

# Responsible energy

The Shell Malaysia Sustainability Report 2007



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#### ADDITIONAL WEB CONTENT

This report is supported on the Shell website with additional environmental, social and financial performance data and more detailed information on our approach to sustainable development and related issues. Web links on each page show where to find this information.

#### EXTERNAL RECOGNITION



ACCA Malaysia Environmental & Social Reporting Awards (MESRA)

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## “INTRODUCTION FROM THE COUNTRY CHAIR”

### 10 years of Sustainable Development Reporting

Welcome to the Shell Malaysia Sustainability Report. This is the tenth year we are publishing a report to describe our efforts in living up to our commitment to contribute to sustainable development.

The Shell Group first made this commitment a decade ago by including it in the Shell General Business Principles in 1997. Our first report was published the following year.

Sustainable development simply means ensuring a better quality of life for everyone, now and for generations to come. For Shell this means helping meet the world's growing energy needs in economically, environmentally and socially responsible ways.

You may have come across the latest Shell Strategic Energy Scenarios which outlined three hard truths about energy supply and demand. The first truth is, demand for energy is growing rapidly. The second truth is supplies of conventional oil and natural gas will no longer be able to keep up with this demand soon. The third truth is that carbon dioxide (CO<sub>2</sub>) emissions from energy are set to rise, even as concerns about climate change grow.

Shell was one of the first energy companies to acknowledge the threat of climate change in 2000. We were also among the first to call for action by governments, our industry and energy users, and to take action ourselves.

Closer to home, I am happy to note that Shell was instrumental in organising the first Malaysian Energy and Climate Change Dialogue in Kuala Lumpur in September 2007. It was heartening to see companies, non-governmental organisations, government agencies and academics come together to discuss the world's growing need for energy, and the resulting impact of energy-related CO<sub>2</sub> emissions on climate change for Malaysia. We look forward to collaborating with the relevant parties to create the 'climate for change' and where appropriate, contribute to action plans.

As an energy company, we place a great deal of effort in helping drivers use less fuel and reduce emissions. We introduced, and continually improve on, specially formulated fuels to reduce energy loss in engines, and advanced lubricants that improve the energy efficiency of engines and moving parts.

We are relentless in looking for new ways to reduce the environmental impact of our operations, products and services, as you will see in this report. At the same time, we are also committed to contribute positively to the goals of the society in which we operate.

I hope you find this report useful and informative. Your feedback is important to us, so please continue to let us know what you think.

**Dato' Saw Choo Boon**  
Chairman, Shell Malaysia

# SUSTAINABLE DEVELOPMENT IN SHELL



We first made our commitment to contribute to sustainable development a decade ago, including it in the Shell General Business Principles in 1997. Since then, its importance to us has grown further.

## WHAT THESE WORDS MEAN FOR SHELL

For us, contributing to sustainable development means helping meet the world's growing energy needs in economically, environmentally and socially responsible ways. In short, helping secure a responsible energy future.

This is a commitment to finding and delivering energy products that help meet the rapidly growing need for affordable, convenient and cleaner energy. In the words of our latest Strategic Energy Scenarios, it is about using our technology, experience and skill to help build a "Blueprints" world (see pages 4–6), that delivers economic development, energy security and CO<sub>2</sub> reduction. Part of this commitment is about our products today. We are already producing 3% of the world's natural gas – the cleanest-burning fossil fuel; offering advanced transport fuels and lubricants that help our customers reduce their local emissions and improve the fuel efficiency of vehicles; and delivering better bitumen and chemicals products. Another part is about investing now for the future: in being leaders in developing low-CO<sub>2</sub> second-generation biofuels; in building our capacity in carbon capture and storage (CCS) technology, and in working to drive down the costs of renewable power.

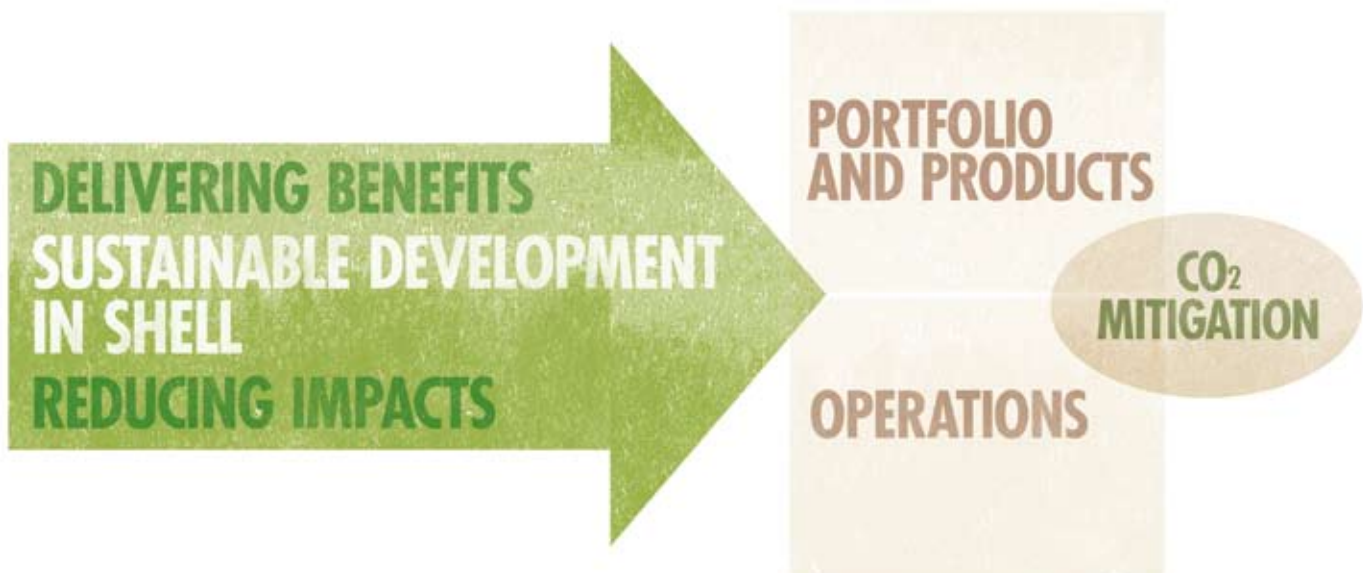
It is also a commitment to responsible operations: building our projects, running our facilities and managing our supply chain safely and in ways that reduce their negative environmental and social impacts and create positive benefits. It includes our work to employ local people and buy from local contractors and suppliers. It is reflected in how we make safeguarding the health and safety of our employees and neighbours our first priority, and in our efforts to manage our emissions, including the GHGs from our activities, and our use of resources like energy and water. It is demonstrated by our efforts to reduce the environmental impacts of producing oil from unconventional sources like oil sands.

## A DIFFERENT MINDSET

Meeting this commitment requires us to consciously balance short- and long-term interests; integrate economic, environmental and social considerations into business decisions; and regularly engage with our many stakeholders. This mindset is also about being determined to tackle seemingly insurmountable environmental and social problems through creativity and perseverance.

## THE BUSINESS CASE

We remain committed to contributing to sustainable development because it is aligned with our values. It makes us a more competitive and profitable company. It brings us closer to our customers, employees and neighbours, reduces our operating and financial risk, promotes efficiency improvements in our operations and creates profitable new business opportunities for the future.



## ABOUT SHELL IN MALAYSIA

### Who we are and what we do

We are a part of Shell, a global group of energy and petrochemicals companies, operating in more than 110 countries and employing approximately 104,000 people.

The Shell companies in Malaysia operate in three main revenue generating business sectors – Exploration and Production, Gas and Power and Downstream Oil Products. We also operate several large centres which provide services and expertise to the Asia Pacific region and, in some cases, globally.

Our **Exploration and Production** business searches for, finds and produces crude oil and natural gas. We also build and operate the pipelines and storage facilities needed to deliver this oil and gas to market. Today, under production sharing contracts with the state company PETRONAS, we are the largest natural gas producer in Malaysia via fields off the coast of Sarawak. We are also working to help the country increase production through the ongoing development of deepwater discoveries off the coast of Sabah.

Our **Gas and Power** business operates Shell MDS (Malaysia) Sdn. Bhd., the world's first commercial Gas to Liquids (GTL) plant in Bintulu that converts natural gas to liquid compound of hydrogen and carbon. It exports a wide range of high quality waxes, specialty chemicals and transport fuels, which are marketed to over 40 countries worldwide. These products are virtually free from sulphur and aromatics, highly biodegradable, and environmentally friendly. Gas and Power is also a joint venture partner in two liquefied natural gas (LNG) ventures in Bintulu that convert natural gas to LNG: Malaysia LNG Dua Sdn. Bhd. and Malaysia LNG Tiga Sdn. Bhd.

Our **Downstream Oil Products** business refines crude oil and markets lubricants and other petroleum products. We have over 900 retail service stations nationwide, making us the petroleum retail market leader. We also operate a state-of-the-art refinery at Port Dickson.

### Global & Regional Hubs

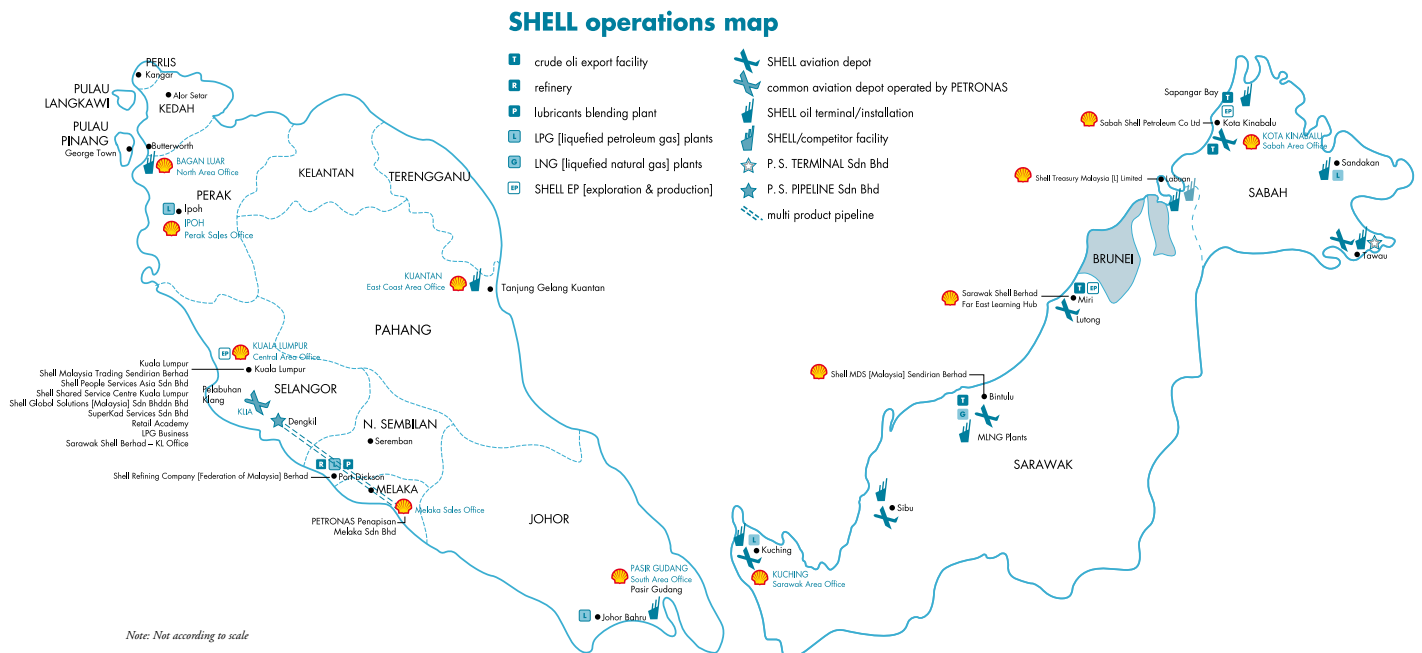
These centres support the core businesses of the Shell Group operating in the country, within the region, and globally. They include the following:

**Shell Global Solutions (Malaysia) Sdn Bhd (342714-T)** located in the PETRONAS Twin Towers, Kuala Lumpur, provides technology, consulting and engineering solutions to Shell Operating Units and third parties in Asia Pacific.

**Shell Information Technology International Sdn Bhd (432283-T)** located in Cyberjaya, Selangor, provides IT services, and applications development and support for desktop SAP and e-business applications to the Shell Group.

**Shell People Services Asia Sdn Bhd (364800-W)** based in Kuala Lumpur, provides HR Professional Services, including Compensation Benchmarking, Employee Services, Learning and Recruitment, to Shell businesses across Asia Pacific and globally.

Other centres cover a range of services: from finance payroll, customer services and technical and finance training, to retail learning.



# FUTURE ENERGY SYSTEM

How the world's energy system changes over the next half century will matter a lot to all of us, and to our children and grandchildren even more. Shell is committed to playing its part in building a responsible energy future – in the words of our latest Strategic Energy Scenarios, a “Blueprints” world.

## THE ENERGY CHALLENGE

The world will need vast amounts of extra energy in the coming decades to support economic growth and reduce poverty. Countries' supplies will have to be kept safe from disruption. And this energy will need to be produced in environmentally and socially responsible ways, including dealing with GHG (greenhouse gas) emissions. This is the energy challenge. Meeting it is fast becoming one of the defining tests facing society – and our industry – this century.

Three hard truths make this challenge tougher. First, demand for energy is growing rapidly as several large countries enter the most energy-intensive phase of economic development. Second, supplies of easily accessible oil and natural gas will probably no longer keep up with demand after 2015. To close the gap, the world will have no choice but to use energy more efficiently and increase its use of other sources of energy. This means more renewables like solar, wind and biofuels, more nuclear energy, more coal, and more oil and natural gas from difficult-to-reach locations or unconventional sources like oil sands. And third, that as a result, CO<sub>2</sub> emissions from energy, responsible for more than half of man-made GHG emissions, are set to rise, even as concerns about climate change grow.



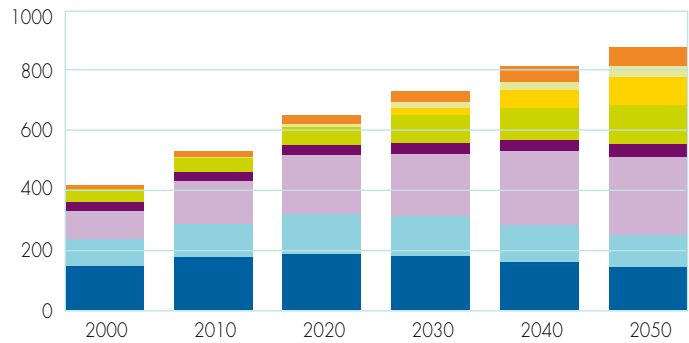
### ADDITIONAL WEB CONTENT

- More on our Strategic Energy Scenarios

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

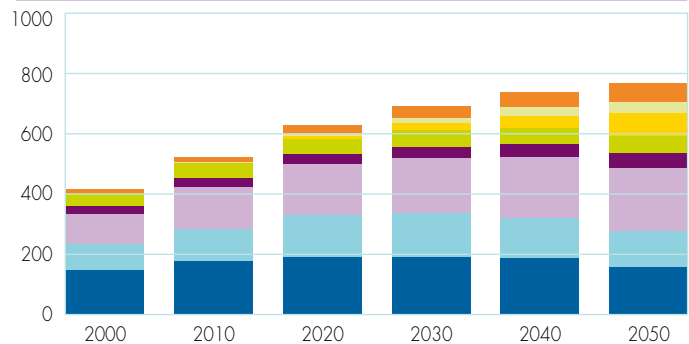
## SCRAMBLE – PRIMARY ENERGY BY SOURCE

exajoule per year



## BLUEPRINTS – PRIMARY ENERGY BY SOURCE

exajoule per year



Legend: Oil (dark blue), Gas (light blue), Coal (purple), Nuclear (dark purple), Biomass<sup>[A]</sup> (yellow-green), Solar (yellow), Wind (light green), Other Renewables (orange).

[A] Includes traditional sources such as wood, dung etc.

## TWO FUTURE ENERGY SCENARIOS

So, how will the world respond to the challenge? Shell's Strategic Energy Scenarios describe two routes the energy system could take between now and 2050.

The **Scramble** scenario is a world of intense competition between individual countries, which rush to secure more energy for themselves. Political responses to the twin crises of the energy squeeze and climate change are often knee-jerk and severe, leading to price spikes, periods of economic slowdown and increasing turbulence.

Our **Blueprints** scenario is disorderly at first, as local initiatives result in a patchwork of different policies and approaches to deal with the challenges of economic development, energy security and climate change. These efforts become harmonised relatively quickly, as individual initiatives succeed and others adopt them more widely. A global policy framework – and with it a global cost of emitting CO<sub>2</sub> – emerges that spurs innovation, increases energy efficiency, limits the impact of rising energy demand and global warming, and helps maintain steady economic growth.

# CLIMATE CHANGE

Finding ways to manage GHG emissions is one of the most important long-term challenges facing society. The 2007 assessment by the United Nations Intergovernmental Panel on Climate Change, for example, confirmed, now with near certainty, that man-made climate change is happening. It also concluded that GHG emissions – from energy, agriculture and deforestation – need to peak within 10–20 years and then fall substantially to reduce the risk of dangerous climate change levels.

In **Scramble**, this does not happen. Government policies are too little, too late. There is no effective framework for managing GHGs. As a result, CO<sub>2</sub> and other GHG emissions rise steadily until around 2040. By 2050, GHG emissions are heading towards concentration levels in the atmosphere far above the levels that scientists indicate are safe.

In **Blueprints**, local and national governments introduce new standards, taxes and other policies to change behaviour, and improve both the energy efficiency and CO<sub>2</sub> performance of buildings, vehicles and transport fuels. Eventually, politicians agree harmonised policies. Emission trading systems gain international acceptance and spread, putting an internationally recognised price on GHG emissions that accelerates innovation. As a result, vehicle fuel efficiency jumps significantly. Electric cars make a breakthrough after 2030. And the use of CO<sub>2</sub> capture and storage at industrial sites takes off – something that proves essential for managing CO<sub>2</sub> emissions. By 2020, CO<sub>2</sub> emissions stop rising and then start to fall gradually. By 2050, GHG levels in “Blueprints” are on track to stabilise at levels in the atmosphere far lower than in “Scramble”. But “Blueprints” also makes the scale of the climate change challenge clear. Even with these wide-ranging and rapid changes – and reductions in emissions of other GHGs like methane from agriculture – atmospheric concentrations of GHGs in a “Blueprints” world still stabilise at levels higher than the 450 parts per million that scientists are currently calling for.

## BREAKING WITH TRADITION – WORKING FOR A BLUEPRINTS WORLD

We pioneered the use of scenarios over 30 years ago to help us understand, prepare for and succeed in a changing world. Scenarios are not predictions and do not start from specific goals for the future. Instead they describe plausible alternatives of how the world’s energy system could develop over a number of decades. We have always used scenarios to test our business strategy – making sure it could succeed in both situations. We have never before expressed a preference for one over another. But this time it is different. The need to help manage climate risk for our investors and our descendants, and to live by our commitment to contribute to sustainable development, means we strongly prefer the approach described in “Blueprints” to the one laid out in a “Scramble” world. With its far reaching policy response and global costs for emitting GHGs, “Blueprints” results in significantly lower GHG emissions than “Scramble” and shows the direction that efforts to meet the energy challenge need to take. We also believe that, in the long term, “Blueprints” offers a better world for Shell to do business in. We are advocating the policies the “Blueprints” scenario describes and working on a number of the technology improvements needed.



### ADDITIONAL WEB CONTENT

- The carbon footprint of our products
- Managing GHG emissions from our operations
- Helping customers reduce their emissions
- Our work on CO<sub>2</sub> capture and storage
- Advocating policies to address climate change

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

## BLUEPRINTS ADVOCACY

Because the changes needed in the energy system are so big – and policy is so important to achieving them – we have stepped up our advocacy efforts with governments. Advocacy for some may suggest companies blocking change or advancing their own narrow interests. But we are calling *for* change, lending our expertise and working co-operatively with governments, companies and other partners in society.

We are sharing our technical knowledge, experience and understanding of the energy system directly with policy makers. For example, we are presenting our Strategic Energy Scenarios to governments and international institutions, to help them understand the challenges, trade-offs and urgency involved in building a responsible energy future. We are also helping to build the coalitions of companies, governments and non-governmental organisations (NGOs) needed to create support for effective policy. For example, we are part of the US Climate Action Partnership. We are on the Steering Board of the G8’s Gleneagles Dialogue on Climate Change and we participate in the UK’s Low Carbon Vehicle Partnership.

BIOFUELS RESEARCH AT SHELL'S AMSTERDAM LABORATORY



## LANDMARK DISCUSSION ON ENERGY AND CLIMATE CHANGE

In September 2007, Shell Malaysia organised the first Malaysian Energy and Climate Change Dialogue. The event brought together various experts and over 200 delegates from corporations, non-governmental organisations, academics and government agencies. The agenda was to discuss the world's growing need for energy and the resulting impact of energy-related carbon dioxide (CO<sub>2</sub>) emissions on climate change, from a Malaysian perspective. The dialogue covered government policy, the resulting impact of climate change as well as innovative energy solutions.

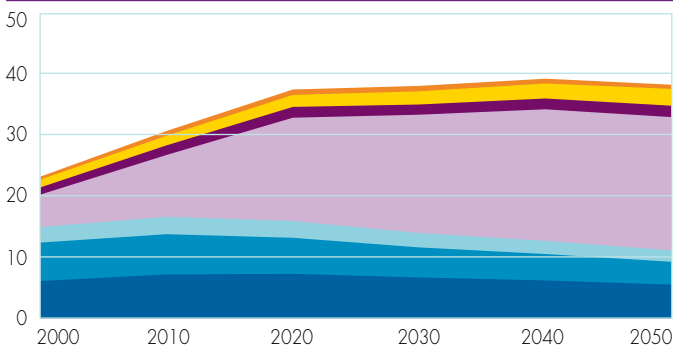
At the event, we stressed the importance of creating the 'climate for change,' collaboration and action. Government must take the lead in providing direction through a regulatory framework on a national and international basis. Industry must fast-track climate-conscious approaches to operations and promote energy efficiency as a first option.



(FROM LEFT) THE SHELL MALAYSIA CHAIRMAN WITH DATO' SERI AZMI KHALID, THEN MINISTER OF NATURAL RESOURCES AND ENVIRONMENT, AND TAY KAY LUAN, SECRETARY, INSTITUTE OF CORPORATE RESPONSIBILITY MALAYSIA.

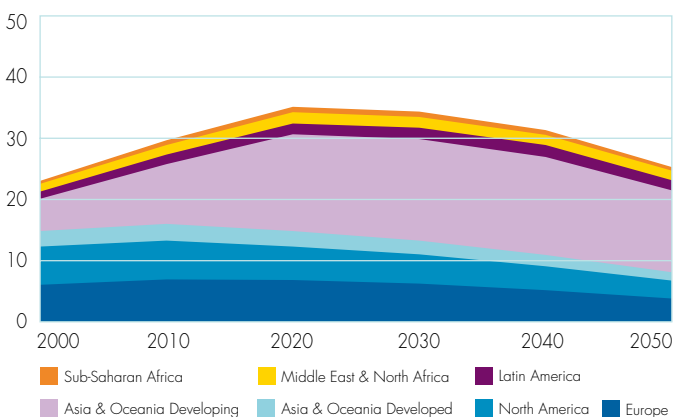
### SCRAMBLE - DIRECT CO<sub>2</sub> EMISSIONS FROM ENERGY

gigatonne CO<sub>2</sub> per year



### BLUEPRINTS - DIRECT CO<sub>2</sub> EMISSIONS FROM ENERGY

gigatonne CO<sub>2</sub> per year



## INTERNATIONAL CO<sub>2</sub> PRICES AND A SECTOR-BY-SECTOR APPROACH

So what are we advocating? An international policy framework for CO<sub>2</sub> management that will put a price on emitting CO<sub>2</sub>; will encourage the technology and investments needed to increase energy efficiency and lower the CO<sub>2</sub> intensity of energy supplies; and will not distort international competition. The Bali Declaration in late 2007 established a roadmap that, if followed, could bring such a framework about. With its broad agreement about the need to act, attention must now focus on details. We are calling for different instruments for different sectors: emissions trading systems for heavy industry and the power sector, combined with incentives for the rapid demonstration and deployment of CO<sub>2</sub> capture and storage (CCS) and simple, stable targets for renewable energy. Transport – with its hundreds of millions of small emitters – will need stringent vehicle efficiency targets and incentives for fuels with lower wells-to-wheels emissions of CO<sub>2</sub>. Measures to manage congestion and road use will also be needed. Tough energy efficiency standards will be most effective for buildings and appliances.

## CO<sub>2</sub> CAPTURE AND STORAGE

CCS technology will need to play a big role in reducing emissions from the power sector and industry. We are part of a broad-based coalition – the European Technology Platform for Zero Emission Fossil Fuel Power Plants (ZEP) – that is spearheading efforts to develop this promising technology. The aim is to speed up the roll-out of demonstration projects, so that CCS will be in commercial use by 2020. ZEP brings together the European Commission, European industry, NGOs, scientists and environmentalists. Thanks partly to ZEP efforts, the European Union has recently launched a flagship programme to build 10–12 demonstration power plants with CCS by 2015. There is no time to lose. Every year's delay in the large-scale roll-out of CCS adds more than 1 part per million to long-term global levels of CO<sub>2</sub> in the atmosphere.



# TOWARDS A RESPONSIBLE ENERGY FUTURE



## SUSTAINABLE TRANSPORT<sub>P8</sub>





# SUSTAINABLE TRANSPORT

As one of the largest providers of transport fuels, we are committed to: helping drivers use less energy and reduce emissions with advanced fuels and lubricants; leading the search for better biofuels; and promoting government policies to reduce CO<sub>2</sub> emissions from transport.

Demand for mobility grows strongly in both our scenarios. People will travel more than twice as much by 2050 and there will be over two billion vehicles on the roads, up from 900 million today. Even in a “Blueprints” world, liquid fuels, including more biofuels, provide the bulk of transport needs in 2050.

## SHELL MALAYSIA LAUDED FOR ITS GAS TO LIQUIDS DIESEL

Shell Malaysia was recognised for its Gas to Liquids (GTL) diesel, when Chairman Dato’ Saw Choo Boon was named Automotive Man of the Year 2007 by the Malaysia-based *New Straits Times* newspaper. This is the first time the award has gone to someone outside the automotive industry. The award cited the use of our Malaysian-made diesel at the Athens Olympics and its use in the Audi R10 TDI, which became the first diesel car to win the Le Mans 24 hour endurance race in 2006. Colourless, odourless and virtually sulphur-free, GTL diesel is one of the solutions for reducing local air emissions, according to an independent

study conducted for the city of Shanghai. At the Le Mans 24-hour endurance race, this top performance diesel fuel provided very clean and efficient combustion which helped deliver more power, for longer.

(A recent trial, using neat Shell GTL Fuel in four public buses in Shanghai, found it significantly reduced harmful emissions like particulates and nitrogen oxides compared to conventional diesel.)

## SHELL FUEL ECONOMY FORMULA – GOING FURTHER, USING LESS

We are serious about helping customers improve their fuel efficiency. Shell’s Fuel Economy formula fuels contain blends of advanced additives and cleaning agents that can help improve drivers’ fuel efficiency by reducing energy loss in engines. Malaysian motorists were the first in Asia to enjoy the benefits of Shell Super with Fuel Economy formula when it was launched in the country in 2006. We invited 30 Malaysians to the Shell Super One Tank Challenge, where participants drove from Kuala Lumpur to Penang and back, on one tank of fuel – a total distance of approximately 700 km. The aim was to help drivers improve their fuel economy by adapting fuel-saving driving habits and by using Shell’s Fuel Economy products. In trials conducted around the world in 2007, nearly half the drivers taking part in the Shell FuelSave Challenge raised their fuel economy by more than 5%. More than a quarter improved by over 10%.



THIS AWARD WAS IN RECOGNITION OF OUR MALAYSIAN-MADE GAS TO LIQUIDS DIESEL



GETTING HANDS-ON WITH THE SHELL FUEL ECONOMY SIMULATOR

# RESPONSIBLE OPERATIONS TODAY



**ENVIRONMENTAL  
IMPACTS** P10



**PERSONAL AND  
PROCESS SAFETY**

P12



**P15 LOCAL % \$  
DEVELOPMENT**

# ENVIRONMENTAL IMPACTS

Building a more sustainable energy system starts at home. We are working to reduce the environmental impacts from our operations.

We design and run our operations so that they follow all the environmental standards that Shell sets for its activities worldwide and fully comply with Malaysian legislation. Each Shell company in Malaysia has a systematic approach to the management of emission to air and discharges to water designed to ensure compliance and to achieve continuous improvement.

## REDUCING GREENHOUSE GAS EMISSIONS

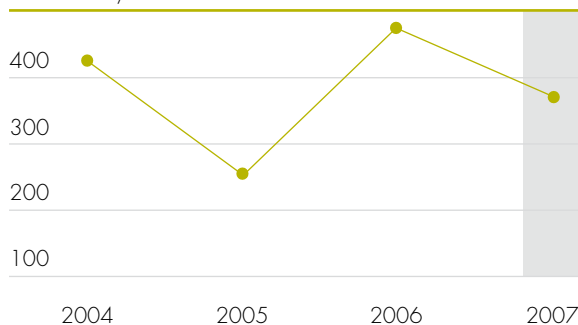
Producing and processing oil and natural gas is energy intensive. So, managing the CO<sub>2</sub> and other greenhouse gases (GHG) from our facilities is a priority. Worldwide, Shell has reduced GHG emissions by nearly 25% compared to 1990.

Overall, Shell's Exploration and Production activities and our refinery in Malaysia reduced their GHG emissions by 2.8% in 2007. Our emissions from these activities have stayed roughly constant since 2004.

In 2007, emissions from our Exploration and Production operations were 1.6% higher than in 2006, due to additional venting from the Saint Joseph offshore facility in northern Sabah. This was caused by a failure in the flare auto-igniter at the facility. Consequently, while there was a 20% reduction in flaring, there was a fourfold increase in venting. We do not practice continuous venting in line with Shell's global standard.

## FLARING IN OUR EXPLORATION AND PRODUCTION OPERATIONS

Kilotonnes hydrocarbon flared



Our Exploration and Production operations have reduced its flaring by 11.7% since 2004, and 20% compared to 2006. We have ended continuous flaring in all our Exploration and Production facilities, with the exception of Barton Field, off the coast of Sabah. The volume of gas is small, and the field is remote, making collecting the gas impractical, and would result in more GHG emissions.

Gas flaring in our refinery returned to the normal range in 2007, due to processing lighter crude oils at the facility. The sharp increase in flaring in 2006 was mainly due to the processing of heavy crude oils and plant equipment reliability issues.



## ADDITIONAL WEB CONTENT

- Reducing greenhouse gas emissions
- Increasing energy efficiency in our operations

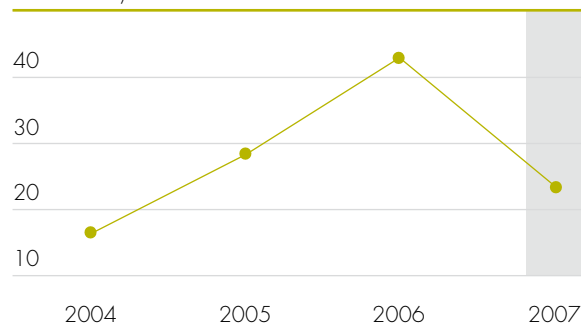
[www.shell.com/climate](http://www.shell.com/climate)

## OUR REFINERY IN PORT DICKSON



## FLARING IN REFINERY

Kilotonnes hydrocarbon flared



## OZONE DEPLETING EMISSIONS

In 2007, the Shell Group reduced its emissions of hydrochlorofluorocarbons (HCFCs) by nearly a quarter compared to 2006. HCFCs have been used primarily as substitutes for chlorofluorocarbon (CFCs), since the environmental effects are 90% lower than those of CFCs. HCFCs must be phased out in developed countries by 2020 and in developing countries by 2040.

In Malaysia, in 2007, we reduced our emissions of HCFCs in our Exploration and Production operations by 10% compared to 2006. Our refinery does have a stock of HCFCs that will be safely disposed of by 2020. This is ahead of the requirements of the Montreal Protocol, that requires a complete phasing out of HCFCs in 2030.

# ENVIRONMENTAL IMPACTS

## DISCHARGES TO WATER

Our biggest impact on water is our emissions of dissolved or suspended oil in the waste water from our facilities. All our waste water is treated before it is returned to the environment so that the remaining concentration of oil it contains is so low that it does no damage to the receiving environment.

In our Exploration and Production operations, waste water is discharged into the sea after being treated at the onshore Labuan Crude Oil Terminal (LCOT) and the offshore Central Luconia gas facilities (F6), Sarawak. All discharges are regularly monitored and are within national regulations and Shell standards. In 2007, the amount of effluent discharged by our Exploration and Production dropped by 12% compared to 2006, but this reduction was mainly due to relinquishing a Bintulu facility to PETRONAS in 2007, upon expiry of our Production Sharing Contract.

At our refinery, water that accompanies oil production is treated and discharged some 1km offshore via a pipeline. We consistently monitor the seawater quality where the water is released. Oil-in-water concentrations remained below the limit of 10 parts per million set by the Environmental Quality (Sewage and Industrial Effluents) Regulations. Reports on the effluent and seawater quality are submitted quarterly to the Department of Environment (DOE).

## OIL SPILLS

We are committed to preventing spills from happening and to containing and properly cleaning up any spills that do occur. In our Exploration and Production operations, there was no reportable oil spill in 2007. Our refinery experienced two minor spills in 2007. Both stayed inside the refinery, with no impact on the environment and neither was large enough to be reportable.



### ADDITIONAL WEB CONTENT

- Working with others to promote conservation
- Our commitment to protecting biodiversity
- Using less fresh water
- Preventing oil spills

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

## WASTE MANAGEMENT

Shell's approach to waste management follows the model of prevention, reuse, recycling and recovery. In 2007, our Exploration and Production operations produced 14% more non-hazardous waste, mainly because of increased drilling activities. Hazardous waste increased by 15% in 2007, a quarter of which was sent to government approved disposal facilities. We are drafting a corporate waste minimisation plan to improve waste segregation, with emphasis on re-use and recycling.

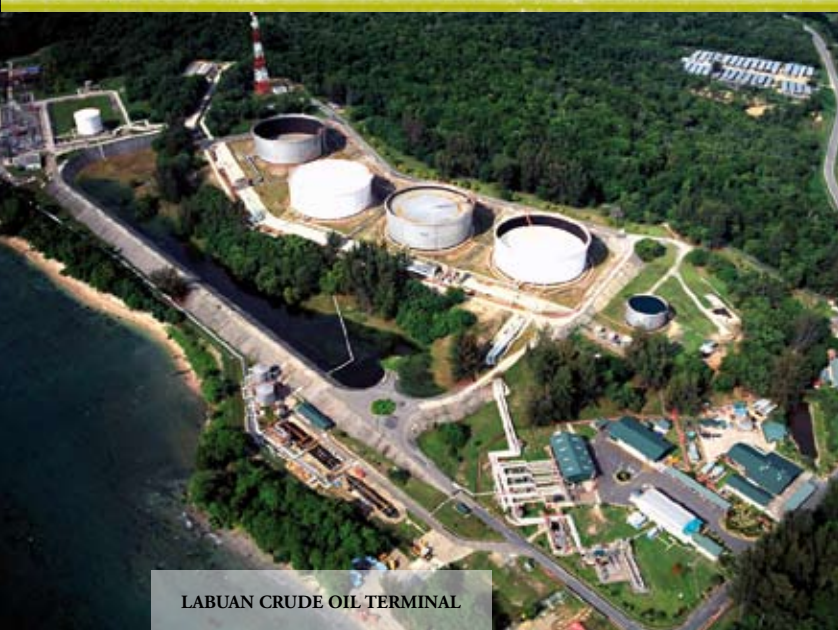
## ENVIRONMENTAL IMPACT ASSESSMENTS

Integrated environmental, social and health impact assessments are conducted prior to all big new pieces of work, including seismic surveys and implementation of projects. They identify and address any environmental impacts to the proposed worksite and its surrounding area, as required under the Environmental Quality Act, 1974, and Shell guidelines. We submitted Environmental Impact Assessments to the DOE for a number of offshore and onshore projects in Sabah and Sarawak in 2007.

## ENVIRONMENTAL AWARDS

We are pleased that our commitment to environmental performance continues to be recognised. Two Shell Malaysia facilities won the biennial Prime Minister's Hibiscus Awards for 2006/2007, following stringent audits of our environmental performance and management approach. Our Gas to Liquids (GTL) plant in Bintulu was awarded the Exceptional Achievement in Environmental Performance trophy for the second year running, while our refinery received the Notable Achievement trophy for the third consecutive year.

Our GTL plant and refinery also won the Sarawak and Negeri Sembilan State Awards respectively, which were presented to recognise the best performance in environmental management by a company in each state.



LABUAN CRUDE OIL TERMINAL



OUR GTL PLANT AND REFINERY WON THE BIENNIAL PRIME MINISTER'S HIBISCUS AWARDS FOR 2006/2007



# PERSONAL AND PROCESS SAFETY

Safety is always our first priority. We aim to have zero fatalities and to prevent incidents like spills, fires, and accidents that put our people, neighbours and facilities at risk. In 2007, we continued to strengthen our safety culture. We introduced new, simpler safety policies to make it easier to understand and follow the rules and check they are being implemented.

## STRENGTHENING OUR SAFETY CULTURE

We do not accept that fatalities are an inevitable consequence of working in a hazardous industry. We believe we can operate with zero fatalities and zero significant incidents. The phrase “Goal Zero”, which we launched in 2007, captures this belief. To turn this goal into reality, we are reinforcing the message that Goal Zero is possible, rewarding success and getting better at checking that rules are being followed.

In 2007, Shell held two company-wide Safety Days to draw attention to performance and find ways to improve. Our largest global contractors participated as well. The focus was on one of Shell’s Golden Rules of safety: to comply with the law, standards and procedures. Shell Malaysia was one of four winners of the inaugural Shell Group Chief Executive’s Health, Safety, Social and Environment (HSSE) Awards which serve to highlight examples of excellent performance (see below).

## SAFETY PERFORMANCE

Safety remains at the forefront of our business activities. To ensure safe work practices, all new staff, contractors and third parties go through a comprehensive induction programme on safety before they are allowed to work. A work permit is required for all hazardous jobs.

To help monitor our safety performance, we use a standard measure – total recordable case frequency (TRCF). This is the number of injuries of contractors and staff requiring medical treatment or time off work, for every million hours worked.

In 2007, our safety performance has improved. For example, the injury rate in our Exploration and Production operations was the lowest in five years in 2007, at 1.1 injuries for every million hours worked, beating its target of 1.2.

The overall safety performance at our Gas to Liquids (GTL) plant was strong, with the facility successfully achieving zero recordable cases during its statutory shutdown in 2007.

The number of facilities achieving over 15 years without a Lost Time Injury (LTI) is also a testament to our commitment to safety: An LTI is a work related injury or illness which prevents the person from working. The following facilities have had no LTIs for the last 15 years or more:

- Offshore complexes – St Joseph (21 years), E11 (15 years)
- Aviation depots – Miri (27 years), Labuan (22 years), Kota Kinabalu and Tawau (18 years)
- Installations – Labuan (22 years), Kuala Baram (21 years), Bintulu, Kuching and Tawau (18 years), Sibul and Sandakan (15 years)



EMPLOYEES MADE PLEDGES DURING SAFETY DAY 2007

## DOWNSTREAM DISTRIBUTION WINS SHELL CHIEF EXECUTIVE’S HSSE AWARD FOR ROAD SAFETY

A decade ago, Shell Malaysia’s distribution business recorded 19 deaths in road accidents in a single year. Since then, efforts to improve road safety have produced dramatic results. Since January 2006, there has been no road fatality in Shell Malaysia, helping the company win a Shell Chief Executive’s HSSE Award in 2007. The company created a public ranking table for its drivers, with rewards for good performance. It took action to improve poor performance by sending warning letters, deducting ranking points and, in some cases, dismissing drivers. It strictly enforced all its rules about driving behaviour and the condition of vehicles. It worked closely with its main contractors, going to contractors’ premises to audit their processes, analysing any incidents to see what changes would be needed to avoid them, as well as sharing lessons from accidents involving other transport companies. Drivers’ families were even invited to participate in safety training sessions.

SHELL MALAYSIA DRIVERS CELEBRATE WINNING SHELL CHIEF EXECUTIVE’S HSSE AWARD





#### ADDITIONAL WEB CONTENT

- Our approach to safety, including our HSE policy and commitment
- Strengthening our safety culture
- Protecting our people

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

### OCCUPATIONAL SAFETY AND HEALTH AWARDS

Shell Malaysia won seven awards from the Malaysian Society for Occupational Safety and Health (MSOSH) in 2007. We collected four Grand Awards, the highest awards from MSOSH, for:

- Bintulu Integrated Facility in Sarawak
- The F23 Platform in Sarawak
- Labuan Crude Oil Terminal (LCOT) in Sabah
- Port Dickson Refinery in Negeri Sembilan

We also won three Gold Class 1 Awards, for the following facilities:

- Sabah Shell Petroleum Company - Barton and Kinabalu Platforms
- Shell Timur Sdn Bhd - Sepanggar Bay Installation

SHELL MALAYSIA DRIVERS ARE REMINDED OF OUR HSSE GOLDEN RULES

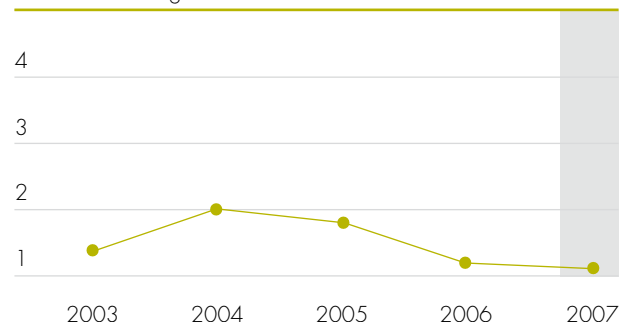


### RAISING OCCUPATIONAL SAFETY AND HEALTH STANDARDS

We continued our collaboration with the National Institute of Occupational Safety and Health (NIOSH) to implement its Shell Safety Passport programme for the second year running in 2007. The programme aims to increase the competence of construction and maintenance employees and contractors at distribution terminals. Workers do mandatory classroom training and are tested on basic occupational safety and health before they are allowed to start work. The "passport" is valid for three years, and holders automatically receive insurance coverage worth RM20,000 (about US\$5,700) during the period. To date, more than 50 companies have been involved in this programme, with 650 workers being trained and certified. Due to its overwhelming success, the programme is currently being adapted for use by other major oil companies in Malaysia. Shell is helping design this universal Oil & Gas Safety Passport (OGSP) programme, expected to be launched early in 2009.

### INJURIES – TOTAL RECORDABLE CASE FREQUENCY IN EXPLORATION AND PRODUCTION

Per million working hours



SHELL MALAYSIA WON SEVEN AWARDS FOR OCCUPATIONAL SAFETY AND HEALTH



### DRIVERS HEARTS AND MINDS SESSIONS

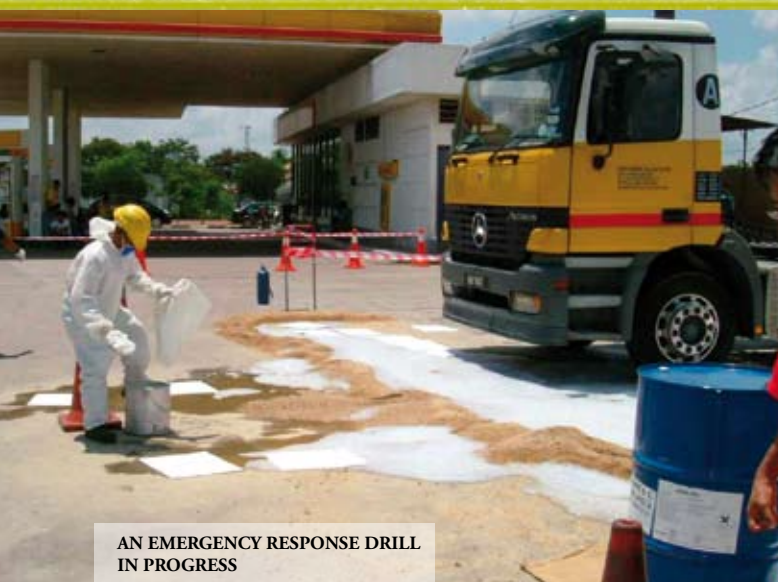
In line with our goal of no harm to people, we implemented the Hearts and Minds programme in 2007. The aim was to promote a better understanding of why people break safety rules and what measures can be taken to strengthen the culture of safe work behaviour. Targeted at our drivers, the programme reinforced our safety messages and reminded them to always observe the HSSE Golden Rules. During these sessions, drivers discussed their personal understanding of Hearts and Minds and their commitment to safety. Participants watched a video re-enactment of a worksite accident which could have been prevented if safety rules were observed. They were also trained on preventing vehicles from rolling over.

### JOINT EMERGENCY RESPONSE DRILLS

We are determined to prevent emergencies, but must plan and prepare for them. In 2007, we held joint emergency response drills with our vendors, partners and relevant authorities, which included simulations to deal with spills, fires, product leaks, a hijack incident and a road accident.

### PROMOTING SAFETY CULTURE AMONG FUTURE ENGINEERS

To help engineering students understand how important safety is in the workplace, Shell introduced the Practical Environmental, Safety and Industrial Guidance for Engineers (PRESTIGE) programme in 2007. Two-day interactive workshops were held in Sabah and Sarawak. This was in collaboration with Universiti Malaysia Sabah and Universiti Malaysia Sarawak, respectively, as well as the Department of Environment (DOE) and the Department of Safety and Health (DOSH).



AN EMERGENCY RESPONSE DRILL IN PROGRESS



REINFORCING SAFETY MESSAGES AMONG STUDENT ENGINEERS

### 50 YEARS OF ROAD SAFETY AWARENESS IN THE COMMUNITY

In 2007, the annual Shell Traffic Games competition celebrated its 50th anniversary. More than a million young Malaysian road-users have taken part in the games since their inception. Held in most state capitals, and practically every district and division in Sabah and Sarawak, the games are staged at permanent traffic gardens or tracks designed to simulate a complete, miniature road system. As part of the programme, participating schools are required to pass written tests on road safety. In subsequent practical or on-road tests, participants are awarded merit points for complying with road safety regulations, or conversely given demerits and issued traffic violation summonses by real traffic police officers when they break road safety regulations or commit driving offences. Prizes are awarded to winning primary and secondary schools for the best road safety performance.



CELEBRATING 50 YEARS OF ROAD SAFETY AWARENESS

# LOCAL % \$ DEVELOPMENT

Finding ways for our operations to help development and reduce poverty in the communities where we operate is an important part of our commitment to contribute to sustainable development.

## BUYING AND HIRING LOCALLY

Buying from local suppliers is a particularly effective way to help development in the places where we operate. It directly contributes to the local economy, creates jobs and builds skills. We actively promote the use of local suppliers and contractors.

Hiring and building the skills of local staff is another important contribution. For example, our Exploration and Production operations have a “Malaysian-isation” initiative, to help broaden the experience and develop the skills of Malaysian staff through international assignments within Shell. The aim is to send as many Malaysians to work in other parts of Shell as the number of expatriates we bring into Malaysia to work. At the end of 2007, 175 Malaysians were on assignment in other countries for Shell. To sustain this overseas placement plan, the focus will be on developing existing employees and attracting people with the relevant skills and ability to join Shell.

## SOCIAL INVESTMENT

Supporting community projects is another contribution we make to local development. Our strategy is to focus support on projects that address issues directly linked to our business; that give local people control over how the project is designed and run; and, wherever possible, use the expertise of development non-governmental organisations and community groups.

In 2007, we spent approximately RM30 million (worth an estimated US\$8.5 million) on social investment activities in Malaysia. Our focus was on capacity building, environmental conservation and community development.



SHELL MALAYSIA INVESTS OVER RM11 MILLION ANNUALLY IN EDUCATION



ADDITIONAL WEB CONTENT

• Reporting in line with the Millennium Development Goals

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

## CAPACITY BUILDING

### Developing talented young Malaysians

We invest over RM11 million (about US\$3 million) each year in educational awards and capacity building programmes for Malaysians. For example, we have been sponsoring Malaysian students to pursue higher education for over 45 years. Some 6,750 people have received educational awards from Shell. Many of these recipients have gone on either to work for Shell, or to serve the country in various corporate, social, political and academic fields.

### Building skills

Shell, the Sarawak and Sabah State Governments and the Education Ministry of Malaysia established Latihan Industri Kimpalan (LINK: an industrial welding course) in 1989. The aim has been to solve a national shortfall in this skills area. Technical school students are trained in the two states. The first trainees were admitted in early 1991 in Sarawak and a year later in Sabah. Since then, more than 800 students have graduated as qualified welders, working mainly for the oil and gas industry.



PARTICIPANTS BEING TRAINED AS WELDERS FOR THE OIL AND GAS INDUSTRY

Building on LINK's success, Shell introduced a second industrial training programme, known as Latihan Industri Penyelenggaraan Komputer (LINPeK) in 2001. It trains participants to assemble and maintain personal computers. Over 100 youths have been through this programme and all are now employed in the fast-growing information and communication technology sector.

In 2007, we co-sponsored a workshop to help train local youths to be eco-tourist guides. Our partners were the United Nations Development Programme (UNDP) and the Sabah Forestry Department. The workshop primarily trained local youths on using the Nature Interpretive Trail materials for practical guiding. It is hoped the workshop will trigger interest in eco-tourism as a livelihood option in view of the potential attraction of the peat swamp in the Klias Forest Reserve in Beaufort, Sabah – now seen as an internationally recognised tropical conservation site.

## ENVIRONMENTAL CONSERVATION

### Environmental education

We believe preserving our natural environment for future generations starts with a sound understanding of the issues. This is why Shell supports environmental education in schools. For example, Shell has supported SERASI (Sekolah Rakan Alam Sekitar) or Environmental Friendly Schools Programme in Sabah and Sarawak. This education and incentive project aims to promote environmental awareness among primary and secondary school students. SERASI recognises and rewards efforts in conservation, landscaping, composting, vegetable farming, recycling and other environmental-friendly projects.

PROMOTING ENVIRONMENTAL AWARENESS AMONG SCHOOL STUDENTS



Since 1993, Shell has been providing a yearly grant of RM50,000 (about US\$13,800) to the Malaysian Nature Society (MNS) – a non-governmental organisation that promotes conservation of our natural heritage. MNS runs the Nature Education Centre at the Forest Research Institute of Malaysia in Kuala Lumpur. The Centre aims to build appreciation of and encourage care for our natural heritage using hands-on learning methods. It offers regular courses on the environment and nature-related activities. This allows participants to study and experience the rich and diverse features of the forest reserve.

The Centre also hosts Shell's annual Nature Education Camp for schoolchildren. Here, students learn about forest ecology and astronomy. These camps are also held at national parks in Sarawak and Sabah. They include training in conservation, environmental awareness and practical advice on applying green habits in everyday life. Through the programme, facilitators from the education department, local councils and schools are trained on how to impart environmental knowledge.

### Supporting biodiversity conservation

Our biodiversity commitment includes working with specialists to address the impacts of our operations and to help promote conservation. For example, we provide regular funding towards conservation of the orang utan, the Borneo pygmy elephant and the Sumatran rhinoceros in Danum Valley, a biologically rich rainforest on the east coast of Sabah. Our staff take part in research through Project Better World, a voluntary organisation run by Shell employees and contractors to build awareness and understanding of sustainable development throughout Shell. Volunteers collect data on behalf of the South-East Asia Rainforest Research Programme run by the United Kingdom's Royal Society.

## COMMUNITY SUPPORT AND DEVELOPMENT

### Participating with the community

Our community outreach programme, "We Care, We Share" (WCWS), helps raise the quality of life in the communities where we operate. Since 1998, staff, family members, retirees and members of the community have been volunteering their time for WCWS programmes.

With the full support of Shell, employees and contractors have been helping in many ways: like build homes for the less fortunate, run blood donation drives, take special needs children to self-development camps, trek to marginalised communities in the interior to offer clothing, medicines or household essentials and join communities in keeping beaches clean.



REACHING OUT TO THE LESS FORTUNATE THROUGH OUR 'WE CARE, WE SHARE' PROGRAMME

### Flood and weather relief

Donations were made by staff and the company to help victims of floods in Sabah and Johor. A cheque for RM130,000 (about US\$36,000) was presented to the National Disaster Relief Fund. Clothes, canned food and 1,000 cylinders of gas were also donated. Funds were also raised to help families whose houses were badly damaged by strong winds in Sabah and Sarawak.

### Repairing roads

Shell repaired a vital road in Kota Belud district, Sabah damaged by the last monsoon season. The road serves 800 people from three villages and is used by Shell staff commuting to company offshore platforms.

### Safety awareness

Other community development included providing safety awareness sessions in communities, jointly with residents, businesses, other oil companies and local authorities. Shell also worked with other oil and gas companies to provide a means of permanent transport for families travelling to the Kota Belud District Hospital.

## SHARE YOUR OPINION

Please let us know your views on this report, or any issues it raises, by e-mail to [feedbackandissues-my@shell.com](mailto:feedbackandissues-my@shell.com)

## LEGAL DISCLAIMER

The companies in which Royal Dutch Shell plc directly and indirectly owns investments are separate entities. In this report, the expressions "Shell", "group" and "Shell group" and references to Shell as a "company" are sometimes used for convenience where references are made to group companies in general. Likewise, the words "we", "us" and "our" are also used to refer to group companies in general or those who work for them. These expressions are also used where there is no purpose in identifying specific companies. Terms such as "Shell Trading", "Shell Hydrogen", "Shell Wind Energy" and "Shell Solar" refer to the various companies engaged in trading, hydrogen, wind and solar businesses, respectively. "Shell Malaysia" refers to Shell companies in Malaysia.

## PAPER SPECIFICATION

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For further enquiries, please contact:  
Shell Malaysia Ltd. (992653-D)  
Corporate Affairs, Shell Malaysia  
Bangunan Shell Malaysia, Changkat Semantan, Damansara Heights, 50490 Kuala Lumpur  
Tel: +603 2095 9144 • Fax: +603 2091 2990 • website: [www.shell.com.my](http://www.shell.com.my)