you people? I think not.”

Australia

You told Shell 

“It is great to see an oil company step up to the plate and engage in these kinds of discussions and issues. Let’s pray more oil companies will follow.”

USA

At the end of 1999 the total liabilities being carried for environmental clean-up were US\$ 505 million (US\$ 513 million in 1998), while releases of provisions in 1999 amounted to US\$ 10 million.

### Biodiversity

Preserving the richness and diversity of biological life (biodiversity) is expected by society, established in international law and integral to our commitment to contribute to sustainable development.

Shell has been involved in a number of major conservation projects, such as the US\$ 5 million alliance with the National Fish and Wildlife Foundation in the Gulf of Mexico, and our work with the Smithsonian Institution in the Camisea region of Peru, see below.

Increasingly our upstream activities are taking place in sensitive environments. We set high standards for the Camisea project in Peru, where we worked together with the Smithsonian Institution to establish a biodiversity baseline and apply the knowledge gained in decision-making. The challenge is to apply appropriate standards systematically across our global operations.

To understand the issue better, we held a

workshop in 1999 with members of the world’s leading conservation organisations. Their suggestions included:

- articulate a consistent Group position on biodiversity
- operate responsibly. We will revise our environmental assessment process to take into account more specifically potential impacts on biodiversity. Dialogue is an essential component of the assessment process and we will identify and engage key stakeholders as we develop new business opportunities in sensitive environments. Similar processes will be needed for ventures that we are involved in but where we are not the operator (see page 45)
- work with others to make a positive contribution towards conserving biodiversity. We are in discussion with leading conservation organisations
- raise awareness about the issue with employees. A booklet on biodiversity, prepared by the Smithsonian Institution, has been distributed to all senior managers.

 [www.shell.com/biodiversity](http://www.shell.com/biodiversity)

### Awards

A total of 105 external awards were received in 1999 – four in Exploration and Production, 31 in Oil Products and Downstream Gas and Power, 69 in Chemicals and one in Coal.

### Message from the verifiers

We assessed the HSE data parameters marked with the coloured symbol  in the environmental and social sections by:

- obtaining an understanding of the system used to produce performance data at a Group, business unit and operating unit level
- reviewing the operation of the system used to gather and report performance data at a Group, business unit and operating unit level
- assessing the completeness and accuracy of the performance data reported
- visiting operating units that are significant contributors to the Group performance data (including 16 operating units in 13 countries) and sample testing their performance data to assess their reliability.

Our opinion on the data parameters is on page 5 of The Shell Report.

## CASESTUDY

### Smithsonian and Camisea

Findings of the Washington-based Smithsonian Institution in the Camisea region of Peru, where Shell Prospecting and Development Peru (SPDP) was recently exploring for natural gas, helped in the design of equipment and practices that reduced environmental impact.

Data collected by the Institution demonstrated that there was minimal impact beyond the boundaries of the four SPDP sites. Shell and its co-venturers withdrew from the Camisea Licence Agreement after being unable to commit to the production phase of the project.

The partnership between the Institution and SPDP demonstrated the value of such collaboration for the environment, local people and science. The Institution organised two international scientific workshops in Washington and Lima to review

and standardise the assessment and monitoring protocols for their biodiversity studies in Peru.

The protocols were then implemented at the Pagoreni well site during a training programme for young biologists. Fifty-five international and Peruvian biologists took part in the training programme and assessment of the well site – 24 came from seven Peruvian organisations. Many went on to work on a subsequent assessment of the proposed route for a gas pipeline.

During SPDP’s withdrawal from the Camisea region, the Institution returned to the four well sites to collect seasonal biodiversity data for a report on each location. The data shows clearly that the area has an extraordinary diverse biological life and an abundance of animal species.

[www.shell.com/treetops](http://www.shell.com/treetops) 

Botanists tree walking on top of Gabon’s Mokandé rainforest, suspended from the world’s largest motorised balloon. Shell supported the project, run by Pro-Natura, an organisation working to find sustainable ways to manage the forests and deliver benefits to local people (page 39).



**SOCIAL**

We strive to be responsible members of society and contribute to the welfare of our staff and the communities in which we operate. We support fundamental human rights and continue our battle to improve safety.

SOCIAL

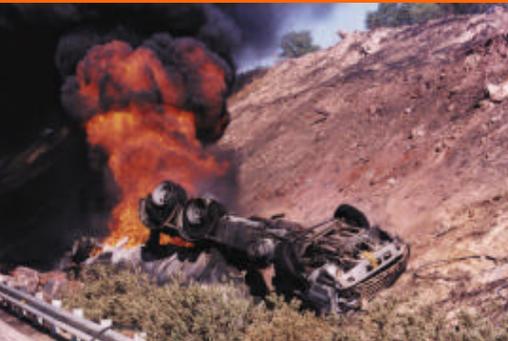


**HIGHLIGHTS**

- Best ever safety performance – encouraging reduction in fatal accidents
- Number of women in senior executive positions up 18%
- Survey shows 75% of Shell people are proud to work for Shell
- Group security guidelines on the use of force conform to UN standards
- Nigeria remains a challenge
- Shell companies contributed US\$ 93 million in social investment

[www.shell.com/nohandicap](http://www.shell.com/nohandicap)

A deaf attendant serves customers at the Shell-supplied 'FuelStop' in Durban, South Africa. Owned by the Natal Blind and Deaf Society, it is probably the first in the world where the majority of staff are deaf.



Despite driving greater distances, the number of fatal road accidents involving vehicles owned by Shell or our contractors dropped by 37% between 1997 and 1999.

Firefighting – a critical part of Shell's health and safety training programme.



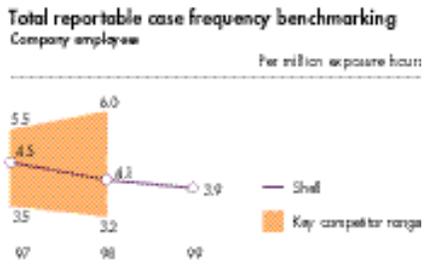
Apart from safety data, we have been collecting health and social performance data for only two years. Confidence in the data is growing as we learn from experience. Systems are still being developed and verification is in its infancy. Where applicable we report against targets and legal requirements. The following seven pages show our performance against our Business Principles and societal expectations.

**Safety**

**Principle 6 Health, safety and the environment**

We deeply regret that 44 contractors and three Shell employees lost their lives in work-related incidents, with road accidents still remaining the principal cause. Whilst this is some 25% fewer than 1998, and one of the lowest totals in recent years, our target remains zero – all fatalities are unacceptable. Each one that occurs is the subject of a detailed review involving the Chief Executive of the business concerned.

As well as a reduction in fatalities, we are pleased to report a general improvement in safety performance for 1999.



[www.shell.com/people](http://www.shell.com/people)

\*Data not verified in 1999  
 See message from the verifiers page 19

## SOCIAL

Timothy H. Smith  
Executive Director  
Interfaith Center on Corporate Responsibility

“Today many consumers and investors demand that global corporations demonstrate excellence in social and environmental performance. From human rights to paying a living wage to climate change we expect business to contribute to the ‘social bottom line’.”

Total recordable case frequency (TRCF), which is a broad-based measure of accidents and incidents and includes both employees and contractors, improved by 16% to 3.7 cases per million man-hours. Although not quite achieving the target of 3.6 that we set ourselves, this is the best performance ever achieved by the Group, and reflects improvement across all the businesses. The majority of incidents reported are minor, resulting from slips, trips and falls.

We believe that this improvement in our safety performance can be ascribed to consistent commitment and attention at all levels and to the implementation of focused programmes, which have proved especially effective in reducing fatal road accidents (see case study).

HSE management systems, if applied properly, are valuable tools to ensure a rigorous and systematic approach to HSE risk management and are reported to be in place in over 95% of Shell-operated companies. Effective implementation of these systems, and ensuring that we all do what they require of us, are key to further performance improvement.

We have set ourselves the target to reduce our TRCF by a further 40% to 2.2 in 2003. Our focus will be on high risk operations, as well as implementing pro-active measures that drive good safety behaviour through all parts of our operations.

We have for some time been benchmarking our TRCF data for company employees against leading integrated oil companies (see graph opposite).

## Health

### Principle 6 Health, safety and the environment

There is no generally accepted way of measuring health performance. We monitor the occupational

illnesses suffered by Shell employees using total reportable occupational illness frequency (TROIF) as our prime indicator. Data were reported for the first time in 1998. In 1999, the number of companies reporting data has increased and the quality of the data has improved, but this indicator is still immature. The data show a slight reduction in performance compared to 1998. We are still not confident enough in the consistency of reporting to set a firm performance improvement target for 2000.

Stress and repetitive strain injury (RSI) have been identified as two high occupational health risks. It is difficult to generalise on the causes of stress but we plan, during this year, to apply a more structured overall approach to determining the nature and severity of the issue in our businesses. Enhanced guidelines and tools for managing the main potential risks posed by RSI will also be introduced.



## Ship recycling

When ships reach the end of their working lives, in the absence of a suitable alternative use, they are sold for recycling. This takes place mainly at sites in Bangladesh, China, India and Pakistan and involves vessels of all types. Concerns have been raised about labour conditions and safety and environmental standards at breakers' yards in those countries.

Shell teams have conducted on-site visits to all these countries to better understand the situation and to provide a framework for responsible solutions. These would include pre-selecting acceptable recycling sites, reducing on board inventories of hazardous substances including fuel, enhanced pre-arrival tank preparation and the training of local work forces in the removal and disposal of hazardous material such as asbestos.

# CASESTUDY

## Road safety

Despite the greater distances driven, the number of fatal road accidents involving vehicles owned by Shell or our contractors dropped by 37% between 1997 and 1999. The number of Shell and contractor staff killed in these accidents has fallen from 41 in 1997 to 26 in 1999. Particular success has been achieved in Brazil, Malaysia, Oman, Pakistan and Syria.

This encouraging reduction shows the benefit of introducing structured management systems designed to help stop accidents from happening by systematically identifying hazards and taking preventative action.

Examples of such action include:

- refresher training courses
- better journey management (avoiding dangerous locations and times of the day)
- establishing driver rest facilities at key locations
- more audits at regular intervals
- wider use of tachographs to monitor driver habits and time spent driving.

Implementing the systems has been made possible by the support of Shell staff, contractors and, most importantly, the drivers.

In many developing countries, road conditions are poor and general driving standards, safety awareness and self-discipline are low. Drivers have often learned to behave aggressively on the road and some act in a fatalistic way. Encouraging them to think what could happen and drive defensively is not always easy.

We have developed initiatives to encourage drivers to change their way of thinking. These range from the use of recognition programmes, which reward good driver performance, to awareness programmes appealing to religious or family values.

Our goal remains no harm to people and any accident is unacceptable. With structured management systems in place, the way forward is through visible management commitment and a pro-active approach.



[www.shell.com/case](http://www.shell.com/case)  
for more case studies

## SOCIAL



Work and family are an integral part of Shell New Zealand's vision and values. Anske Janssen pictured in her office with her two sons.



Child labour is a complex problem affecting all regions of the world today. Shell Brasil was awarded the title of 'Child Friendly Company' for its pioneering work in discouraging the use of child labour in the production of sugar cane.

Although traditionally referred to as ship 'scrapping' in reality nearly every part of a ship's structure and almost all individual components are recycled or re-used in some way as part of nationally important industries. Ship recycling, in addition to conserving both raw materials and energy, also provides much-needed employment and economic benefits for the countries in which the activity takes place.

The First Global Summit on Ship Recycling held in Amsterdam in June 1999, at which the International Chamber of Shipping (ICS) presented a keynote paper, represented a significant watershed with the recognition that the problem was a global one requiring global solutions. Shell is participating in an international working group, convened prior to the Summit, aimed at improving standards. The working group, under the auspices of the ICS, has consulted informally with stakeholders, including those in the shipping industry, companies in the countries where recycling takes place and non-governmental organisations. The object is to:

- establish a Code of Practice for the safe and environmentally acceptable preparation of ships for recycling
- develop standardised and verifiable inventories of hazardous materials on ships
- promote safe and environmentally sound working practices at recycling sites
- encourage ship builders to construct ships that will be easier to recycle – the so-called 'maker to breaker' concept.

Our objective, working through the ICS, is to support international initiatives aimed at enhancing the welfare of workers and the transfer of knowledge, competency and best practice at existing ship recycling sites.

 [www.shell.com/legacies](http://www.shell.com/legacies)

### 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 unchanged from last year – approximately 40 hours, with a range of 35 to 48 hours per week.

Shell companies in 131 countries (129 in 1998) carry out comparisons of remuneration levels to ensure they are competitive. Shell companies in these countries employ some 96% of all Shell staff.

The lowest wage paid to a Shell employee in 1999 was US\$ 71 per month (US\$ 50 in 1998). In this case no statutory national minimum wage is applicable.

No employee of a Shell company receives less than the applicable statutory national minimum. The minimum wage on Shell company pay-scales for junior staff is 1.4 to 150 times the applicable national statutory minimum.

### Balancing work and personal life

Shell companies recognise the pressures of a modern working life where high work loads and demanding schedules can compete with personal life. We are exploring ways of helping staff get the balance right. For example, Shell New Zealand has been awarded the title of 'Most Family Friendly Company' in the country.

Judges of the Equal Employment Opportunities Trust Work & Family Awards said they were "particularly impressed with the accountability mechanisms. Work and family is an integral part of the organisation's vision and values, and objectives based on work and family balance are included in performance appraisals for teams, managers and individuals".

The company finds that its policies create cost savings and a more enjoyable working environment. Children, for example, are allowed to come into their parent's office before and after school. And parents can take regular time off to be with their children during the week.

"For us, work-life balance is more than just policy. It is an integral part of our company culture. I've been involved in Shell because social responsibility has real tangible business implications," says Anske Janssen, manager and mother of two (see photo top left).

### Child labour

#### Principle 2 Responsibilities to employees

In sharp contrast to Anske's sons pictured above, many children experience a different aspect of working life. Child labour is a complex problem affecting all regions of the world today. Though closely linked to poverty, its roots often lie in a mix of socio-economic, cultural and political factors.

Child labour may seem a strange concern for a global energy enterprise like Shell. But the commitment to human rights in our Business Principles means that Shell companies must not exploit children in any of their activities either directly or indirectly through joint ventures, contractors or suppliers.

## SOCIAL

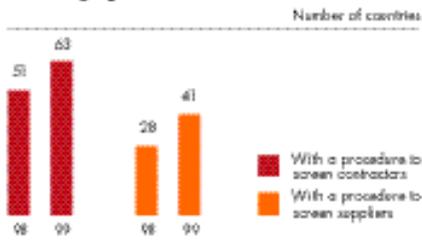
Oded Grajew, President of ABRINQ

“It was a courageous, ethical and socially responsible decision Shell made. I am sure this attitude will help many Brazilian children to be honourable citizens in the future.”

In every Shell company, our employees are above the local legal age of employment. The youngest company employee, who is 15 years old, works in Europe (as last year).

Shell companies in 101 countries (84 in 1998) have a specific policy to prevent the use of child labour in any of their operations. In 112 countries Shell companies operate a procedure to prevent the use of child labour. The number of Shell companies that screen contractors and suppliers has also increased (see graph). Because goods and supplies are often bought globally, stringent national laws to prevent child labour do not remove the need to screen contractors and suppliers. We are writing a practical guide for staff to promote awareness of child labour issues.

#### Screening against the use of child labour



Shell companies in 112 countries operate a procedure to prevent the use of child labour in any of their operations.

### Equal opportunities and diversity

#### Principle 2 Responsibilities to employees

In 121 countries Shell companies have an equal opportunities policy, although in 28 of these countries this is not legally required. In two countries, operation of an equal opportunities policy is prevented by local legislation. In five countries, Shell companies are required to employ a quota of different ethnic groups and/or women.

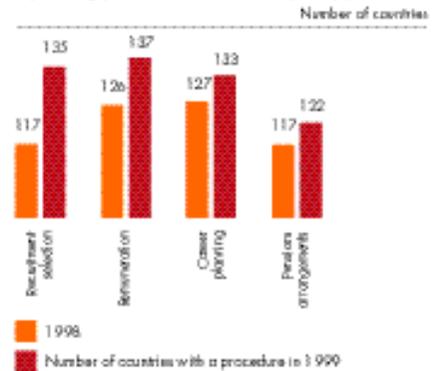
The graph shows an increase in the number of countries where Shell companies operate equal opportunities procedures.

Our progress against targets for gender diversity is shown below. While the total senior executive population has decreased from 508 to 482 in 1999, the proportion of women in senior executive positions has risen to 5.8% from 4.9% in 1998. Notable in this respect are the appointments of Linda Cook and Karen de Segundo as Chief Executives (see pages 45 and 47).

We have a target to achieve the capability to fill all key leadership positions within a region with staff from that region by 2003. In 1999, 84.9% of key leadership positions were filled by staff meeting these criteria.

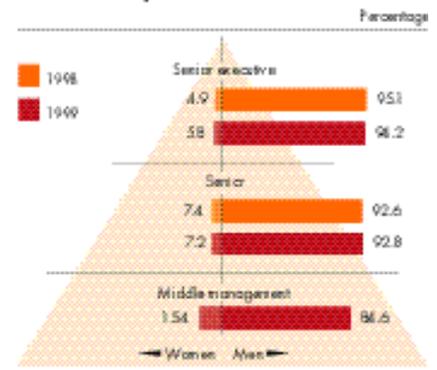
[www.shell.com/human](http://www.shell.com/human)

#### Operating procedures to ensure equal opportunities



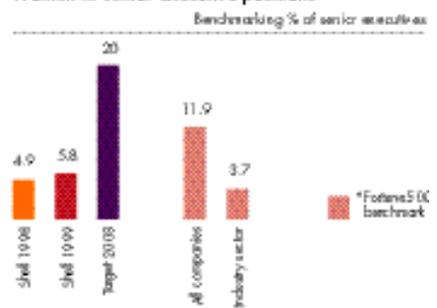
In 28 countries Shell companies operate an equal opportunities policy. In 93 of these countries they are required by law to do so. In two countries it is forbidden by law to operate such a policy.

#### Gender diversity



Target 2003: Increase the number of women in senior executive positions to at least 20%.

#### Women in senior executive positions



\* % of board seats of Fortune 500 companies held by women in 1999. Chosen industry sector is 'Oil and Mining'. Source: [www.catalystwomen.org](http://www.catalystwomen.org)

## CASESTUDY

### Child labour in Brazil

Shell Brasil was awarded the title of 'Child Friendly Company' for its pioneering work in discouraging the use of child labour in the production of sugar cane alcohol which it is legally obliged to sell on its forecourts and include in its gasoline (Shell Report 1999).

The award was made by a local non-governmental organisation called ABRINQ, supported by UNICEF, the United Nations child welfare agency.

This recognition follows the participation of Shell Brasil in a broader debate with non-governmental organisations, local government and distillers to find ways to help families whose children work in the sugar cane fields and other rural industries.

The legal minimum working age in Brazil is 14 years.

State governments, distillers and other producers (including producers of sisal, oranges and coal) have been working with the affected families to set up funds that can be used to educate the children who would otherwise go to work to support their families.

Shell Brasil has introduced a clause in its contracts with distillers forbidding the use of child labour and asking them to respect the Business Principles. So far Shell Brasil has not needed to enforce the clause because suppliers share these concerns.

[www.shell.com/case](http://www.shell.com/case)  
for more case studies

## SOCIAL

Georg Kell  
Senior Officer  
Executive Office of the UN Secretary-General

“This report comes at a critical juncture. It shows a way forward on how market forces can serve society as a whole. The report sets a new benchmark on how universal principles, that cut across cultures and societies, can be translated into corporate practice.”

You told Shell 

“Shell is only working toward diversity to the extent that it helps certain racial or gender groups, and as a result is engaging in preferential discrimination.”

USA – forum entry

### Diversity

We define diversity as ‘all the ways we are different’ (for example nationalities, gender, age, physical ability, education, experience, religions, sexual orientation, work styles and different ways of thinking). Diversity is a sensitive subject because it deals with peoples’ values, attitudes and behaviours and how they relate to the world. But at the very heart of diversity work in Shell are respect for people and the creation of a culture that values and builds upon individual differences. It is the combination of the richness of skills, ideas and talents that helps to deliver outstanding results and leads to a competitive advantage.

 A global diversity team has been set-up to provide guidance and strategic direction for Shell companies. We have a diversity self-assessment guide, for use by Shell companies, to help them assess advances in three primary areas: cultural change, changes to systems and shifts in the composition of the workforce.

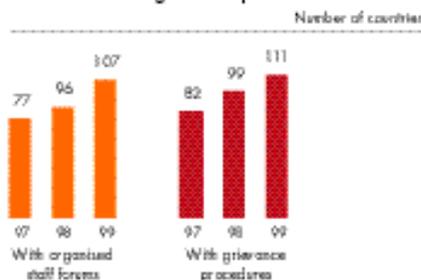
 [www.shell.com/diversity](http://www.shell.com/diversity)

### Unions and staff forums

#### Principle 2 Responsibilities to employees

In every country where unions exist Shell companies allow employees to join. In 96 countries (90

#### Staff forums and grievance procedures



in 1998) Shell companies acknowledge unions in discussions about employment conditions.

The graph below shows the increase in the number of countries where employee welfare is protected through organised staff forums and/or grievance procedures. On 590 occasions in 1999 (412 in 1998), staff used these channels to table concerns, the majority of which were in the USA where staff grievances are pro-actively sought and addressed.

Another channel through which staff are invited to express their views is the Shell People Survey (see below right).

#### Staff views on Business Principles in action

Most Shell employees feel they are well informed about the Group’s Business Principles (page 28). This emerged after nearly 90,000 people working for Shell companies in over 100 countries were asked about their views and feelings about their employing company and the Shell Group in the Shell People Survey completed in 1999 (see case study below).

The Survey’s response rate was 69%. This is considered good given that the Group was going through major changes at the time.

70% of respondents felt they were well informed about the Business Principles and most had a generally positive view of their company’s integrity in dealing with environmental and social issues. These are the results of the questions we asked relating to Business Principles:

- I think that my company:
  - a) acts responsibly in the society/community in which we operate. 80% of respondents responded favourably
  - b) acts responsibly in relation to the environment. 84% responded favourably

c) achieves the right balance between its social, environmental and financial responsibilities. 67% responded favourably

- I believe that my company operates with integrity in its dealings with us. 59% responded favourably
- I know how I can contribute to Shell’s core purpose of ‘helping to build a better world’. 55% responded favourably
- my company has a working environment that respects differences in cultural background and lifestyle. 68% responded favourably
- I am proud to be a part of the Shell Group. 75% responded favourably.

The Survey showed that there is still much to improve and we are committed to doing so.

## CASESTUDY

### The Shell People Survey

The Shell People Survey – to be repeated every 12 to 18 months – is part of our commitment to listen more closely to the people who work for Shell. As reported last year it was distributed in more than 100 countries and 30 languages and conducted in partnership with an independent company, International Survey Research (ISR).

The process turned out to be a far more complex undertaking than we had anticipated and had not been designed with verification in mind at the outset. Consequently the process was not always as robust as we would wish. For example, there was not always a complete audit trail to follow from the point of collection of the completed forms by Shell companies to their receipt by ISR for processing. The results should be viewed with this in mind.

However the exercise was carried out with honest intent and Shell companies and ISR present the results in good faith.

Together with the external verifiers we reviewed the process to identify ways of improving it to make the process potentially verifiable and, more importantly, give greater assurance around the reliability of the results.

 [www.shell.com/case](http://www.shell.com/case)  
for more case studies

## SOCIAL

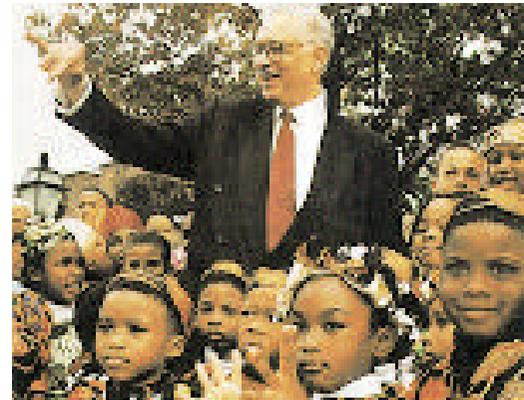
 You told Shell

“I was impressed by the hard truths, which Shell faced concerning its business principles and practices. Thank you for facing reality.”

Nigeria

The Reverend Leon H Sullivan

“For me, Shell is showing leadership in corporate responsibility and responsiveness to community needs through its practical support in the development of the Global Sullivan Principles, and by continuing support of our efforts on the ground in Africa through IFESH\* and the African-American Summits.”



The Reverend Leon H Sullivan, architect of the Global Sullivan Principles, launched at the UN in 1999.

## Human rights

Business has a role to promote and protect human rights. Shell companies continue to make an important contribution to furthering human rights through economic development in the countries within which they operate.

In the Group investment decision-making process proposals are screened for issues such as human rights. This reflects the continuing progress we are making to assess the actual and potential impacts of our operations and in understanding human rights and its role in our social responsibilities. (See  [www.shell.com/human](http://www.shell.com/human) – and the previous two Shell Reports for greater detail and background on our approach to human rights and business responsibilities.)

The explicit inclusion of human rights issues in the Business Principles Annual Letters process (see page 30) means that we can regularly review and act on these issues.

Other developments since we last reported are:

- we have supported and participated in the development of the Global Sullivan Principles. These principles, which include a specific commitment to human rights, have grown out of the original set of criteria governing investment in apartheid South Africa and now provide a guide for businesses of all sizes worldwide  [www.shell.com/sullivan](http://www.shell.com/sullivan)
- we are contributing to the review of the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinationals. This is being done through industry bodies to which we belong. The Guidelines, which we have supported since their inception in 1976, provide a voluntary standard for responsible corporate conduct

- we support the initiative for a Global Compact between the United Nations and business on support for core values based on the Universal Declaration of Human Rights, the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work, and the Rio Declaration on Sustainable Development
- we have made progress on the issue of child labour in Brazil (see page 23)
- we are publishing two further booklets for staff to help them understand issues related to the rights of indigenous peoples and child labour. These publications complement primers on human rights (see The Shell Report 1999) and dealing with bribery and corruption (see page 30)
- we have continued to engage closely with organisations that have an interest and expertise in human rights. This includes engagement on issues related to specific countries where we have operations and on key performance indicators (see page 32).

Shell companies recognise their interest and obligation to support employee rights. In this respect we have recently:

- revised our approach to safeguarding our employees in the light of increased risks of attacks and kidnapping of staff in some countries. Our Group security guidelines conform to UN standards relevant to the use of force (see page 26)
- developed tools to encourage and track progress in the area of diversity and equal opportunity (see pages 23-24).

 [www.shell.com/primers](http://www.shell.com/primers)

## CASESTUDY

### Nigeria

The new Nigerian government is working to improve Nigeria's struggling economy, alleviate poverty and deal with abuse of human rights, corruption and the problems of the oil-rich Niger Delta.

The Shell Petroleum Development Company of Nigeria (SPDC), the Shell company in Nigeria, intends to play its part in helping the government make Nigeria a better place for its people.

In February 1999, SPDC announced a US\$ 8.5 billion series of inter-related projects to increase Nigeria's oil and gas production significantly, while meeting the company's commitment to end all unnecessary gas flaring by 2008. These projects will provide a much-needed boost to government revenues.

SPDC has continued to engage in dialogue with local communities and with local and international non-governmental organisations (NGOs) on its US\$ 50 million community development programme. As a result, more partnerships were formed with community-based organisations and more projects were undertaken with the help of NGOs (see SPDC's 1999 'People and the Environment' report and website shown below).

The expectations of the seven million people of the Delta are high, underlined by their sense of grievance that they have not received their fair share of economic and social rewards derived from oil income. As a result, community unrest and general crime is rife and there is violence between tribes and against industry. In 1999, there were 349 violent incidents against the staff of SPDC and its contractors, among which were 102 hostage taking/kidnap incidents and 20 armed robberies. Sabotage and community disruption at SPDC facilities led to a loss in production of some 200,000 barrels of oil per day.

Meeting violence with violence will not solve the problems of the Niger Delta. Action to resolve the legitimate underlying grievances, with the consultation and engagement of those concerned, is our priority.

 [www.shellnigeria.com](http://www.shellnigeria.com)

\*International Foundation for Education and Self-Help (IFESH)

**SOCIAL**

*You told Shell*

*You told Shell*

“I read ‘The principles are based on honesty, integrity and respect for people – our core values’. With recent downsizing I don’t see much respect for Shell employees. So at page five I gave up.”

*Netherlands – Shell employee writing on Shell Report 1999*

“I see more and more advertising by oil companies trying to give their business a green spin, and so far, only you have given me a chance to comment.”

*Japan*

**Security**

**Principle 2 Responsibilities to employees and to society**

In 1999 10 countries in which Shell operates faced war or major community disturbances. Employees were kidnapped in four countries and in at least six countries murders, shootings and armed robberies occurred at or around retail forecourts. Shell companies in 28 countries experienced severe security incidents, including one bomb attack.

Like all organisations, we have to protect the health and safety of employees and safeguard the investment of shareholders. We expect the forces of law and order of a country or state to give us appropriate protection and seek an assurance that any use of force is in accordance with international standards of law enforcement. Some countries 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.

✓ We have developed Group security guidelines on the use of force, including physical restraint and using firearms, which conform to the United Nations ‘Basic Principles on the Use of Force and Firearms by Law Enforcement Officials’ and ‘Code of Conduct for Law Enforcement Officials’.

These guidelines have been updated since we last reported (see The Shell Report 1999) to include further improvements to the safety requirements for carrying and using firearms. They lay out Shell’s minimum criteria applying to armed guards and the safe handling and maintenance of firearms. The Group security guidelines also include rules of engagement and specify that contracts should cover areas such as recruitment and training, standards and certificates of competence, and incident reporting and investigation procedures.

The Group security guidelines emphasise that in all situations guards must respect human dignity and the human rights of all people and that in every case only the minimum force proportional to the threat should be used.

In 117 countries (107 in 1998) Shell companies use security staff to manage security risks, the majority of whom are contractor personnel (see graph).

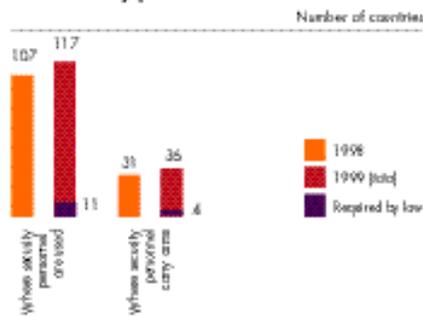
While the number of countries using armed contractor security is equal to 1998 (21 countries), the overall level of armed security, including government forces, has increased (see graph).

In all cases Shell company armed security personnel operate within Group security guidelines on the use of force. The four companies that reported last year that their armed security did not operate in line with the Group security guidelines on the use of force now confirm that they do. There are four countries where armed contractor security personnel operate in accordance with government guidelines but do not yet operate in accordance with the Group security guidelines. In one case the use of government standards is a legal requirement. In the other three countries there is an action plan in place to ensure consistency with Group security guidelines.

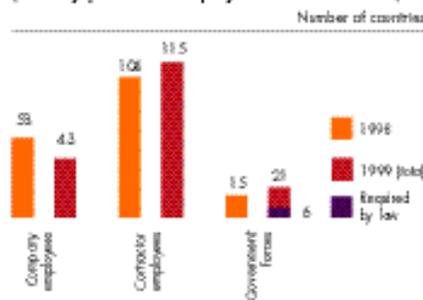
In 18 countries (15 in 1998) armed government forces are used. This is a legal requirement in five of those countries. In seven countries armed government forces operate in line with the Group security guidelines on the use of force, in the remaining 11 countries they are recruited and trained by the government.

For the first year we report on our joint ventures and contractor firms – including those not under operational control. In 31 countries joint ventures and contractor firms use armed security while doing work\* in which there is a Shell company interest; 19 of them already operate in accordance with the Group security guidelines on the use of force. In a further four countries an action plan is in place to ensure consistency with the guidelines.

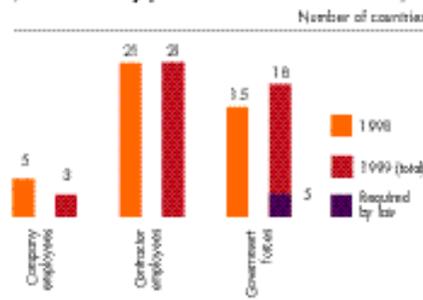
**Use of security personnel**



**Type of security personnel (Security personnel employed in 117 countries)**



**Type of armed security personnel (Armed security personnel used in 36 countries)**



[www.shell.com/sensitive](http://www.shell.com/sensitive)  
[www.shell.com/human](http://www.shell.com/human)

\*Contractor firms employed specifically for the purpose of providing security are not included in these figures

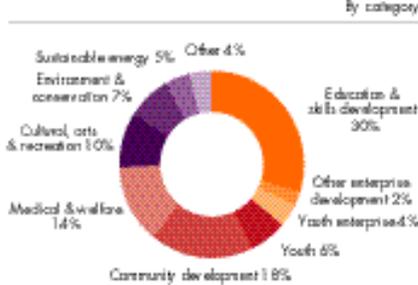
## SOCIAL

You told Shell 

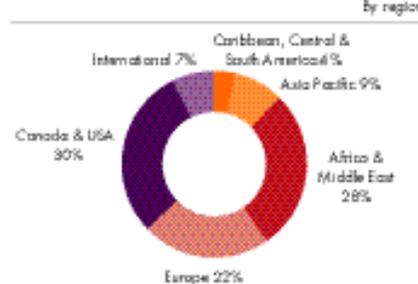
“I’m sorry, but if you expect any self-respecting activist to believe a word you say about your commitment to human rights, then you are as arrogant as the PR firm that came up with this strategy.”

Unknown

Social investment in 1999  
(Total social investment US\$ 93 million)



Social investment in 1999



 [www.shell.com/people](http://www.shell.com/people)

## CASESTUDY

### Project Better World

Shell staff have the opportunity to take time from their jobs to work with two non-governmental organisations – Voluntary Service Overseas (VSO) and Earthwatch – in a programme called Project Better World, launched in 1999.

VSO places skilled people, such as teachers and engineers, in developing countries to work on development projects. Earthwatch is an environmental organisation that places volunteers as research assistants in the field.

“Our aim is to engage Shell staff in making the Group’s core purpose – ‘Helping people build a better world’ – come alive,” says Peter Baruch who spends eight hours a week away from his technology consultancy job

### Contribution to the community

#### Principle 7 The community

In June we will launch The Shell Foundation\* as the basis for the Group’s social investment core programmes, which include LiveWIRE (see page 11) and the Sustainable Energy Programme (see page 17).

Over the five years from 1995 to 1999, Shell companies have contributed on average 1.19% (1.18% average from 1994 to 1998) of net income after tax – equivalent to 0.64% net income before tax.

The total amount of voluntary social investment contributions to community in 1999 was some US\$ 93 million (US\$ 92 million in 1998). In all regions a large proportion of social investment contributions is in the area of education and skills development. In Europe and North America the majority of contributions is in this area, whereas in Africa the majority of contributions were in the area of ‘community development’ and medical and welfare.

In addition, some US\$ 6 million was paid for social and environmental benefits as part of contractual requirements.

Shell companies in 60 countries have a procedure in place to set social objectives for their social investments and to evaluate the benefits.

helping to organise Project Better World.

“Everyone wins from the project. The NGO benefits from the knowledge and expertise of our staff. Shell benefits because staff are exposed to cultural change and constructive interaction with key stakeholders. And the people involved can sharpen their personal skills in new and different environments.”

Eight pilot projects with Earthwatch have been completed and 24 staff will join a series of two-week projects in 2000. Up to 10 staff are planning to participate in separate six-month projects with VSO in 2000.

 [www.shell.com/case](http://www.shell.com/case)  
for more case studies

### Message from the verifiers

We assessed the statements and data marked with the coloured symbol  in the social, economic and managing our business sections by:

- reviewing management processes and supporting evidence to assess the appropriateness and robustness of these processes and the fairness of the account Shell gives in this Report
- assessing conformity of the updated Shell Group security guidelines with United Nations Standards relevant to the use of force
- interviewing Shell people and, in the case of the development of the Bribery and Corruption Primer, external experts to confirm their involvement
- observing, reviewing and sample testing the key performance indicator (KPI) development process to assess the accuracy and consistency of the processes used to synthesise stakeholder input contained in records of stakeholder dialogue, agreed as accurate records by both parties
- testing data presented in relation to ‘Tell Shell’ and the Shell General Business Principles (SGBP) letters to assess accuracy
- reviewing evidence to assess the completeness of the distribution of the Bribery and Corruption Primer to Country Chairmen and the receipt of SGBP letters from Country Chairmen
- assessing evidence to support management assertions regarding Shell’s participation in external initiatives.

Our opinion on the statements and data relating to the systems and processes Shell has put in place to manage performance is on page 5.

\*This is distinct from the long-standing Shell Oil Company Foundation for social investment in the USA

## MANAGING OUR BUSINESS

We operate in more than 135 countries, employing 96,000 people in thousands of locations and communities. Our Business Principles and global environmental expectations set the same standards for all our operations in every region.



Offering customers differentiated fuels tailored to meet specific consumer needs.

Shell's Business Principles apply to all transactions – large or small – and describe the behaviour expected of every employee, in every Shell company, in the conduct of its business.



## HIGHLIGHTS

- 62 contracts terminated and one joint venture divested because of operations incompatible with Shell's Business Principles
- Five breaches of the Group's 'no bribes' policy resulted in four dismissals and one resignation
- Certifiable HSE management systems in place in 95% of all Shell companies
- Increasing integration of social and environmental considerations in investment and divestment decisions
- Increase in engagement activities on a wide range of issues at many levels

**In this section we report on the progress we have made in instilling the principles of sustainable development into the underpinning systems that make the Royal Dutch/Shell Group what it is.**

**Our businesses are focusing on different aspects of sustainable development consistent with the nature of their activities (see pages 36-47). For this reason some of the data in this section is displayed by business.**

The way we manage our business is based on a set of core values – honesty, integrity and respect for people. These are embodied in our nine Shell General Business Principles (SGBP), see inside back cover, that describe the behaviour expected of every employee in their business relationships with other people, organisations and companies. The Principles encompass our commitments to human rights, sustainable development and high standards in issues relating to health, safety and the environment (HSE).

We believe in the promotion of trust, openness, teamwork and professionalism, and in pride in

what we do. To make sure that we behave according to our values we have put in place – and in some areas are still installing – the necessary management systems and practical tools that help employees go about their daily business in a responsible way.

There are still many things we need to do to integrate fully the concept of sustainable development in the way we do business. This will take some time but we are determined to advance and we have developed a Road Map to show our intentions and progress (see Road Map opposite, which has been updated from previous Shell Reports).

## Standards

Setting standards is one way of making the Principles more practical. We have standards that cover key aspects of what we do.

## HSE Commitment and Policy

There are two elements concerning HSE, which apply to Shell-operated companies worldwide:

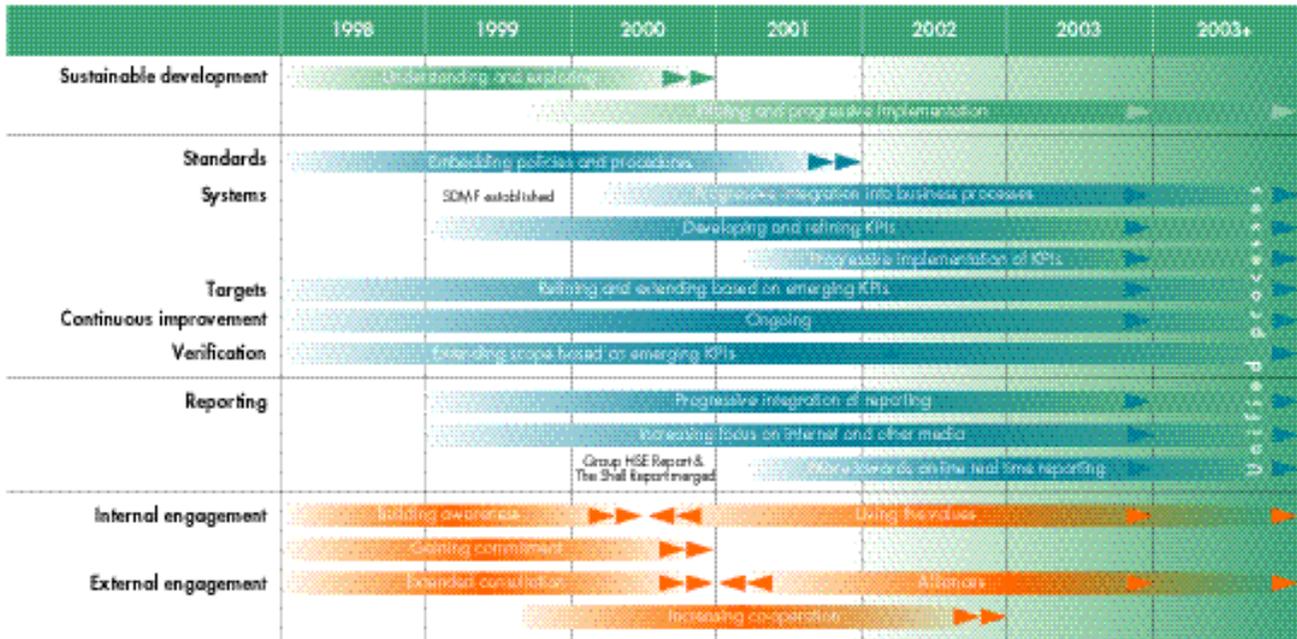
- the mandatory Group HSE Commitment and Policy, and its associated procedures



[www.shell.com/hsepolicy](http://www.shell.com/hsepolicy)

## MANAGING OUR BUSINESS

## Sustainable development road map



- minimum environmental expectations – some of which are targets, and will take time to achieve, and others which are already current practice. [www.shell.com/hsepolicy](http://www.shell.com/hsepolicy)  
All of our operations will at least conform to these common standards – no double standards.

## Promoting our Principles

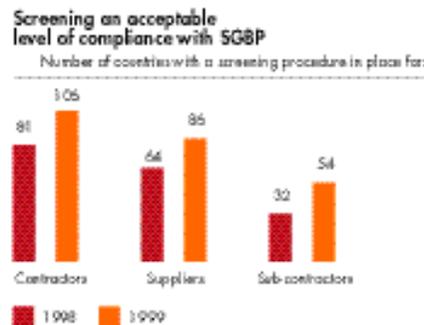
We use our influence in joint ventures to persuade our co-venturers to operate the venture in ways that are compatible with our Principles. We also expect our contractors in their work with Shell companies to be compatible with the Principles as they relate to the way the work is done. If this cannot be achieved we will terminate contracts and divest from joint ventures. In 1999 at least 62 contracts were cancelled (69 in 1998) and one joint venture was divested because of operations incompatible with our Business Principles, mostly with respect to Principle 6 (Health, safety and the environment) and Principle 4 (Business integrity).

Shell companies in 119 countries (112 in 1998) explicitly discuss the SGBP in contract negotiations with contractors and in 107 countries (97 in 1998) with suppliers. In 104 countries expectations with respect to SGBP are written into contracts. In many cases screening for SGBP compliance takes place.

Shell companies are helping local suppliers and contractors to reach Shell's required standards in 127 countries (67 in 1998). Help ranges from management support and supplying documentation and videos to training on ISO quality assurance and HSE auditing.

The SGBP are available in 51 languages, covering the local languages of 99.9% of Shell employees. Shell companies in 135 countries have a procedure to ensure that new employees receive the SGBP, and in 109 countries there is a new employee training programme about SGBP.

[www.shell.com/sgbp](http://www.shell.com/sgbp)



## Business integrity

## Principle 4 Business integrity

Corruption can occur in all parts of the world and at all levels but in some countries the payment of bribes and facilitation payments to low-level government officials is common practice and managers are under continuous pressure to pay bribes to avoid 'penalties' and additional 'taxes'. We aim to achieve the highest standards of integrity in our business dealings and in 1999 we produced a practical guide to combat bribery and corruption and to support the applications of our Business Principles (see case study).

We have a Group-wide policy and a target of no bribes. In 97 countries (94 in 1998) Shell companies have procedures, above and beyond the Group's control measures, to prevent and identify possible breaches of the 'no bribes' policy. In 80 countries Shell companies operate a procedure to identify and prevent possible breaches of the Group's policy concerning facilitation payments.

In places it is customary to employ 'intermediaries' or agents to arrange services more quickly or efficiently than would otherwise be possible. To avoid inadvertently becoming involved with corrupt practices through the use of intermediaries

## MANAGING OUR BUSINESS



Corruption can occur in all parts of the world and at all levels. We have a Group-wide policy and a target of no bribes.

Shell companies in 71 countries operate a procedure to ensure that the use of intermediaries does not compromise business integrity.

In 1999, Shell companies reported three instances (four in 1998) in which a total of three employees were detected soliciting or accepting bribes directly or indirectly in some form. The total financial value was estimated to be US\$ 153,000. In one case the employee resigned before the incident was discovered, in the other two cases the employees were dismissed. In two cases prosecution is underway.

In 1999 there was one case in which a Shell employee used an intermediary to make payments of US\$ 300 to a government official to silence a complaint that had been made against him for his personal behaviour. The employee was dismissed.

For the first time we are in a position to report breaches of Group policy concerning contractors, intermediaries and others (including temporary staff). In 1999 there was one case

involving two temporary workers who were detected accepting bribes. The contract with the agency was terminated.

### Reported cases of bribery

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

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

 [www.shell.com/integrity](http://www.shell.com/integrity)

## CASESTUDY

### Bribery and corruption primer

We have published a guide for staff on how to deal with bribery and corruption. This has been done because we want to make sure that our business integrity Principle is applied and understood by our employees and business partners. (See Principles 4 and 2d in the Business Principles, inside back cover).

The booklet – called ‘Dealing with Bribery and Corruption’ – describes some of the many forms of bribery and corruption. It sets out to raise awareness about the threats and improve understanding of the difficulties involved in dealing with the issue. Case studies, based on the experiences of Shell employees, provide examples designed to help staff cope when faced with business integrity issues, such as being asked for bribes or offered gifts.

Independent experts from Transparency International, the US organisation Business for Social Responsibility and KPMG Ethics and Integrity Consulting Unit contributed to the primer.

A draft was published on the Shell intranet and employees were asked to comment and contribute their ideas to the final version.

The booklet has been distributed to all Country Chairmen\* and to the finance departments in all major operating companies. They have been made aware that the primer could be useful to help current and potential business associates (including joint ventures where Shell is a minority participant) better understand Shell policies on business integrity. The booklet could also be used in discussions with people outside Shell who are interested in the issues.

Copies have also been sent to those experts who were consulted during the writing, and the booklet has been made available at conferences and public meetings. The guide is on the internet and a limited number of printed copies are available on request. Our address is on page 50 or contact us at

 [www.shell.com/primers](http://www.shell.com/primers)

Peter Eigen  
Chairman, Transparency International

“Transparency International, together with Shell and other like-minded organisations, is exploring the development of a voluntary integrity management standard for companies. We welcome Shell’s involvement in what we believe is an important initiative.”

## Political payments

### Principle 5 Political activities

We have a policy and target of no political payments. Shell companies in 113 countries (108 in 1998) operate a procedure to prevent and identify possible breaches of the ‘no political payments policy’. In 1999 no political payments were made.

## Systems

Management systems help us embed our policies in the Group and rigorous assurance procedures provide the necessary confirmation that the policies are working as planned.

## Letters of assurance process

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; and the Shell General Business Principles (see case study). These provide confirmation to the Directors of the Group Holding Companies (see page 50) that the policies have been adopted and procedures are being – or have been – implemented to ensure compliance. Those who sign the letters are held personally responsible for the accuracy of the contents.

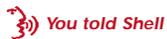
## CASESTUDY

### Information integrity

Gathering information about markets and competitors is an essential part of everyday business and promotes free enterprise and competitiveness. But the methods used to get the information must be within legal and ethical boundaries.

Shell’s Research and Technology Services, for example has drawn up a code of conduct for staff. It emphasises that no illegal acts, such as wiretapping, bribery or stealing, will be tolerated in the pursuit of information. Furthermore, staff and those that represent Shell companies must behave ethically when acquiring information. They must, for example, disclose their identity fully and respect requests for confidentiality.

## MANAGING OUR BUSINESS



“Implementation is a separate matter to having the appropriate policies. But regardless of that, at least it is a start.”

UK

These processes and the related performance are reviewed by the Committee of Managing Directors and the Social Responsibility Committee, which comprise external directors of the boards of the two Parent companies of the Royal Dutch/Shell Group of Companies.

Greater detail describing the letters and the rigour of the procedures can be found in previous Shell Reports and on  [www.shell.com/letters](http://www.shell.com/letters)

#### HSE management systems (HSE MS)

Shell companies are committed to manage HSE in the same way as any other critical business activity. This involves a rigorous and systematic approach to the management of HSE. We set the target that all Shell companies would have a certifiable HSE MS in place by the end of 1999. Over 95% of companies report that they have met this target and those remaining will complete the task during 2000. The next challenge is to check that the systems are fully implemented – the proof of this will come through improved performance.

‘Business in the Community’ benchmarks both environmental management and performance of major UK companies. We participate in their self-assessment ‘Business in the Environment Survey’, as this gives us a good check on the progress we are making. In particular, our HSE MS, internal environmental auditing processes and contractor programmes have substantially improved our rating to 97%.

All Shell companies are encouraged to have their environmental management systems certified against recognised, independent system standards, such as ISO 14001 or the European Union’s Eco-Management and Audit Scheme (EMAS).

\*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

All major installations having significant environmental risks should be certified by end 2000. We are well on track, with 42 installations (40%) having achieved this status by the end of 1999.

#### Sustainable development management framework

We developed a practical tool to help embed sustainable development principles into our decision-making. This is called the sustainable development management framework (SDMF). The framework is built on our core values and Principles and helps us bring the necessary structure and consistency to our efforts.

It is essentially a standard management process adapted to embody sustainable development thinking. It can be used to identify and fill ‘gaps’ in existing systems and processes. Key features include: integration of the economic, environmental and social elements in our everyday business; engagement; open reporting and verification. Supporting the framework is an extensive toolkit of best practice and procedures

to help users apply it to their own activities.

A Sustainable Development Council exists to drive the transition from traditional business practices to the management approach articulated in the SDMF.

The Council, chaired by Managing Director Harry Roels, comprises senior business executives from each of the five core businesses and the heads of the corporate centre directorates. The Council is accountable to the Committee of Managing Directors.

The SDMF has been distributed by the businesses to over 3,000 of their senior managers worldwide. This represents the management teams of more than 86% of countries (119 countries). The Group commitment to sustainable development has been brought actively to employees’ attention through the business line in 87% of countries (121 countries) – in which up to 96% of Shell staff are employed. (See pages 38-47 for progress being made by the businesses in applying the principles of the framework to their processes and operations.)

 [www.shell.com/managing](http://www.shell.com/managing)

## CASESTUDY

### What the Business Principles letters reveal

This year, 143 annual Shell General Business Principles (SGBP) letters have been received from 133 Country Chairmen\* representing countries or groupings of countries and from 10 business organisations. This is a 100% response rate, as for last year.

The analysis of the letters shows good progress in both applying the process and achieving results.

The SGBP have been formally adopted in all countries. The letters report that they are also adopted by all joint ventures in 43 countries, and are being adopted in at least 15 more joint ventures.

The Business Principles are generally well communicated and applied:

- 45 Country Chairmen mention that the SGBP is part of the performance appraisal process
- best practices with respect to SGBP are generated, shared and used in some 70 countries.

The letters reveal that:

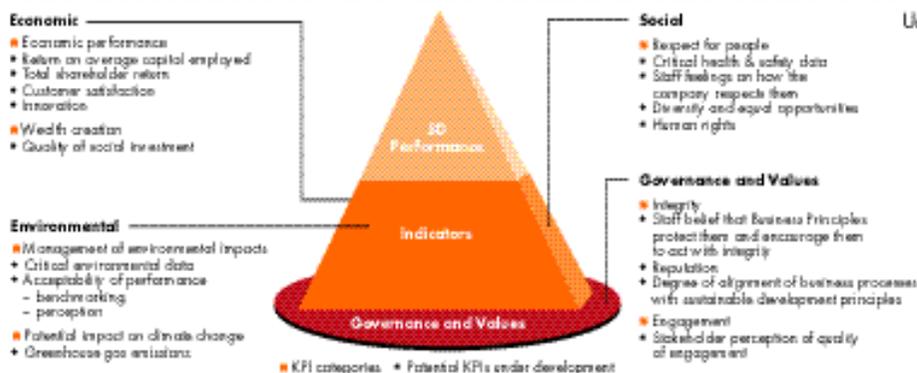
- 43 Country Chairmen report an active involvement in the development and welfare of local populations
- 87 Country Chairmen raise bribery and corruption as a serious issue on which they feel personally responsible for upholding Shell’s position
- 43 Country Chairmen express concerns about human rights in the external operating environment, including child labour, community rights and equal opportunities.

We have published two practical guides to help staff understand and deal with the issues of human rights and bribery and corruption (see page 30). We are also publishing primers on child labour and indigenous peoples.

 [www.shell.com/primers](http://www.shell.com/primers)

## MANAGING OUR BUSINESS

### Key performance indicator framework



### Criteria for a KPI

Under Shell's control or high degree of influence  
 Can drive the business towards a clear target  
 Relevant to internal/external audience  
 More than a measure of compliance  
 Related to critical activities:  
 Benchmarkable  
 Verifiable  
 Meaningful at corporate level  
 Builds on existing data stream:  
**Few, clear, motivations.**

### Key performance indicators

Engaging with our stakeholders on how our performance may best be judged is one of the elements of the SDMF. We are working with our stakeholders to develop key performance indicators (KPIs) that can be used to measure and report on progress in our commitments to sustainable development.

Indicators are used widely in financial and economic reporting to show how well or badly a company or country is performing. Typical examples are return on capital and gross domestic product.

Good progress has been made over the past decade in formulating environmental performance indicators. But the development of meaningful social indicators – mainly by governments and non-governmental organisations (NGOs) – is still in its infancy.

We shall continue to work with other organisations in KPI development. But we need to define a set of KPIs to drive our own activities to fulfil our plans for making sustainable development integral to the way we do business (see Road Map, page 29).

We see KPIs as the logical basis for setting targets and driving continuous improvement across our operations and for developing standards of reporting and verification.

Stakeholder views are vital in the process because KPIs must be critical to the business and relevant to the concerns and expectations of those who have an interest in our progress.

The support and guidance of senior management within Shell has been provided by the Sustainable Development Council (see page 31). Staff from the businesses and corporate centre have helped in developing our approach and providing expert views in areas such as HSE, finance, strategy and policy.

We are looking to develop seven or so KPI categories to fit within a framework spanning the economic, environmental, social and underlying governance and values aspects of performance (see diagram above).

We developed a list of two or three potential KPIs for each category as the starting point for dialogue. We then held 33 meetings with stakeholders drawn from the following groups: shareholders, NGOs, labour organisations, academia and government.

We received a wealth of suggestions, which we systematically recorded, analysed and categorised using a series of screening criteria (including those shown above). The Group verifiers provided advice on the verifiability of input received.

The key learning for us was that statistics alone are poor measures of performance. These need to be complemented by measures of quality and value-added, although how to do this is not always clear.

The Sustainable Development Council approved a timetable for testing the practicalities of an initial list of KPIs and for tackling those requiring longer-term study.

We shall introduce KPIs progressively over the next one to five years as we develop the necessary systems and implementation guides. We shall report on them in future Shell Reports and continue the dialogue with our stakeholders on their development.

 [www.shell.com/KPIs](http://www.shell.com/KPIs)

### Targets

We have well established financial and HSE targets and projections (goals) to drive continuous improvement in critical aspects of performance. Like most organisations we have struggled with defining meaningful targets in some aspects of social/ethical performance. We see the emerging KPIs as the logical basis to reassess existing targets and set targets in the future.

### Reporting and verification

We are doing well in moving towards integrated reporting. We have merged the Shell Report and the Group HSE Report and also provided more financial information in this edition of the Shell Report. The content of the Report can be found online throughout  [www.shell.com](http://www.shell.com) where it is an integral part of the site and will be updated through the year.

We are also working with others such as the Global Reporting Initiative (GRI)  [www.globalreporting.org](http://www.globalreporting.org) to help establish and test emerging international standards of sustainability reporting. This report has been produced within the spirit of the GRI guidelines. We will continue to innovate and share our learning with interested parties.

## MANAGING OUR BUSINESS

 You told Shell

“Shell do NOT encourage open communication internally. There are so many employees who do not feel empowered to speak out that to ask our customers for the same seems hypocritical at the very least.”

UK

You told Shell 

“This is one of the most boundaryless forms of communication I have seen. If this forum is the reflection of what your management is really about, you are on the right path.”

Netherlands - forum entry

We remain committed to transparency and verification in our reporting. We continue to explore, with our verifiers and others, ways of providing the necessary assurance to stakeholders on what we report – see page 5.

## Engagement

### Principle 9 Communications

Engagement is an essential component of the SDMF and the prime difference between it and traditional management frameworks. We have taken big strides in engaging more fully with a broader group of stakeholders.

### Internal

Each business has adopted the ideas within the SDMF and is raising awareness with staff and helping them see how to bring sustainable development thinking into daily operations.

The Shell People Survey, conducted for the first time in 1999, has provided valuable information on how employees feel about working for Shell (see Shell People Survey, page 24 for details).

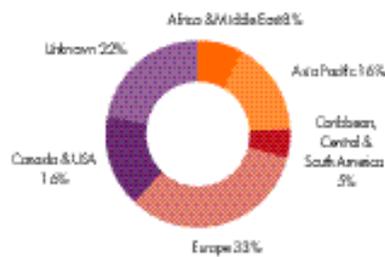
### External

Besides the publication of this yearly Report, the Group has run a global advertising campaign to highlight some of the major issues and dilemmas it faces. The campaign was designed to stimulate debate and comment on Shell's approach and to extend our dialogue to the widest possible group of stakeholders.

Those wanting to engage with Shell have been invited to do so by using the speed and interactivity of the web. The Shell website has a 'Tell Shell' facility (see case study) and uncensored web forums to promote the debate.

The use of engagement is slowly becoming a routine part of the way Shell companies do business (see table). There is still much progress to be made but the signs are encouraging.

'Tell Shell' responses by region   
Period: March 99 – November 99

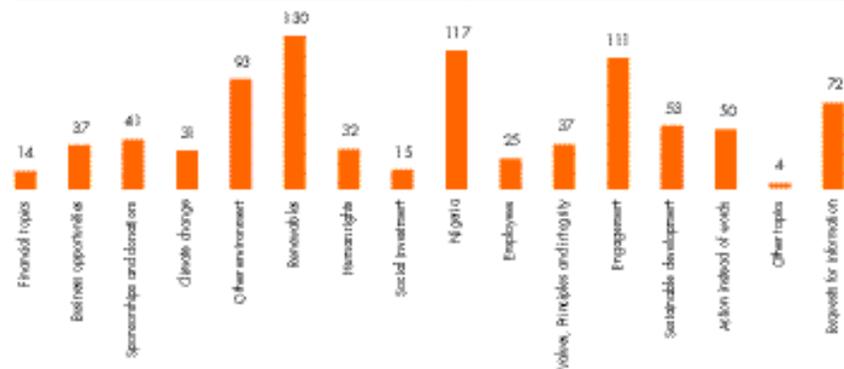


## Engagement

	Operating a procedure to systematically identify and engage key stakeholders	Measuring the effectiveness of engagement	% of countries Operating a procedure to use the results of stakeholder engagement
Exploration and Production	85%	45%	38%
Oil Products	77%	42%	36%
Downstream Gas and Power	78%	43%	26%
Chemicals	73%	35%	29%
Renewables	94%	50%	44%

'Tell Shell' responses per category 

Total number of responses: 862 for the period March 99 – November 99



# CASE STUDY

## 'Tell Shell'

“I've worked for Shell for 20 years and I was surprised at the strength of feeling about us from some members of the public,” says Joanne Chandler who deals with public comments that come through the post or via the web in response to the 'Tell Shell' invitations in this Report and to the Profits and Principles advertising campaign.

“Some of the negative comments used to depress me a little and they have certainly brought home to me the mistakes we've made in the past.

“But I believe we've made an immense improvement in the way we face up to the issues and how we communicate with people. The 'Tell Shell' facility is one really good way for our critics and others to have their say, and for us to tell our side too.”

Joanne deals with queries directly when she can, or sends them to Shell experts or senior leaders for their response.

“The business executives have read and discussed the comments in the Sustainable Development Council meeting too, which shows that the responses are taken seriously at the highest level. I think they must be – otherwise all of our commitments would be just empty words.

“We've asked people to talk to us and they have. Sometimes people have been quite aggressive initially but have then responded to say they really appreciated our open and honest personal response.”



[www.shell.com/tellshell](http://www.shell.com/tellshell)

## SHELL VIEW OF THE FUTURE AND THE WAY FORWARD

Action on sustainable development, human rights, environment, transparency and engagement as well as providing greater choice for consumers is right for our fast-changing world and necessary for our continued success.

# VIEW OF THE FUTURE



**People Power** – individuals flourish in a world of flowering diversity, which undercuts authoritarianism and conformity, and appears to weaken many long-standing social and political institutions

**The New Game** – existing institutions and organisations successfully adapt to the new and evolving complexities of globalisation and liberalisation. There's only one global game to play in.



## HIGHLIGHTS

- **Scenarios** – plausible and challenging stories of the future – help us plan
- Fossil fuels currently meet about 85% of world's energy needs but gas and renewables could meet 50% of OECD power generation needs by 2020
- Short-term we need to remain competitive in the hydrocarbon business, but with an increasing focus on lower carbon fuels such as gas
- Our portfolio will evolve to meet the need for cleaner, less carbon-intensive fuels
- We must get right the 'softer' aspects of business: leadership, empowerment and diversity

**Our plans for new products and changes in the Group's portfolio of businesses are based on a view of the future that focuses on satisfying the expected demands of our customers and the broader needs of society they represent. Our success depends on us devising innovative and profitable ways to provide sustainable solutions that satisfy customer needs.**

We use scenarios – plausible and challenging stories of the future – to help us plan. Scenarios are not forecasts; rather they offer very different stories of how the future might look. They challenge the mental maps we hold and help create a common language with which the future can be discussed.

Our view on the Group's future is broadly influenced by two scenarios we have developed, which are shaped by a powerful set of forces – globalisation, liberalisation and new technologies – which are sweeping the world, creating enormous challenges as well as new opportunities. These are complemented by the influence of individuals – rich and poor – who are, in many parts of the world, becoming wealthier, better educated and freer to choose. This is creating a more spontaneous, unstructured and less predictable environment.

## The two scenarios are:

- **The New Game:** existing institutions and organisations successfully adapt to the new and evolving complexities of globalisation and liberalisation. At all levels, from the local to the international, people come together to solve problems and, in the process, old institutions are reconstructed and new institutions and rules emerge that encourage fairness and efficiency. Of course, people have always come together to solve problems, but now there's only one global game to play in – or, as is the case in some regions, to aspire to join.
- **People Power:** the individual flourishes in a world of flowering diversity, which undercuts authoritarianism and conformity, and appears to weaken many long-standing social and political institutions. It is a volatile and exciting world, where 'news of the new' is rapidly disseminated and many institutions seem outdated, ineffective and incapable of necessary change.

Businesses will need to respond to both sets of influences, described in the scenarios, if they are to be robust enough to deal with change. The scenarios raise fundamental questions that businesses must confront, such as:

SHELL VIEW OF THE FUTURE AND THE WAY FORWARD

You told Shell

“All the ethical window-dressing in the world can't hide the fact that your core business is about living off the natural capital of oil.”

UK

You told Shell

“It is now an accepted fact that the pace of ‘progress’ achieved this century is unsustainable, and the human civilisation needs to throttle back on its aspiration levels vis-a-vis materialism.”

Unknown

- What does it mean to be a global organisation?
- What can be done to satisfy current and future customers?
- What is the best basis for successful, sustainable business design?

The way forward

It is the issues raised by these scenarios that we include in our considerations when planning the Group's future. Our thinking has confirmed that the activities described in this report – such as action on sustainable development, human rights, diversity at work, engagement with our employees and critics, providing greater choice for consumers, tighter environmental standards and greater transparency – are right for our fast-changing world and necessary for the success of our business in the future.

In the medium term, our success will depend on selling the sorts of fuels that society demands. These fuels are gradually moving away from those with a high concentration of carbon, such as coal, to fuels with lower carbon contents, such as oil and especially gas. In The New Game,

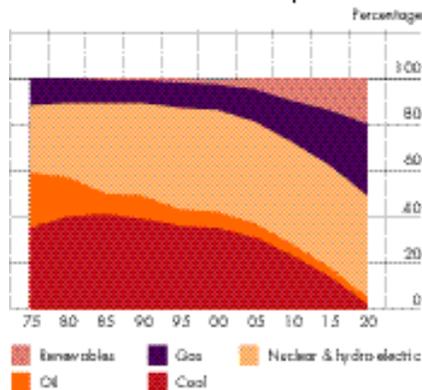
for example, we envisage that gas and renewables will meet almost 50% of the fuel requirements for power generation in Organisation for Economic Cooperation and Development (OECD) countries by 2020 (see right). We expect this trend to continue as new fuels, such as hydrogen and renewable energy, get cheaper and easier to use.

Fossil fuels currently meet about 85% of the world's energy needs. There are no alternatives available now that are cheap enough to fully replace conventional fuels. There is a great challenge for the energy industry to develop alternative energy options that are both economic and environmentally acceptable.

Gas is likely to be in high demand over the next few decades because it is abundant, can be converted efficiently into electricity, is relatively cheap to find and transport, and emits far less CO<sub>2</sub> and other pollutants than competing fossil fuels. The ‘energy transition’ is beginning; our longer-term energy scenarios show that the 21st century will see an increasingly diverse energy market where a wide range of energy solutions is made available.

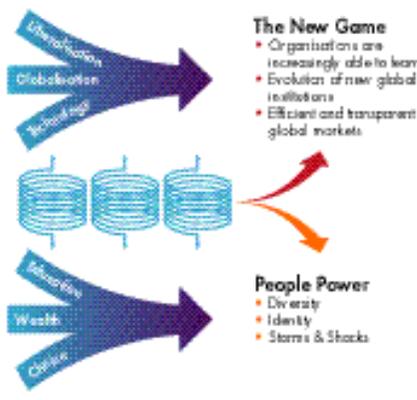
fast-changing world. Our scenarios show that management must get right not just the ‘hard’ aspects of business – portfolio, business structures and technology – but also aspects of leadership such as empowerment and diversity. All will be essential for the long-term success of the Group.

The New Game scenario – OECD power mix



[www.shell.com/strategy](http://www.shell.com/strategy)

Which will shape the world?



The move towards fuels with less carbon – decarbonisation – will mean that the Group may need to reduce its interests in some areas and increase its focus on others. The Group's portfolio naturally reflects the desires of the market and available technological options. In the shorter term, the Group needs to remain competitive in the hydrocarbon business and meet the growing demands of the market for cheap and sustainable energy products and services, while growing its start-up businesses in photovoltaics, biomass, wind (pages 46-47) and hydrogen (page 41).

Recent mergers and acquisitions among corporations were driven by managers attempting to improve the value of their companies in a

CASESTUDY

Leadership and relationships

To enable us to succeed in the fast-changing world we are undergoing fundamental change – transforming ourselves on both the personal and organisational level. A diverse team of individuals with broad-ranging internal and external experience (the LEAP team) has been working for the past two years to accelerate this change – empowering Shell people and companies to excel.

LEAP runs seven Group-wide learning and development programmes for staff at all levels. Some programmes provide the individual with the skills needed to lead and support radical change, while others focus on delivering a step change in business performance. The programmes focus on developing the tools and capability for businesses and individuals to continue to transform the way they do business.

Operating in more than 135 countries around the world, the companies of the Royal Dutch/Shell Group are engaged in the core businesses of Exploration and Production, Oil Products, Chemicals, Downstream Gas and Power and Renewables.

## Exploration and Production

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

## Oil Products

Refining and processing crude oil and other feedstocks into transportation fuels, lubricants, heating and fuel oils, liquefied petroleum gas and bitumen; distributing and marketing them – together with complementary services – to meet customer needs.

**ACTION IN 1999:** The Group's exposure to low refining margins continued to be reduced. The Shell Haven refinery in the UK ceased operations, the closure of the Sola refinery in Norway was set for 2000 and an Equilon refinery in the USA was sold. Refinery capacity and retail assets were swapped with other oil companies in Europe. Fuels tailored to specific consumer needs were introduced in seven markets, and various e-commerce initiatives were launched around the world.

**OUTLOOK:** Oil demand is forecast to increase by some two million barrels a day in 2000, driven by economic growth. European and US Gulf Coast refinery margins are expected to remain under pressure until demand reduces excess stocks of distillates. Asia-Pacific margins are likely to remain weak because of the surplus capacity in the region. Pressures on gross fuels margins will continue. But if oil prices are stable or falling, gross marketing margins may rise from 1999 levels.

## Chemicals

Transforming hydrocarbon feedstocks into base chemical products, petrochemical building blocks and polyolefins, and marketing them globally to create customer value.

# SHELL BUSINESSES

## Downstream Gas and Power

Marketing and trading natural gas; commercialising natural gas through investments in processing and transportation infrastructure; wholesaling and retailing of natural gas and electricity to industrial and domestic customers; developing and operating independent electric power plants.

**ACTION IN 1999:** Long-term sales contracts of liquefied natural gas (LNG) to India were won, and decisions were taken to invest further in Nigeria LNG and Malaysia LNG. An additional 5% interest was acquired in Comgas, the largest gas distribution company in Brazil. Financing was secured for five power plants. The US portfolio was restructured, with the sale of Oklahoma pipeline assets and the establishment of a joint venture to handle the natural gas liquids business. Shell Energy began trading power in Europe.

**OUTLOOK:** Gas and electricity demand is expected to continue to grow strongly. But liberalisation of the gas market is likely to challenge the Group's strong position in Europe. Future success will depend on integrating the energy requirements of consumers and on optimising the entire gas-to-power value-added chain, from wellhead to burner and to electricity meter.

## Renewables

Bringing renewable resources to everyday life by developing viable businesses: manufacturing and marketing solar energy systems; implementing rural electrification projects in developing countries; sustainably growing and marketing wood; converting wood fuel into marketable energy; developing wind energy projects.

**ACTION IN 1999:** The asset portfolio was upgraded by divestments (mainly in the USA and Canada) and certain dilutions (most notably in the Philippines). The go-ahead was given for projects in Nigeria (the offshore EA and Bonga fields), in the USA (the deep-water Brutus field) and in Canada (the Athabasca oil sands). Plans to re-develop a pair of oil fields in Iran were announced. Important new licences were acquired in Malaysia, Norway, China and in Brazilian deep waters. Delivered on cost savings promised for 1999.

**OUTLOOK:** Crude oil prices remain unpredictable. Nevertheless, overall world demand is likely to continue growing, driven by the economic recovery of several Asia-Pacific countries and the continuing strength of the US economy. Technological advances – particularly in drilling – will drive down industry costs.

**STRATEGY:** Emphasise short-term profitability whilst maximising long-term value through cost leadership, investment discipline and production growth. Implement strategy by means of selective investments and active portfolio management. Take advantage of the Group's relationships, reputation, technology, skills and practices to support Group companies as the preferred partner of both resource holders and other companies in the industry.

**STRATEGY:** Continue to focus – first and foremost – on the millions of Shell customers around the world whilst meeting society's expectations. Enhance what is on offer through the global network of Shell petrol stations by introducing differentiated fuels and convenience concepts. Develop alternative fuels, tailored packages of products and services, and e-commerce solutions to meet changing needs. Maintain emphasis on cost reduction, operational excellence and active portfolio management.

**ACTION IN 1999:** Performance improvements through cost leadership programmes, improved plant reliability and capacity additions were achieved in 1999. Additionally, in keeping with the divestment programme announced last year, Shell companies have sold several chemicals businesses (such as general purpose rubber, polystyrene and polyvinyl chloride). Negotiations on other divestments continue into 2000. An agreement was reached with BASF to create a global polyolefins business.

**OUTLOOK:** Chemicals trading conditions improved in the fourth quarter from earlier in the year as confidence returned to the Asia-Pacific region and feedstock price rises throughout the year were increasingly reflected in finished product prices. No significant change in trading conditions is anticipated in the short-term.

**STRATEGY:** Focus on petrochemical building blocks and large-volume polymers for which the Group has leading technologies and world-scale plants. Develop and mediate new relationships to establish sustainable businesses that offer maximum value to the customer. Maintain emphasis on enhancing the portfolio, customer needs, reducing costs and engaging and developing people.

**STRATEGY:** Grow the Business to be a global player in "midstream" gas and power – with enough physical assets not only to bring Group equity gas to established markets but also to open up entirely new ones. Capitalise on industry-leading positions in the commercialisation of LNG and gas-to-liquids technologies. Work with Exploration and Production, to market gas that might otherwise have to be flared, and with Oil Products, to satisfy customers' energy needs.

# AT A GLANCE

**ACTION IN 1999:** In India, Sri Lanka, and the Philippines wholly owned subsidiaries were established to market solar energy systems. In Germany a world-class solar-cell factory was opened, and approval was given for the Group's first wind energy project. Solar home systems were introduced in South Africa. A facility for the manufacture of wood-fuel briquettes was commissioned in Norway. Forestry companies have been restructured, and a global forestry marketing unit has been set up.

**OUTLOOK:** Renewable energy can be competitive in niche markets. Outside those markets – and in the short-term – it will need governmental support. Yet its cost will continue to decline as more experience is gained. And as it becomes more competitive, it will supply a significant proportion of the world's energy. Paper and pulp prices, having suffered a cyclical downturn, are now strengthening as demand tracks economic growth.

**STRATEGY:** Build on the Group's existing experience in forestry, solar systems and fuel-combustion technologies to position the Group as a global market leader. Capitalise on synergy with other Businesses, such as that in the rural solar scheme in the Philippines and in marketing through retail outlets in Germany. Gain a competitive advantage in wind energy from Group skills in the design, implementation and operation of complex engineering projects.

## EXPLORATION AND PRODUCTION

Meeting society's energy needs lies at the heart of our business. Society expects us to produce finite oil and gas resources while caring for people and protecting the environment – only then we will maintain our right to grow.

## EXPLORATION AND PRODUCTION



Cavite training farm – coffee is one of the crops grown by SPEX scholars for the Pilipinas Shell Foundation's agricultural programme (see case study).



Training production operators in West Africa.



Shell Expro's wood recycling programme in the UK provides employment to people with learning difficulties.

Developing skills in the local community is fundamental to sustainable development, supporting both the technical aspects of our business as well as social needs.

**The Group's Exploration and Production (EP) business is responsible for finding oil and gas and getting it out of the ground. In 1999 EP focused on translating the Group's sustainable development aspirations into something that people throughout the organisation could relate to and use.**

A document known as 'The Way Forward' was published to complement the Group's sustainable development management framework (page 31) and provide additional guidance for EP companies. The cornerstone of the approach is a set of six sustainability principles to be applied in daily business. These are to:

- respect and safeguard people
- engage and work with stakeholders
- minimise impact on the environment
- use resources efficiently
- maximise profitability
- maximise benefits to the community.

For each principle a description of the types of activity that might be undertaken and indicators to measure progress are suggested.

Many EP companies have been contributing to sustainable development as a normal part of their business for some time and examples from a range of companies are included in the publication. EP companies are now using 'The Way Forward' to promote a more consistent approach and to develop plans assessing their own course and contribution to sustainable development reflecting their particular position in the market, environment and society.

EP has established a dedicated website to share experiences and ideas. It includes, for example, EP's initiatives in the Philippines where a number of activities are underway to ensure that the Malampaya gas project is fully aligned with sustainability objectives (see case study).

Elsewhere, in countries as diverse as Brunei, Kazakhstan and The Netherlands, EP companies

have been holding workshops to look at ways for employees to address sustainable development issues. In October 1999, a global workshop was held, involving over 60 representatives from some 25 EP companies.

While good progress has been made, there is clearly more to do. Some of the issues that will be addressed in 2000 and beyond require a business-wide approach, and include:

- management of greenhouse gases, including participation in the Group emissions trading programme (page 16)
- biodiversity (page 19) and operating in socially or environmentally sensitive areas
- increased focus on stakeholder engagement through a series of dialogue sessions on EP-specific issues.

## EXPLORATION AND PRODUCTION

*His Excellency Dr Mohammed bin Hamed al Rumhy*

“It pleases me to congratulate PDO\* and its contractors on the completion of this marvel of engineering... which will contribute towards Oman’s prosperity... helping to diversify the economy through the supply of gas to the O LNG\*\* plant near Sur.”

*You told Shell* 

“Exploit or explore?  
The arrogance is almost  
unimaginable. I will  
continue to boycott Shell.”

*Unknown*

### Learning the lessons

Shell has operated in the Gamba region of Gabon for nearly 40 years and has provided various services to the local community, including hospitals, medical treatment and schools. Although this form of assistance was appropriate at the time, the long-term social implications were not fully understood. A quarter of the local population, about 2,000 people, came to depend on Shell for basic social amenities.

Shell Gabon has spent two years in stakeholder dialogues aimed at shifting community support from direct assistance to self-development. Several programmes, through which Shell provides sponsorship, advice and training, have been initiated to stimulate the change. Examples include:

- community health care has been transferred to the Regional Medical Centre in Gamba. This centre is now run by the local authorities and is developing a vision for regional health care
- an agricultural project, managed by the Research Institute of Agro-forestry, helps farmers grow vegetables for local use and potential export. Graduates have formed the first farmers co-operative in Gamba
- Pro-Natura, an international NGO, is undertaking a biodiversity study of the Mokandé forest and assessing its potential for sustainable economic opportunities. The results will be made available to Shell Gabon and the government (see page 19)
- The Fondation Entreprise en Création provides expert advice on managing loans for local entrepreneurs to start businesses, such as a taxi service.

Like others, Shell has learned the importance of addressing the economic, social and environmental implications right from the planning stage of a project. Applying the six sustainability principles to daily business will assist EP companies to achieve this goal.

 [www.shell.com/focus](http://www.shell.com/focus)

## CASE STUDY

### Malampaya

Shell Philippines Exploration (SPEX) is the operator of the Malampaya Deep Water Gas to Power Project. This involves piping gas 500 km from the island of Palawan to Luzon and will allow the Philippines to reduce dependency on heavier imported fuels such as coal and oil.

From the start, SPEX has promoted sustainable development. Short and long-term economic, social and environmental implications of the project are addressed for each phase. A Sustainable Development Council comprising SPEX managers and external members drives this effort.

Minimising environmental impacts and involving stakeholders to address concerns are key. The Shell Report 1999 described a number of changes made to the original plans after local consultation, including the re-routing of the pipeline to avoid environmentally sensitive areas, ancestral burial grounds and sacred coral formations.

Environmental studies have been undertaken. For example, the pipeline will pass Mindoro Island where poorly controlled past developments have threatened rich and unique biodiversity. The NGO, Flora and Fauna International, catalogued endemic species for conservation planning in this area. An initiative to reforest and preserve the habitat of the endangered Philippine fruit bat was also undertaken.

Social investment projects were started, many of which were designed to be self-sustaining. Education and training programmes were sponsored and a sustainable development professorial chair at the University of Asia and the Pacific was established. Other projects include aiding a government malarial eradication programme on Palawan and solar electricity for rural communities.

 [www.malampaya.com](http://www.malampaya.com)

### Din Megat

Managing Director Middle East, Central & South Asia and Russia

“Making our HSE intentions a reality is something we should all strive for – it is hard work, but the most fulfilling I have been involved in.”



### Amanda Bradley

Environmental Advisor, The Hague

“I have been involved in sustainable development in EP since the early days of the Group’s commitment. Many still need to be convinced of the benefits and the relevance but I am encouraged by the progress we’ve made and the growing enthusiasm to talk about the issues.”



### Jury Tajomavwo

Community Development Advisor, Shell Nigeria

“To make Shell Nigeria’s community development projects truly sustainable, our communities participate in all phases of their evolution. This promotes empowerment and a greater sense of partnership. The results are impressive.”



### Chris Spencer

Senior Economist, Shell Australia

“The cultural awareness course was special for me and the aboriginal Larrakia nation. Their warmth and openness was wonderful and never before had they met a company whose initial approach was to simply ask if they could tell us about their culture. I really felt this was reconciliation in action.”

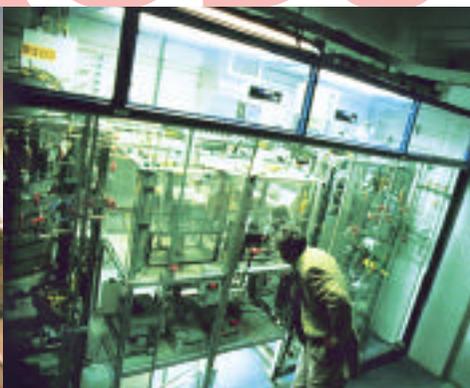


## OIL PRODUCTS

Oil Products recognises that sustainability affects the core of its business: the behaviour of consumers, the way technology develops, changes in regulation and shifts in the way society judges corporate behaviour.



Formula One – the ultimate laboratory for testing ultra-clean, high performance fuels.



Shell's fuel cell research – developing practical, clean and efficient alternatives to conventional vehicles.



Shell Pakistan won the WorldAware award for long-term commitment to societal development.

**Oil Products (OP), the business that makes, distributes and markets fuels, lubricants, bitumen and associated services, published its commitment during 1999 to include sustainability considerations into its key business processes, consistent with the Group's sustainable development management framework (see page 31).**

OP recognises that sustainability affects the core of its business: the behaviour of consumers, the way technology develops, changes in regulation and shifts in the way society judges corporate behaviour. How it responds to such developments influences the success of the Shell brand and therefore OP's commercial performance.

This is why OP is working to integrate environmental and social considerations more consistently into all its decision-making (including investments) and engaging more widely with stakeholders, particularly its customers. In this way it intends to improve the sustainability of its overall approach to business, its products and its operations.

One of its goals is to develop, in dialogue with customers and with the help of wide-ranging alliances, a new generation of enhanced products, services and technology focused on sustainable mobility and energy. In 1999 it launched new fuels, such as Shell Pura™, Shell Optimax™ and Shell V-Power™, which offer significantly enhanced consumer benefits, including reduced emissions and more efficient engine performance (see page 16).

In the wider arena, OP will be actively supporting a working group on sustainable mobility, which Shell will co-chair with Toyota and General Motors, set-up under the auspices of the World Business Council for Sustainable Development (WBCSD). Amongst other things, this working group will seek to identify strategic options for enabling future personal mobility in a sustainable way.

OP is contributing to the Group's commitments on climate change, by looking to become ever more energy efficient and by participating in the carbon emissions trading system (see page 16).

It sees high health, safety and environment (HSE) standards as fundamental to its success and the use of structured HSE management systems as central to continuous improvements in HSE performance, particularly the reduction of accidents in road transport (see page 21).

Members of the OP Executive – its top decision-making body – have specific responsibilities to ensure that sustainability commitments are carried out. These include setting objectives, monitoring and reporting on progress. The review of 1999 highlighted encouraging progress in OP's three key areas of focus: sustainability of the overall approach, of products and of operations.

Plans for 2000 include the provision of further practical guidance to assist operating countries in planning how to incorporate sustainability considerations into business management in a more structured way. OP will also participate in the development of the Group's key performance indicators for sustainable development (see page 32).

 [www.shell.com/focus](http://www.shell.com/focus)

## OIL PRODUCTS

You told Shell 

*Judges of WorldAware award*

“Shell Pakistan shows it is committed to sound, transparent commercial practices and to the community in which it works. This is an excellent model of how a multinational can go beyond conventional good practice and community relations in a creative and imaginative manner.”

“I shall feel further reassured when I next fill up the tank – that I am supporting a company that is not only socially responsible and accountable but is also concerned for the world my children will inherit.”

Malaysia



### MTBE

A widely used additive in gasoline, methyl tertiary butyl ether (MTBE), will be phased out by 2002 in California because it has been found to contaminate drinking water. This action was not based on health grounds, but because MTBE gives drinking water an unpleasant taste and odour.

Water contamination occurs from accidental spills of gasoline, leaks from underground storage tanks, and from unburned fuel emitted by two-stroke boat engines.

The decision in California, which is expected to be mirrored by other US states, has prompted a debate about this gasoline component's future in Europe and elsewhere.

The amount of MTBE used grew to meet US legislation for reformulated gasoline to reduce emissions of carbon monoxide. It is now also widely used to increase the octane rating of unleaded and lead replacement fuels, and to meet tougher gasoline specification limits in Europe on properties such as the content of aromatics and olefins.

There are few alternatives to MTBE that meet gasoline specifications and some of these create potential risks of their own.

Shell is encouraging the fuels industry in Europe to participate in a wide dialogue on the issue with key interested parties, such as regulators, vehicle manufacturers, and health and water organisations. Shell's belief is that a constructive dialogue will lead to the best way forward.

 [www.shell.com/stewardship](http://www.shell.com/stewardship)

## CASESTUDY

### Californian fuel cell partnership

As part of Shell's programme to better understand the options for sustainable mobility, Shell Hydrogen and Oil Products are participating in a Californian public/private partnership to examine whether fuel cell powered vehicles could be a safe, practical, clean and efficient alternative to conventional vehicles.

Fuel cells convert hydrogen to electricity. As their only emission is water, they are being considered as potential clean replacements for the internal combustion engine. Fuel cell technology, although well established for specialist uses, is only now being applied to vehicles and currently there is no fuel distribution system to support them.

The California project will:

- demonstrate the potential of fuel cell electric vehicles, by driving and testing them under real world conditions in California. The first vehicles will be running by the middle of 2000
- evaluate the viability of integrating alternative

fuels, such as hydrogen and methanol, into the existing commercial fuelling infrastructure. Standards on the composition of new fuels will also be developed

- investigate how fuel cell vehicles can be commercialised, by identifying potential problems, developing solutions, engaging participants in developing the best means for implementing solutions, and recommending specific ways for government to help
- increase public awareness of fuel cell vehicles.

The first vehicles will use hydrogen. Other vehicles that run on liquid fuels which can be converted to hydrogen on board will be introduced later.

Other participants in the project are: Ballard Power Systems (developers of fuel cells), DaimlerChrysler, Ford, California Air Resources Board and the California Energy Commission, Texaco, Arco, Honda and Volkswagen.

 [www.shell.com/alternative](http://www.shell.com/alternative)

### John Mills

Vice President Strategy, Portfolio and Environment

“It is my job to ensure that when Oil Products businesses in Shell are making investment or divestment decisions, they take account of potential environmental and social consequences in addition to economic considerations.”



### Hans van Luijk

Vice President South Zone

“My nine-strong management team is made up of six nationalities, while there are 20 nationalities in the level below that. Nowadays, if you're not totally serious about diversity and unleashing the talent of all your people, you're not worth your salt.”



### Kate Dixon

Fuels Brand Manager, London

“To launch differentiated fuels like Shell Pura™, we must understand customers' wants. It's not enough to say 'environment' – is it global warming people worry about or a healthy legacy for future generations? To get it right we have to know what makes a real difference to customers.”



### Eladio Robles

Health, Safety & Environment, Shell Panama

“A highlight for me was working with the government of Panama on the ratification of international protocols for oil spill compensation – a tool for dealing with a major tragedy such as an oil spill. The result of this work will last for future generations. It made me proud to work for Shell and of Shell commitments.”



## CHEMICALS

The concept of sustainable development helped us to change fundamentally the way we think about our business. It is at the core of our business strategy.

## CHEMICALS



CORTERRA™, a new synthetic fibre used for clothes and carpets, is fully recyclable and helps reduce environmental impact.



Extensive tree planting in the nearby hills of the Berre Chemicals manufacturing site, France, following a forest fire.



Project Better World – Nico Meijboom counting raptors in Hell's Gate National Park, Kenya.

**Despite a difficult year focused on restructuring the portfolio, globalisation and cost reduction, steady progress was made in Chemicals' drive to integrate sustainable development throughout its planning and operations.**

A sustainable development panel was established to promote the programme and provide guidance to all parts of the business.

The Chemicals business framework, which is used as the basis for running its businesses, has been updated to fully incorporate sustainable development thinking (see diagram opposite). The Higher Olefins business unit has elected to be the first to gain experience in applying the framework and will share learning with other business units (see case study).

Sustainable development principles have been built into guidelines for capital investment proposals to ensure decision-making is aligned. Chemicals is also developing key performance

indicators that are consistent with the Group initiative (see page 32) to drive improvement and measure progress against clearly defined goals.

To stimulate even greater dialogue within Chemicals an interactive website dedicated solely to sustainable development is being created. This will provide a forum for the free exchange of best practice, experience and learning through the contributions of sustainable development 'champions' from across the global enterprise. It will promote understanding and learning throughout the business while encouraging contributions from the expert and interested.

As part of Chemicals' commitment to dialogue, it holds regular workshops with external sustainable development experts on plans and progress. Chemicals' people have learnt through these contacts of the need to be clearer on how sustainable development principles will be included in business processes. More focus will be placed on this and Chemicals will report progress while seeking further feedback.

The emphasis in 2000 will be to build on early experiences (see case study) as aspirations are translated into practical and tangible actions. Chemicals will continue to build supply chain relationships with companies sharing its vision of the future such as Interface (see comment opposite) and learn together in the process.

Shell Chemicals will also continue to participate in Project Better World (see page 27). This allows staff to gain experience in a broader arena and gain valuable two-way exchange of competencies and learning. In 1999 staff worked with Earthwatch in construction of solar ovens in Indonesia and a sustainable management project for Lake Naivasha in Kenya.



#### Listening and responding

People have become increasingly concerned about the potential effects of chemicals on health and the environment. This is important for us in Shell Chemicals and for our industry. We want to listen and understand these concerns and to anticipate and respond openly to questions from consumers and regulators.

## CHEMICALS

Ray C. Anderson  
Chairman & Chief Executive Interface, Inc.

**"I cannot imagine a greater challenge to industry than that posed by the systematic demise of the biosphere in our times. We are pulling together to reverse that deadly trend."**

We take our responsibilities for encouraging the safe use of our products very seriously and go to great efforts to ensure this. Concerns on use and impact can sometimes outpace the scientific knowledge on which regulations are based.

We are actively seeking to gain a better understanding of the effects of chemicals on health and the environment and to share this knowledge.

These challenges are shared by the chemical industry as a whole. That is why we are involved in an industry programme assessing

You told Shell 

**"Are you being truthful? Are you different? Time will tell by the actions you take. If you are sincere, I applaud your efforts and wish you the best of luck."**

USA

the health and environmental properties of the common industrial chemicals that make up the bulk of our product portfolio.

Shell Chemicals is also supporting the Long-range Research Initiative, an international industry research programme developed with external experts. "It will probe and extend our knowledge about how chemicals interact with humans and the environment. This knowledge is – in my opinion – crucial to the long-term survival of our industry," says Evert Henkes, Chief Executive, Shell Chemicals.

 [www.shell.com/focus](http://www.shell.com/focus)

Evert Henkes  
Chief Executive



"A business must generate profits while contributing to the well-being of the planet and its people. It is not a question of conflict between profits and principles. It is the joining of obligation and opportunity."

John D. Johnson  
Plant Manager, Deer Park Chemical Plant, USA



"Sustainable development for me is about our future: meeting today's business and societal needs without mortgaging or impairing the future of generations to come."

### Chemicals business framework



Siripan Phattarabenjapol  
Market Development Manager, Thailand



"Sustainable development enables mankind not only to dream of, but to expect and to enjoy continuously better lifestyles in a dynamic world."

Maria Manuel Barreto Rosa  
Product Manager Glycol Ethers, Europe



"For me sustainable development means harmony between the balance I want in life, and the way I contribute to create wealth for the world."

## CASESTUDY

### Sustainable development in the Higher Olefins business

The Higher Olefins business is built around the production of versatile chemical intermediates that enhance the properties of consumer products such as plastic films, synthetic lubricants and biodegradable detergents. Higher olefin derivatives are found in homes throughout the developed world.

"The concept of sustainable development helped us to fundamentally change the way we think about this business. It is now at the core of our business strategy," says Bill Colquhoun, Product Vice President of Higher Olefins.

"It is teaching us to look at our business in a much wider context and to understand the role we play in the entire value chain. This shift in thinking altered

our aspirations and vision for the future, leading us to search for ways to dramatically reduce the resources required to deliver the ultimate value of our products all the way to the consumer.

"The key is to work with others in the supply chain and to create whole systems solutions for the benefit of people and the environment. The conventional wisdom that trade-offs are required between development and the environment no longer limits our thinking. The reverse can be true and will provide sustainable growth opportunities for enterprises that can innovate."

 [www.shell.com/case](http://www.shell.com/case)  
for more case studies

## DOWNSTREAM GAS AND POWER

The practicalities of dealing with the social and environmental issues raised by the pipeline taught us far more than paper studies would ever have done.



Community liaison officers in dialogue with local communities on the Cuiaba pipeline, Bolivia.



Liquefied Natural Gas (LNG) plant under construction near Sur, Oman.

**In 1999, Downstream Gas and Power (GP) was confronted by some of the practical challenges of sustainable development, raising awareness through the Business of the need to actively engage with its stakeholders.**

Gas is a convenient, clean, low-carbon fuel. The demand for natural gas is expected to grow. Shell is forcing the pace of growth in this part of its business. Diversification into power generation and downstream gas marketing is aimed at meeting the needs of the increasing worldwide use of natural gas.

Early in the year all staff received a letter explaining the significance of the Group SDMF (see pages 6 and 31) and the importance of sustainable development to the business. The approach is one of incorporating the SDMF within existing business processes.

This recognises that many of GP's projects – some running for over 30 years – already conform in many ways to the principles of sustainable development. This approach has

allowed these long-term major projects to operate harmoniously in local communities and with the support of the national governments.

The significance of such an approach was underlined during 1999 with some projects under development. For example a joint venture in which GP participates met objections to building a gas pipeline across environmentally and socially sensitive regions of Bolivia and Brazil (see Cuiaba issue). "The practicalities of dealing with the social and environmental issues raised by the pipeline taught us far more than paper studies would ever have done," says Nick King, HSE and Sustainable Development Manager at Shell International Gas.

In a further example, in Oman a US\$ 2 billion gas project now nearing completion has created many social and economic benefits (see case study). Environmental and social impacts need to be taken into account long before projects are committed to, even before all the parties are signed up. This is so in Venezuela where these considerations are already being built into the planning of a potential LNG plant.

 [www.shell.com/focus](http://www.shell.com/focus)

## CASESTUDY

### Contributing to sustainable development in Oman

Over 200 permanent jobs have been created in a US\$ 2 billion natural gas project in Oman in which Shell is a shareholder (30%) and technical advisor. Over half of the new positions are held by Omanis and the target for 2008 is for local people to hold almost all of the jobs. Local indirect employment will also be created.

The joint venture project has established a local forum of business and government representatives to advise and assist in community initiatives. The project has built a number of much-needed roads and donated US\$ 45 million to help in the construction of a local hospital. The project has committed to contribute up to 1.5% of net income annually on community projects – depending on suitable proposals being submitted.

Shell, together with the national and local governments, intends to commission a study of the Sharqiya regions of Oman to enhance the project's current sustainable development initiatives for the region.

As part of its global social investment programme Shell also sponsors business training for local entrepreneurs (see LiveWIRE page 11).

 [www.shell.com/case](http://www.shell.com/case)

## DOWNSTREAM GAS AND POWER

**Paul Unruh, Bechtel Enterprises**  
President and Chief Executive

**“Shell has set a standard on sustainable development for all of us to emulate. But more than just words, Shell is integrating sustainability principles into everything they do. We applaud their leadership.”**

### Cuiaba

A new and controversial 650 km pipeline, approaching completion, will transport natural gas via an environmentally and socially sensitive route from Bolivia to Cuiaba in Brazil where the gas will be used to generate electricity, replacing diesel fuel. The pipeline is part of the development of a regional infrastructure, the Cuiaba Integrated Energy project, designed to provide much-needed energy for the region around Cuiaba in the Mato Grosso region of Brazil.

Shell Gas Latin America is a minority shareholder in the pipeline and the construction of a power plant in Cuiaba. Transredes S.A. and Enron are the majority shareholders and operators of the project.

The pipeline goes through different types of sensitive ecosystems from forest to wetland areas, shrubs and grassland zones, and passes close to towns and villages. This route was selected in the tender ahead of a competing project routed through the highly sensitive Pantanal wetlands.

In addition to the environmental impact assessment required by the regulator, a supplemental environmental assessment has been completed to identify critical habitats along the pipeline route and provide details on the mitigation of potential impacts. A code of conduct was developed for the 800 people working on the pipeline and constructors were trained to follow the code. An engagement process was set up, listening to the views and concerns of local people and other interested parties, such as non-governmental organisations.

The pipeline has been buried and during construction, a corridor of a maximum of 30 m was declared within which all construction activities took place. Restoration of the vegetation within parts of the corridor is being assisted and some sensitive areas are being revegetated.

**You told Shell** 

**“Shell has taken a back seat and as a result consultation has been minimal at best, the project goes through primary tropical forest, no alternatives are being considered and sensitive habitat may be irreversibly and significantly affected.”**

**USA – writing about the Cuiaba pipeline**

Access will be blocked to prevent the route being used as a means to settle in forest areas.

The area surrounding the pipeline is inhabited by a wide representation of communities. The indigenous people belong mainly to the Chiquitano and Ayoreo ethnic group. Some 5% of the pipeline investment has been allocated to indigenous people and the development of local communities.

An environmental and social management system was put in place to international standards prior to the start of construction. A monitoring team was established to ensure compliance. The team consisted of a co-ordinator, two assistants, nine environmental inspectors, six archaeologists, one water quality monitor and a social affairs team of 14 people (community liaison officers, indigenous plan officers, community relations plan officers and a social co-ordinator).

A key area of concern identified was the Chiquitano Forest – one of the best remaining examples of a tropical dry forest. Apart from the mitigation efforts already in place, a separate fund has been established to support a long-term conservation plan for this forest. The plan has been set up with the Wildlife Conservation Society, Missouri Botanical Garden, Fundación Amigos de la Naturaleza and Museo de Historia Natural Noel Kempff Mercado. The pipeline owners have committed to support this with up to US\$ 20 million over the next 15 years with a further US\$ 10 million expected from the NGOs.

The facts above do not fully convey the high level of dialogue between the project participants and other interested parties. The project has attracted a lot of local and international attention and proved to be a strong learning experience for us and our co-venturers on understanding and responding effectively to stakeholder concerns.

 [www.cuiabaenergy.com](http://www.cuiabaenergy.com)

**Linda Cook**  
Chief Executive



“My challenge is to ensure we are taking sustainable development into account in all that we do. Our decision-making process for new developments now considers issues such as the impact on long-term biodiversity and harnessing the environmental benefits of gas.”

**Lew Watts**

Director Latin America, Africa and Mediterranean Rim



“It is remarkable how often social and environmental responsibility comes up in conversation, and how people’s eyes light up when you answer – these are part of sustainable development to which Shell is committed and that, for you, it aligns with your own beliefs on the responsibilities of business and individuals in today’s world.”

**Donald Chen**

Business Development Manager, London



“When travelling in China and India, I realised how important it is to use natural resources responsibly. I am proud to be part of a company that spends a major effort in developing and commercialising clean technology.”

**Mimi Tsui**

Marketing Adviser – formerly Business Development Analyst, Shell Companies in Greater China

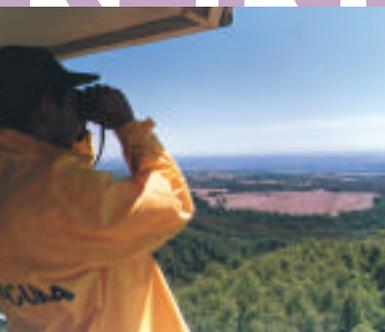


“It is a comfort and encouragement for me to know that Shell is sensitive to the issues surrounding sustainable development and responsible enough to undertake an active role to achieve these aims.”

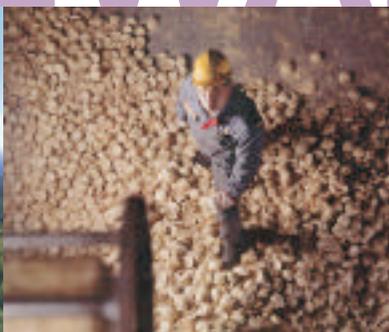
## RENEWABLES

We are in the third year of a US\$ 500 million five-year investment plan to make a profitable business from renewable resources. Success depends on finding enough economically viable projects.

## RENEWABLES



Shell forester on firewatch over plantations in Chile. Shell works with local companies to deal with this threat.



Kirkenær biomass energy plant, Norway. Biomass briquettes are made from waste wood and are ready for delivery to customers.



Using solar cells to make solar cells. The roof of our new factory in Germany has solar panels capable of providing 10% of its energy needs.



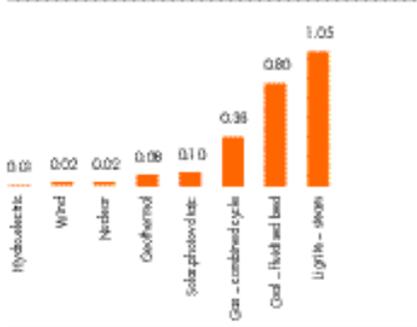
A solar panel – part of our Powerhouse™ system – providing rural South Africa with affordable electricity for lighting, radio and TV.

Shell Renewables, which supplies energy and wood from renewable sources, contributes to a more sustainable world through the very nature of its business. It has adopted six sustainable development principles (page 38) in line with the sustainable development management framework (page 31) and is applying this thinking to all its business decisions, no matter how small. It is also installing certifiable health, safety and environment management systems to ensure it works to the same standards worldwide.

### ⚠ Rate of investment and growth

One of the key drivers for developing renewable sources of energy is the desire to reduce carbon dioxide emissions in energy production by gradually replacing fossil fuels such as coal, oil and gas. Renewable sources emit much less carbon dioxide than conventional fuels per unit of energy produced (see graph and page 35). Many believe they could become a low cost source of sustainable energy longer term.

Carbon dioxide [CO<sub>2</sub>] emission per unit of electricity produced by fuel type kg CO<sub>2</sub>/kilowatt hour



The figure for biomass is close to zero when produced from renewable sources such as sustainable forests.

Shell Renewables is in the third year of a US\$ 500 million five-year investment plan to make a profitable business from renewable resources. Success depends on finding enough commercially viable projects. This can be difficult because of the comparatively high cost of harnessing renewable energy sources. A labelling system to certify energy generated in this way (see case study) could go some way to improve the viability of certain renewable energy projects.

Shell Renewables has so far concentrated on forestry, making and marketing photovoltaic (PV) panels that produce electricity from the sun, and using wood for energy (biomass). In 1999 Renewables began investing in wind energy. This is an update of progress.

### Forestry

Shell's hardwood plantation forests cover 140,000 hectares\*, mainly in South America. The wood is used for paper pulp and, increasingly, for solid wood products. For commercial reasons the business has stopped research into the use of genetic modification in tree improvement. All plantations will seek certification to the independent international standard of the Forest Stewardship Council. Carbon sequestration – the storing of carbon in trees – is under discussion in world forums and the commercial implications are being evaluated.

### Biomass energy

Commercial biomass energy contributes more to world primary energy production than all other renewable sources, except for large-scale hydro-electricity.

\*One hectare is about the area of two football pitches

## RENEWABLES

**Gordon Edge**  
Editor, Renewable Energy Report,  
Financial Times Energy Newsletter

“PV manufacturers are faced with daunting decisions. Will the proposed factory meet market demand in terms of price, quantity and product type? Too large and there will be idle capital. Too small and competitors may undercut you.”

Shell's focus is to produce electricity, heat and solid fuels from sustainable sources of wood, such as plantation forests, and waste. In Norway, a plant that delivers heat to industry has been upgraded to make wood briquettes for sale. In Denmark wood pellets are sold to consumers. In Europe we want to use the higher efficiencies of combined heat and power plants that burn wood. In Uruguay, we have been researching the most effective way to grow wood fuel.

#### Wind energy

Wind energy is the fastest growing of all energy sources, at some 25% a year. Shell's goal is to establish offshore wind farms. The first pilot project will be at our Harburg refinery in Germany and the electricity generated will be labelled (see case study). In the UK two of the largest offshore turbines in the world (2 megawatts each) will be installed shortly.

#### Solar energy

Photovoltaic power has many desirable features and is growing rapidly. At present, it represents only a tiny proportion of the world's energy scene, around 0.01% of total supply. Encouraged by some governments in Europe and in Japan, consumers,

**Jan de Beer,**  
Executive Director Technology  
ESCOM, South Africa

“Bringing affordable electrical energy to people living in rural areas is an important factor in the economic revival of Africa.”

businesses and local authorities in these markets are erecting solar panels that feed surplus current into the grid. The market is also growing for rural electrification systems and Shell has projects in South Africa, Bolivia, India, Sri Lanka and the Philippines.

Shell produces PV panels in The Netherlands and has recently opened a large factory in Germany. When fully on stream it will be able to make enough PV cells a year to satisfy almost 15% of the current total world market.

Some commentators are frustrated at the slow growth in solar power and feel industry should be doing more to bring down costs and stimulate the market, which depends heavily on government subsidy. Without such subsidy solar power would be restricted to specialist applications and some rural electrification schemes. This is a classic 'chicken and egg' situation. Without demand companies are reluctant to invest in large capacity that offers economies of scale. Customers are unwilling to buy until the price comes down. The impasse can be broken by a combination of technical innovation, government incentives, customer willingness to pay more and further investment in production.

[www.shell.com/alternative](http://www.shell.com/alternative)

**Karen de Segundo**  
Chief Executive



“It's a real challenge to be shaping what could one day become our biggest business. While it's important to provide sustainable and renewable energy sources where they are needed most, we must strive to establish a profit-making business or else we cannot continue to grow.”

**Jo Braaten**

Operator, Shell Renewables AS, Norway



“I am really pleasantly surprised that an oil company like Shell wants to put a lot of money into commercialising energy from renewable resources. For us in Kirkenær (biomass energy plant, Norway) it is an obvious way to make our world a better place to live. It seems there is some similar thinking elsewhere in Shell.”

**N P Ramesh**

Technical Manager, Shell Renewables India Pvt Ltd



“People here see us as an important and committed player in the field of renewables. The focus on rural electrification is unique. It gives me plenty of challenges and the chance to try out new solutions.”

**Patricio Soto**

Silviculture Foreman, Rucamanqui, Forestal y Agrícola Monte Aguila SA, Chile



“I am very pleased that the company has given me the possibility to use new ways of growing and managing Eucalyptus plantations. I can develop myself professionally in a company that has established a good reputation with the local community.”

## CASESTUDY

### Green labelling

Renewable energy is expensive to generate, but can be sold at a premium. A trading system, called the Renewable Energy Certificate System, is now being set up in Europe to encourage the development of renewables by allowing the environmental benefit of the energy to be traded separately.

The system is designed to enable electricity companies to sell renewable energy – often called a green tariff – to their customers without having to transport the actual energy from the point of production to the consumer.

This is how the system works:

1. The renewable energy is produced, say by a wind turbine, and is fed into the local grid and consumed locally.
2. An official body provides a certificate

vouching that the electricity has been generated using renewable energy. The certificate has a value determined by the market (much as stocks and shares) and is placed on a trade register.

3. An electricity seller offering a green tariff buys the necessary number of certificates from the register. Depending on how countries organise their electricity markets, the seller recoups the cost of the certificate from either the consumer who pays a premium, or from the government who might offer an incentive in the form of a subsidy.

It is hoped that this system will help to create a strong and stable market in Europe, thereby making renewable energy available to an ever-growing number of customers.

## ANNEX

## ANNEX

**Basis of reporting**

The basis of reporting is as follows:

- The financial data in the Economic section are taken from the Annual Reports of the Parent Companies of the Royal Dutch/Shell Group of Companies (see page 50). For more information refer to the website [www.shell.com/annualreport](http://www.shell.com/annualreport)
- The HSE data are aggregated from the individual data returns of Shell Operating Companies to the Business Organisations within the Service Companies (see page 50). A full list of the Operating Companies can be found on [www.shell.com/planet](http://www.shell.com/planet) This includes all companies which are under Shell's operational control plus a number of companies to which Shell companies provide operational services. Operational control means entities in which a member of the Royal Dutch/Shell Group has full authority to introduce and implement the Group's HSE Commitment and Policy. We report the data on a 100% basis even where the Group interest is less. Data from companies which were disposed of or acquired are generally included only for the period that companies were under operational control
- The majority of the remaining data in the Social and Managing our Business sections are aggregated from the individual data returns of Country Chairmen on behalf of Shell companies in individual countries.

**Health, safety and environment**

Health and safety data can be found in the Social section, whilst the Environment section contains data on our environmental performance.

Data included this year are pertinent to the Group as a whole, hence data relevant to only one business such as chemical oxygen demand or refinery energy index can be found at [www.shell.com/planet](http://www.shell.com/planet)

**Comparability**

The comparability of the data is affected by changes to the portfolio of reporting entities, by changes in the methodology for determining certain data and enhancement in data collection systems.

Changes affecting the comparability of 1998 and 1999 data include:

- changes in factors used to determine NOx emissions in certain operating units

- improved systems to capture/determine occupational illness, CO<sub>2</sub>, CH<sub>4</sub>, VOC, CFCs and HCFCs in certain operating units
- improved clarification and adherence to the definitions surrounding the reporting of fines data.

Items affecting the comparability of 1997 and 1998 data can be found at [www.shell.com/planet](http://www.shell.com/planet)

**Restatement**

During 1999, the following events have led to restatement of the actual 1997 and 1998 data, as well as the 1999 and 2003 targets as previously reported in the Group HSE Report last year:

- a change in reporting structure in the upstream business in the USA has resulted in the exclusion of data from Aera Energy LLC
- a major source of NOx and CO<sub>2</sub> emissions on certain ships was not included in the 1998 and 1997 data
- SO<sub>2</sub> emissions for Durban refinery have been recalculated
- 1997 VOCs emissions from refineries have been recalculated
- minor improvements in calculation methodologies.

These restatements have resulted in a change in 1998 NOx, CO<sub>2</sub>, VOCs + CH<sub>4</sub>, oil in effluents to surface environment, spills data of 8%, 6%, 2%, 8% and 21% (1997: 10%, 5%, 9%, 8% and 15%) respectively. As a result we have reduced our 1990 baseline for GHG emissions from 120 to 114 million tonnes of CO<sub>2</sub> equivalent. The 2003 targets and projections for Chemicals do not take into account anticipated changes in portfolio. The limited impact of the restatements on all other parameters can be found at [www.shell.com/planet](http://www.shell.com/planet)

**Targets and projections**

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

Our 2003 targets and projections are in principle fixed. Compared to last year, changes have been made to align them with restatements due to historic portfolio and methodology changes. The figures do not take into account changes in planned activity levels since last year nor prospective portfolio changes.

**Key to the annex:**

<b>EP</b>	Exploration and Production
<b>OP + GP</b>	Oil Products and Downstream Gas and Power
<b>Chem</b>	Chemicals
<b>Coal</b>	Shell Coal Pty Ltd.
<b>N/A</b>	Not applicable

- ✓ HSE parameters with significant impacts at Group level that have been verified
  - ✓ Other HSE parameters that have been verified
- \*Data not verified in 1999

**Limitations**

Although we are confident in the overall reliability of the reported data, we recognise that the data are subject to limitations in respect of:

- definitions – differences in definitions for the reported parameters occur, often due to the use of definitions prescribed for reporting to regulatory authorities for example waste and spills. Health and safety data may be affected by cultural interpretations and can be the subject of confidentiality laws.
- accuracy and completeness – methods used to determine environmental data carry inherent limitations in respect of accuracy. For example, measurement of oil in effluent to surface environment may be based on continuous or intermittent sampling, and is influenced by the type and accuracy of the instruments and techniques used. Emission calculations can be based on broad industry-wide standards, particularly for the determination of NOx, CO<sub>2</sub> and CH<sub>4</sub> emissions. For some data, such as spills, volumes have to be estimated. Weaknesses in the control environment in Nigeria give rise to some difficulty in confirming the degree of accuracy of the flaring data (this also materially affects the CO<sub>2</sub>, NOx and CH<sub>4</sub> data), spills volume and oil in effluents to surface environment. In some cases data not captured by an operating unit were estimated, particularly regarding occupational illness data and fugitive emissions sources.

Activity level ✓	Million tonnes					
	Actual 97	Actual 98	Actual 99	Projection 99	Projection 00	Projection 03
EP	362	326	304	328	331	413
OP + GP	170	163	156	172	164	177
Chem	29	36	37	29	39	29
Coal	18	20	23	25	26	29

EP: oil, condensate and gas produced; OP + GP: crude/feeds/stock processed; Chem, Coal: production. Renewables: Produced 6496MWh thermal energy from biomass; 1.67MWP PV cells and 3.76MWP PV modules. Data are reported on a 100% basis and are not comparable with data in the Group Annual Report.

## ANNEX

Energy consumption 

Ojials per tonne productiv – for OP + GP per tonne crude/ feedstock

	Actual 97	Actual 98	Actual 99	Target 99	Target 00	Target 03
EP	N/A	0.8	0.8	1.0	0.7	0.9
OP + GP	2.9	2.9	3.0	2.9	2.9	2.9
Chem	9.0	6.6	6.8	8.6	7.0	8.2

Unit emissions of carbon dioxide (CO<sub>2</sub>) 

% mass on production/throughput

	Actual 97	Actual 98	Actual 99	Target 99	Target 00	Target 03
EP	12.4	12.2	12.1	11.7	11.2	7.8
OP + GP	20.1	20.1	20.4	19.9	20.1	20.1
Chem	46.5	36.2	36.5	43.8	37.1	44.0
Coal*	2.8	2.7	3.5	3.5	3.1	3.7

Unit emissions of volatile organic compounds (VOCs)\* and methane (CH<sub>4</sub>) 

% mass on production/throughput

	Actual 97	Actual 98	Actual 99	Target 99	Target 00	Target 03
EP	0.25	0.19	0.17	0.16	0.15	0.07
OP + GP	0.08	0.07	0.09	0.08	0.07	0.06
Chem*	0.09	0.08	0.06	0.09	0.06	0.08
Coal	0.99	0.64	0.30	0.36	0.30	0.39

Unit emissions of sulphur dioxide (SO<sub>2</sub>) 

% mass on production/throughput

	Actual 97	Actual 98	Actual 99	Target 99	Target 00	Target 03
EP	0.02	0.02	0.02	0.02	0.02	0.02
OP + GP	0.13	0.13	0.12	0.13	0.11	0.10
Chem*	0.08	0.07	0.06	0.07	0.05	0.06
Coal*	0.00	0.00	0.00	0.00	0.00	0.00

Unit emissions of nitrogen oxides (NOx) 

% mass on production/throughput

	Actual 97	Actual 98	Actual 99	Target 99	Target 00	Target 03
EP	0.03	0.03	0.03	0.03	0.02	0.03
OP + GP*	0.03	0.03	0.03	0.03	0.03	0.03
Chem	0.06	0.07	0.06	0.09	0.06	0.09
Coal*	0.06	0.00	0.00	0.00	0.00	0.00

## Group health, safety and environmental performance summary

	Actual 97	Actual 98	Actual 99	Projection (P) 99	Target (T) 00	Target (T) 03
 <b>Total reportable occupational illness frequency (TROIF)</b> Company employees only – per million exposure hours	N/A	3.2	3.5	N/A	N/A	N/A
 <b>Fatalities</b> Employees Contractors Total number	7 60 67	6 57 63	3 46 47			
 <b>Total reportable case frequency (TRCF)</b> Company employees & contractors – per million exposure hours	4.1	4.4	3.7	3.6 (T)	3.0 (T)	2.2 (T)
<b>Lost time injury frequency (LTIF)</b> Company employees & contractors – per million exposure hours	1.6	1.6	1.4	1.2 (T)	1.2 (T)	0.7 (T)
 <b>Carbon dioxide (CO<sub>2</sub>)</b> Million tonnes	95.0	91.6	89.5	89.7 (P)	88.6 (P)	84.6 (P)
 <b>Methane (CH<sub>4</sub>)</b> Thousand tonnes	N/A	522	456	N/A	N/A	N/A
<b>Volatile organic compounds (VOC)</b> Thousand tonnes	N/A	584	499	N/A	N/A	N/A
 <b>VOC* + CH<sub>4</sub></b> Thousand tonnes	1417	1106	955	1008 (P)	967 (P)	750 (P)
 <b>Global warming potential</b> Million tonnes CO <sub>2</sub> equivalent	109.3	102.5	99.1	99.9 (P)	98.2 (P)	92.2 (P)
 <b>Flaring EP</b> Million tonnes of hydrocarbons	8.9	9.1	8.1	9.0 (T)	9.0 (T)	5.0 (T)
 <b>Sulphur dioxide (SO<sub>2</sub>)</b> Thousand tonnes	343	337	304	345 (P)	297 (P)	300 (P)
 <b>Nitrogen oxides (NOx)</b> Thousand tonnes	290	282	298	266 (P)	212 (P)	278 (P)
<b>Nitrous oxide (N<sub>2</sub>O)</b> Tonnes	N/A	N/A	2.7	N/A	N/A	N/A
<b>Perfluorocarbons (PFC)</b> Tonnes	N/A	N/A	0.0	N/A	N/A	N/A
<b>Hydrofluorocarbons (HFC)</b> Tonnes	N/A	N/A	8.8	N/A	N/A	N/A
<b>Sulphur hexa-fluoride (SF<sub>6</sub>)</b> Tonnes	N/A	N/A	0.0	N/A	N/A	N/A
<b>CFG/halons/trichloroethane</b> Tonnes	19.3	11.1	11.8	N/A	N/A	N/A
<b>Hydrochlorofluorocarbons (HCFC)</b> Tonnes	N/A	96.6	77.1	N/A	N/A	N/A
<b>Oil in effluent to surface environment</b> Tonnes	5585	5268	3284	5029 (P)	3493 (P)	5328 (P)
 <b>Spills</b> Thousand tonnes	19.3	13.2	18.7	4.2 (T)	9.9 (T)	2.9 (T)
<b>Waste Hazardous</b>	N/A	280	272	N/A	N/A	N/A
<b>Non-hazardous</b>	N/A	520	468	N/A	N/A	N/A
<b>Total</b> Thousand tonnes	N/A	760	740	N/A	N/A	N/A
 <b>Fines</b> Amount US\$ 000 Number*	501 291	1355 227	2833 306			

\*Data not verified in 1999

## ANNEX

### Shareholders

There are some 650,000 shareholders of Royal Dutch Petroleum Company and some 284,000 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 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.

### 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.

### Contact details

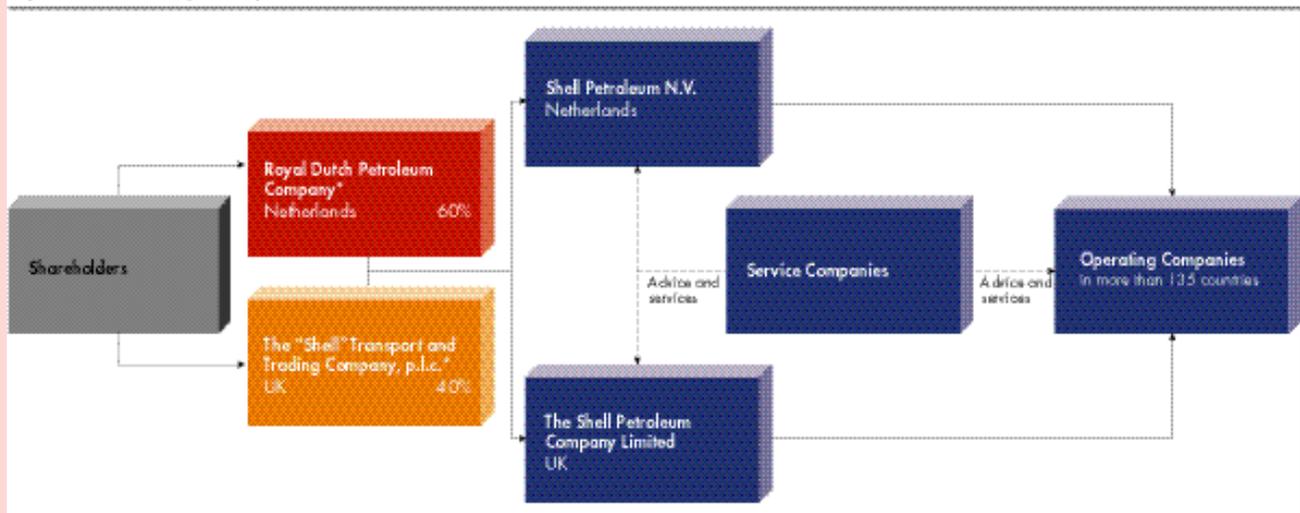
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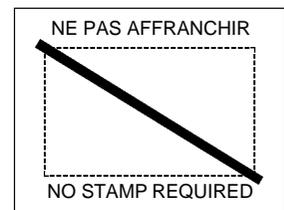
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# BUSINESS PRINCIPLES

## 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.



The global debate continues

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