The Shell Report 2003
Meeting the energy challenge – our progress in contributing to sustainable development
representative sample of the e-mails sent find their uncensored views, including a dialogue with stakeholders. Throughout, the Shell Report is part of our continuing assessments for other location reports. Independent panels, community members or experts have provided performance assessments for other location reports. The Shell Report is part of our continuing dialogue with stakeholders. Throughout, in the ‘What others say’ boxes, you can find their uncensored views, including a representative sample of the e-mails sent to ‘Tell Shell’.

WHAT OTHERS SAY

Tell us what you think
Share your views at tellshell@shell.com or write to us (addresses on back cover).

Find out more
This year’s shorter Shell Report is supported on the internet by additional performance data and detailed discussions of our approach to sustainable development and related issues. Web links on each page and on the back page show where to find this information.

Find out more
1 www.shell.com

Find out more
1 www.shell.com/shellreport. The ‘About Shell’ website also provides further details on many of the issues discussed in the report and on other relevant topics. See www.shell.com/envandsociety for:

Other links
Specific locations
Athabasca
www.shell.ca/oilands
China
www.shell.com/chinaen
Nigeria
www.shell.com/nigeria
Norco
www.shell.com/norco
Pandacan
www.shell.com/pandacan
Port Arthur
www.portarthurrefinery.com
Sakhalin
www.shell.com/sakhalinenergy
SAPREF
www.sapref.com
Sustainable transport
Biocarburants
www.shell.com/biocarburants
Cleaner conventional fuels
www.shell.com/conventionalfuels
Gas to Liquids
www.shell.com/gt
Hydrogen
www.shell.com/hydrogen
Road safety
www.shell.com/roadsafety
Other
Energie®
www.shellglobalolutions.com/energie
Energy scenarios
www.shell.com/scenarios
Solar
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Annual Reports
www.shell.com/annualreport
Local reports
www.shell.com/localreports
Details on reporting
www.shell.com/environmentalsociety/reportingandassurance
Data tables
www.shell.com/shellreport/data

Our commitments, policies and standards
Shell General Business Principles
Commitment to Sustainable Development
HSE Commitment and Policy
Diversity and Inclusiveness Standard
Environmental Minimum Standards
Environmental, Social and Health Impact Assessment
Biodiversity Standard
Minimum Health Standards
Animal Testing Standard
Security Standard
Management Principles

Our position on key issues and topics
Animal testing
Biodiversity
Business integrity
Climate change
Feed and crude prices
Globalisation
HIV and AIDS
Human rights
Interacting with communities
New energies
Payments to governments
Politically sensitive regions
Product stewardship – dealing with legacies
Sustainable transport
Water use

Making it happen
Our approach
Creating business value
Embedding sustainable development
Environment
Society
Working with stakeholders

Case studies
Our performance
Economic
Environmental
Social
Reporting and assurance
Our approach to reporting
Our latest performance report
Local reports
External assurance and performance assessment
Reporting against the UN Global Compact Principles
About this report

This is the seventh report of the Royal Dutch/Shell Group of Companies on our progress in contributing to sustainable development.

It describes our economic, environmental and social performance in 2003 and our efforts to address the main sustainability concerns of our operations. It also highlights the sustainability challenges we face from the constant growth in motorised transport, and discusses how we are responding to this aspect of the global energy challenge.

We continue to have parts of the report externally assured and include comments from customers, partners, neighbours and experts.

In response to readers’ feedback, we redesigned the report. It now gives a concise overview of our performance and provides links to www.shell.com, where you can find more information.
Message from the Chairman

“Our efforts to contribute to sustainable development will play an important part in rebuilding trust, managing risk and delivering the strong business performance our shareholders demand, in both the short and long term.”

Dear Stakeholder

This year’s Shell Report, which covers our activity in 2003, describes our financial, social and environmental performance.

However, I recognise that our achievements will be seen in the context of the restatement of our reserves in early 2004. I know that those deeply regrettable events mean we have much to do to restore our reputation with our stakeholders and I accept the urgent need to learn the lessons and ensure that such events cannot and do not happen again. We have taken a range of measures to strengthen our controls and processes relating to the booking of reserves. We have also emphasised the need to work more consistently by our business principles and to demonstrate the right professional behaviour.

In the wave of criticism it has sometimes been suggested that our commitment to contribute to sustainable development is an unnecessary distraction from our central task of delivering shareholder value. In fact, I believe that the reverse is true. Our efforts to contribute to sustainable development will play an important part in rebuilding trust, managing risk and delivering the strong business performance our shareholders demand, in both the short and long term.

For me, projects such as the Sakhalin II development in Russia and the Athabasca Oil Sands in Canada clearly illustrate the importance of sustainable development in the growth of our business. I am convinced that the success of these major projects depends on our ongoing work to engage seriously with stakeholders and meet high standards of environmental and social performance: it is how we prefer to work.

What does our contribution to sustainable development mean in practice? Our biggest contribution comes from helping provide the energy the world needs to develop, which by 2050 could be two to three times more than today, in cleaner and more socially responsible ways. This year’s Shell Report explores one aspect of that challenge, the growing demand for transport fuels.
We are participating, with a range of major companies, in the Sustainable Mobility Project run by the World Business Council for Sustainable Development that has highlighted the complexity and importance of making transport more sustainable. We are working with partners on a wide range of options to tackle this challenge. These include investments to produce lower sulphur fuels, the development of a world scale Gas to Liquids plant in Qatar, as well as taking part in clean air initiatives in Asia and Africa. Looking further ahead, we are working to develop ways of making biofuels and hydrogen fuel cell vehicles more effective and cost competitive.

Providing more energy for development must go hand in hand with improving the environmental and social performance of our operations. An important step this year was the strengthening of our efforts to protect biodiversity across all our operations including a commitment not to explore or drill for oil and gas in natural World Heritage Sites.

Social performance starts with the safety and well-being of Shell employees and contractors. Regrettably five of our employees and 40 of our contractors lost their lives at work in our operations in 2003. Nineteen of these fatalities were caused by road accidents. Our safety performance is improving but we need to continue to work hard to make a difference in this area. Social performance also involves understanding and better managing the wide-ranging impacts we have on the communities where we operate. I am pleased we are taking a more systematic approach across Shell, for example by requiring stakeholder engagement plans for all our major sites.

I want to underline that we remain committed to the aspirations outlined in this report: being transparent and open about our performance, the failures as well as the successes, and listening and responding to our stakeholders. While I do not underestimate the task of restoring confidence in our business, I believe that Shell retains strong foundations on which we can rebuild to ensure that we consistently meet the highest standards in all our business activities.

Jeroen van der Veer,
Chairman of the Committee of Managing Directors
Meeting the energy challenge

**Investing for growth**
Decided to invest in the multi-billion dollar second phase of a major oil and gas development on Russia’s Sakhalin Island. Continued our efforts to respond to worries about the project’s social benefits and environmental impacts (page 16).

Agreed to take part in the $1 billion investment developing the Salym oil fields in western Siberia.

Signed a deal to explore for gas in Saudi Arabia, a first for an international energy company since 1975.

Agreed plans to develop gas reserves in Qatar and build the world’s largest plant to convert natural gas into transport fuel (page 12).

Became the first private operator of an oil field in Brazil.

Produced the first synthetic crude at the Athabasca Oil Sands Project in Canada, which increased production towards its capacity of 155,000 barrels per day. Continued a programme to reduce the project’s net greenhouse gas emissions by 50% by 2010.

**LNG to North America**
Started liquefied natural gas (LNG) deliveries to a new terminal in Cove Point, Maryland, USA. Permission was granted for terminals in the east and northwest of Mexico.

**Shell and sustainable transport**
Took part (with 16 other energy and vehicle companies) in the World Business Council for Sustainable Development’s Sustainable Mobility Project, which completed its research in 2003.

Opened the world’s first hydrogen refuelling station accessible to the public in Reykjavik, Iceland and three more during the year (page 13).

Carried out road trials of Gas to Liquids (GTL) Transport Fuel in Berlin, London and Tokyo with several auto companies (page 12).

Sold premium-quality fuels that improve engine performance and reduce emissions in more than 50 countries (page 12).

Launched Shell Drive, offering customers in German cities access to cars only when they need them.

**Tomorrow’s electricity today**
Almost tripled our wind-power capacity, bringing total production to 650MW. This provides enough electricity to supply over 200,000 homes.

Started producing the most efficient thin-film solar panels available commercially.

Provided solar power to 28,000 more rural homes with no access to power from the grid, bringing the total to 50,000 since off-grid rural operations began in 2000.

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**Find out more**
1 www.shell.ca/oilsands
2 www.shell-usgp.com/lngmain.asp
3 www.sustainablemobility.org
4 www.shell.com/wind
5 www.shell.com/solar
Highlights and lowlights

Reporting reserves and management changes
Restated 4.47 billion barrels of oil equivalent of our proved reserves as stated at year-end 2002 to remove these volumes from the category of proved reserves, following internal and external reviews. The Chairman of our Committee of Managing Directors and Chief Executive of our Exploration and Production business both resigned their directorships, having lost the confidence of the Boards. Our Chief Financial Officer has stepped aside. The recommendations of the independent review carried out by law firm, Davis Polk & Wardwell for Group Audit Committee have been accepted and are being implemented. External investigations are still in progress. 1

Loss of life
We deeply regret that five of our employees and 40 of our contractors lost their lives at work in our operations in 2003. Nineteen of these fatalities were caused by road accidents (page 13).

Environmental achievements
Became the first energy company to commit not to explore or drill for oil and gas in natural World Heritage Sites, as part of our support for biodiversity conservation (page 14).

Made the first trade of carbon allowances under the European Union (EU) Emissions Trading Scheme. The scheme is designed to help industry cost-effectively reduce the amount of greenhouse gases it releases (page 15).

Dealing with legacies
Continued to clean up sites contaminated with pesticides from former operations in Paulinia and Ipiranga, Brazil.

Continued working, via CropLife International, to dispose of old stocks of pesticides in countries including Ethiopia, Mali, Nepal and Senegal. 2

Continued efforts to reduce emissions and respond to health concerns in communities near plants in Texas, Louisiana, South Africa and the Philippines (pages 20 to 21).

HIV/AIDS
Piloted our HIV/AIDS guidelines in Côte d’Ivoire, Gabon, Kenya, Nigeria and South Africa. The guidelines call for the provision of counselling and supplying free anti-retroviral drugs for infected employees and their dependants. 3

Security
Had significant security incidents in 16 countries. In Nigeria’s Niger Delta, well-organised armed gangs continued to steal crude oil. Levels of crime and violence in the region remained high (page 18).

Sustainable development in Africa
Launched projects in Nigeria in partnership with USAID ($20 million) and Africare ($4.5 million) to support small businesses and set up healthcare programmes to fight malaria. 4

Training business leaders
Expanded our support for teaching about sustainable development at universities by setting up a professorship in Sustainable Business Growth at the IMD business school in Lausanne, Switzerland.

Oil and natural gas production
Produced 1% less oil and gas (including oil sands), after divestments. Expect production for 2004 to remain broadly flat with a dip in 2005 before increasing again from 2006 onwards.

Find out more
1 www.shell.com/annualreport
2 www.shell.com/legacies
3 www.shell.com/hivaids
4 www.shell.com/nigeria/2003newsupdates
About Shell

Who we are and what we do

We are a global group of energy and petrochemicals companies, operating in more than 145 countries and employing approximately 119,000 people.

Most people know us for our retail stations and for exploring for and producing oil and natural gas.

Our activities also include:
– marketing, transporting and trading oil and gas;
– providing oil products for industrial uses including fuel and lubricant for ships and planes;
– generating electricity, including wind power, and producing solar panels;
– producing petrochemicals that are used for plastics, coatings and detergents; and
– developing technology for hydrogen vehicles.

We do not produce coal or nuclear power.

Did you know?
– Approximately 3% of the world’s oil and approximately 3.5% of the world’s gas is produced by Shell companies, similar to other major private oil and gas companies.
– Shell companies have made approximately 20% of the solar panels now installed around the world.
– Every four seconds, a plane is refuelled by Shell Aviation.
– In that time 1,200 cars visit a Shell service station.

Find out more

www.shell.com/aboutshell
www.shell.com/annualreport
Contributing to sustainable development

What it means
In 1997 we committed to contribute to sustainable development. We recognised that, to stay successful, we needed to find more socially and environmentally sustainable ways to meet society’s needs. We remain convinced that engaging with stakeholders and integrating social and environmental considerations better throughout the lifetime of our projects makes us a more responsive, competitive and profitable company, in the long and short term.

How we contribute
We seek to contribute to sustainable development in three closely interconnected ways. First, by helping to meet the global energy challenge. This means providing the extra energy the world needs to develop, including more oil and natural gas; helping provide access to modern energy for the two billion people who currently live without it; and offering more and more customers cleaner products (for example, low-sulphur petrol and diesel, and hydrogen for new fuel cell vehicles). It also means helping the world gradually shift to a low-carbon energy system by providing more natural gas (to replace coal), and by lowering the costs of alternatives like wind, solar power, and fuels from plants (biofuels).

Second, by working to improve the environmental performance of our operations, lowering our emissions and our impact on biodiversity, and using less energy, water and other resources. Third, by taking steps to improve our social performance. This means safeguarding the health and safety of our employees and neighbours, reducing disruptions to the community, and creating lasting economic benefits, for example by employing local people and using local contractors and suppliers.

How it helps our business performance
Our efforts to contribute to sustainable development in these ways helps us create value for our shareholders by reducing our operational and financial risk, by cutting costs through ‘eco-efficiency’ (producing more with less energy and materials), by building closer relationships with customers and by helping us create new products to meet their needs. It also influences the development of our portfolio, and attracts and motivates staff.

Find out more
1 www.shell.com/sdbusinessvalue
Sustainable development – making it happen

**Embedding sustainable development**

Making sustainable development part of the way we work means learning to look at all aspects of our business through a new lens. This lens lets us see the world through the eyes of our stakeholders and helps us to understand the many ways, good and bad, that our business activities affect and are affected by society and the environment. We are beginning to use this insight to improve the performance of today’s operations and identify profitable business opportunities for the future.

– A Social Responsibility Committee of non-executive directors reviews our performance in living by our Business Principles (including our support for fundamental human rights and our commitment to contribute to sustainable development).*

– Mandatory Shell policies and standards. Policies include our Business Principles and our Health, Safety and Environment policy. Global standards cover, for example, diversity and inclusiveness, security, environmental performance, biodiversity, health management and animal testing.

– Internal assurance. Executives responsible for each Shell Business and country operation must provide annual assurance that their operations comply with our policies and standards.

– Appraisal and reward. Sustainable development counts in the appraisal of our business units and the evaluation and remuneration of staff in many of our operations.

– Investment reviews. Before we invest, projects are required to complete integrated environmental, social and health impact assessments and have suitable plans in place to engage with stakeholders. Major projects must factor in the costs of the greenhouse gases they will release to encourage them to develop designs with lower emissions.

– Interactions with the communities where we operate. For example, all our major Chemicals sites have a social performance plan, with internal reviews for high-risk facilities. Our major Oil Products sites and Exploration and Production companies and projects will do the same in 2004. A central Social Performance Management Unit provides leadership, tools and support. We recently completed in-depth reviews at four Shell sites that helped us define what social performance means in practice for our operations. 1 In 2003, we also introduced a minimum standard for stakeholder engagement.

– Leadership development, training and internal communication so that employees increasingly understand what contributing to sustainable development means for their job and can act accordingly.

**Looking ahead**

Our biggest challenge remains implementing these sustainable development requirements consistently in all our activities worldwide. We continue to make progress, but recognise that we still need to work hard to improve performance at projects and operations where we have not yet got it right.

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* More on our corporate governance is available in the Annual Report and Accounts of the Royal Dutch Petroleum Company and The “Shell” Transport and Trading Company, p.l.c.
We are focusing our sustainability reporting on the issues that matter most to our stakeholders and our business performance.

Our approach to reporting, performance assessment and assurance

**Reporting goals**
We report on our environmental and social performance, and our contribution to meeting the global energy challenge to build and maintain trust and improve our performance.

We believe reporting should cover those parts of our sustainability performance that could pose significant financial risks, or are of the most interest to stakeholders.

It should also be meaningful, allowing people to judge our performance by providing measurement of our most significant impacts (Key Performance Indicators – KPIs) and descriptions of how we address our main issues.

Finally, it should be easy to read, describing our performance clearly and simply, while helping readers to find more information if desired.

**Evolving reporting**
Our sustainability reporting continues to evolve. In 2003, we introduced a new method for choosing issues and locations. We used feedback from stakeholders to rank further those issues and locations highlighted by our business risk and issues-management processes. This feedback included Tell Shell, reader surveys and a media review. Senior management then reviewed the priority issues and locations based on subsequent business developments prior to inclusion in the Report. We also focused data reporting on our KPIs to provide a clearer overview of our performance. Finally, we shortened The Shell Report and linked it to more detailed information on www.shell.com, including, for example, a summary of actions to support fundamental human rights.

**New in 2003**
- Systematic selection of material issues and locations
- Performance assessment of several location reports by experts and communities
- Closer integration of printed report and the internet
- Data reporting focus on key performance indicators
- Reporting in accordance with the Global Reporting Initiative (GRI)

**External assurance and performance assessment**
We seek independent assurance and assessment of our performance to improve the reliability of our Report, to help us manage our business better and to increase the trust and understanding of our readers. This includes opinions based on systematic checks by our auditors (KPMG and PricewaterhouseCoopers LLP) on the reliability of key safety and environmental data and the fairness of the description contained in our Sakhalin Island location report. This year, for the first time, it also includes commentaries on our location reports from experts or community panels with whom we work to manage our issues. Their comments are based on their knowledge and experience rather than established assurance standards.

We will continue to refine the use of assurance and external performance assessment to improve our performance and make sure that the rigour required for the different parts of our report is achieved. This will include developing clearer processes to guide the performance assessment work of experts and panels.

**Emerging guidelines**
Our reporting is in accordance with the Global Reporting Initiative (GRI). We describe our contribution to the United Nations (UN) Global Compact on our website.

**Find out more**
1. [www.shell.com/envandsociety/reportingandassurance](http://www.shell.com/envandsociety/reportingandassurance)
2. [www.shell.com/humanrights](http://www.shell.com/humanrights)
3. [www.shell.com/gri](http://www.shell.com/gri)
4. [www.shell.com/gcprinciples](http://www.shell.com/gcprinciples)
Sustainable transport

Providing access to convenient transport options

Inadequate access to convenient modern transport keeps millions of people away from better jobs, and their goods from getting to market. Enforced dependence on one option (the private car) lowers the quality of life in cities.

**Meeting this challenge involves:**
– connecting farmers in the developing world to urban markets;
– making walking, cycling and public transport safer and more attractive in cities;
– improving road safety; and
– improving urban transport planning.

**We are working with others to:**
– provide modern transport fuels to customers in more than 100 countries;
– help cities in the developing world (such as Mexico City and Shanghai) improve transport planning and public transport, through EMBARQ (the World Resources Institute Center for Transport and Environment); and
– improve road safety in the communities where we operate, including participating in the Global Road Safety Partnership.

Meeting growing demand, while reducing environmental impacts

Oil and the internal combustion engine provide nearly all motorised travel. The combination is affordable and convenient, but can result in poor local air quality and increasing carbon emissions. The demand for transport fuel will grow strongly, especially in developing countries with many competing development priorities.

**Meeting this challenge involves:**
– enforcing tougher engine maintenance rules and encouraging the modernisation of vehicle fleets;
– phasing out leaded petrol in countries where it is still used;
– making low-sulphur fuels more widely available; and
– supporting the introduction of new vehicle technologies.

**We are working with others to:**
– meet growing demand for oil and gas;
– increase energy-efficiency and reduce the effects of oil production and refining;
– support phasing out leaded fuels in Africa and Asia;
– produce and sell more low-sulphur fuels, including those made from natural gas and oil sands;
– develop premium-quality fuels that reduce emissions; and
– develop the technology and fuel infrastructure for hydrogen fuel cell vehicles.
How can the world move all the people and goods needed for development without choking our cities and endangering the planet?

Shifting to low-carbon transport

There are no quick or easy answers to reduce carbon emissions from transport significantly.

**Acting now to deal with this long-term challenge means:**
- radically improving vehicle efficiency, including spreading the use of advanced diesel and hybrid (gasoline-electric or diesel-electric) engines;
- finding cost-effective ways to manage the demand for transport and reduce road congestion;
- reducing the cost of, and carbon emissions from, making biofuels;
- making hydrogen using zero-carbon methods competitive; and
- managing emissions from shipping and air travel.

**We are working with others to:**
- pilot four hydrogen filling stations, two of which (in Iceland and Amsterdam) use water and renewable electricity to provide zero-carbon hydrogen;
- reduce the costs of solar and wind power to produce hydrogen without carbon emissions; and
- develop advanced biofuels.

**WHAT OTHERS SAY**

“Motor vehicles are now arguably the world’s greatest source of pollution, and growth rates, especially in Asia and Latin America, will compound this problem. There are, fortunately, technologies available that can slash air pollution and greenhouse gases. Especially important are ultra-low sulphur fuels, advanced tailpipe controls, and hybrid automobiles and buses. Accelerating their adoption is one of the chief environmental opportunities of our time.”
Hal Harvey, Environment Program Director, William and Flora Hewlett Foundation

“The vision of Iceland becoming the world’s first hydrogen economy has long lingered in the minds of Icelanders, who are proud of their independence and thrive on challenges. In 2001, the first practical initiatives were launched and the world’s first retail hydrogen refuelling station was opened in 2003. Without the technology and support from DaimlerChrysler, Norsk Hydro and Shell Hydrogen, this vision would never have been brought so close to reality as it is today.”
María Maack, Environmental Manager, Icelandic New Energy Ltd

“I am put out by Shell’s latest media campaign positioning itself as an environmentally conscious company... Better to take a more honest approach — the world wants to drive sports utility vehicles that get 11 miles per gallon and we provide the gas to accommodate them! Nobody can argue with that.”
Tell Shell, Canada

**Find out more**

www.shell.com/sustainabletransport
www.sustainablemobility.org
1 www.hewlett.org/programs/environment
To help meet this challenge, we are working with governments, the auto industry and others on a wide range of options to make transport more sustainable.

Cleaner conventional petrol and diesel
Modern engines and cleaner fuels have substantially reduced local emissions from new vehicles and can achieve a lot more. We are investing more than $1 billion in our refineries to produce fuels that meet tougher sulphur limits. In more than 50 countries we offer premium-quality transport fuels that can improve engine performance and reduce fuel consumption and emissions, under the Pura, Optimax, V-Power and Defenda brands. We are taking part in the Clean Fuels and Vehicles Partnership, led by the UN Environment Programme, and the Clean Air Initiatives in Asia and Sub-Saharan Africa. These organisations work with governments, companies and others to reduce vehicle emissions, including promoting the phase-out of leaded petrol and a move to low-sulphur fuels.

Transport fuels from natural gas
Converting natural gas into zero-sulphur Shell Gas to Liquids (GTL) Transport Fuel is another way to cut local pollution. In Bangkok, we sell Pura (a blend of Shell GTL and conventional diesel) that reduces engine black smoke from older vehicles by up to 25%. In completed trials in Berlin (with Volkswagen) and London (DaimlerChrysler), unblended Shell GTL substantially reduced local emissions of standard diesel vehicles. A trial in Tokyo (Mitsubishi and CO-OP supermarkets) was also launched.

We run the only commercial GTL plant of its type producing ultra-clean products (in Bintulu, Malaysia), and plan a multi-billion dollar investment to build a plant 10 times the size in Qatar, which will be the world’s largest.

WHAT OTHERS SAY

“It is important to have a partnership between an automotive company like VW and Shell. I know that Shell really is one of the leading companies in the development of alternative fuels. Let me congratulate you once again on your partnership and wish you all the best in your development work.”

Chancellor Gerhard Schröder, Federal Republic of Germany

EMBARQ – an integrated approach to sustainable transport
Better engines and fuels are important, but improved urban and transport planning is also needed.

EMBARQ (the World Resources Institute Center for Transport and Environment in Washington DC) was set up in 2002 with a $3.75 million grant from the Shell Foundation. It encourages public/private partnerships and looks for transport solutions in developing world cities that integrate technology and planning. In Shanghai, for example, walking, cycling and public transport (90% of trips today) need to be kept attractive, and the rapid rise in private car use managed effectively, to reduce growing congestion and pollution. EMBARQ is working in partnership with the Shanghai municipality and others to plan a system of large, fast buses using dedicated lanes throughout the city.

Find out more
1 www.cleanairnet.org
2 www.shell.com/aboutfuels
3 www.shell.com/gtl
4 www.embarq.wri.org
Transport fuel from plants

Biofuels (petrol or diesel made from plants) could significantly reduce vehicle carbon emissions. When burnt, the plants release the carbon they absorbed as they grew. Like GTL, biofuels can be blended with conventional fuels and use today’s filling stations. We are the biggest blender of transport biofuels, but these are expensive to produce. Because converting plants to fuel needs a lot of energy, carbon emissions are only slightly lower than for conventional fuels. Iogen Energy (which we partly own) is building a plant to test new technology to make bioethanol cheaper using waste wood and straw, with carbon emissions 90% lower than for conventional fuels.

Road safety

Every year a million people die on the roads, 85% in the developing world. Road accidents are a serious concern for Shell, causing nearly half of our fatalities in 2003. In 2003, our road safety programme for staff and contractors continued to reduce road fatalities – 19 deaths in 2003, down from 23 in 2002. We focus on improving skills and compliance, for example through training, tougher international vehicle standards, driver incentive schemes, better route planning and new techniques to reduce the incidence of driver fatigue.

Through the Global Road Safety Partnership, we work with international agencies, companies and governments on practical projects to reduce road accidents in the developing world.

Fuel prices and competition

Petrol and diesel prices remain politically sensitive in many countries, with energy companies suspected of fixing prices and other anti-competitive practices. In fact, prices depend mainly on taxes (sometimes more than 75%), world oil prices, the strength of the US dollar, and local competition.

We are committed to being open, competing fairly and respecting competition laws. Last year, several thousand staff received training to help them follow local competition laws. We were found guilty of price fixing in Sweden and Argentina. These cases, as well as a fine in the Czech Republic from 2002, are currently under appeal. A decision in France that we had breached competition law was reversed on appeal in December 2003. That decision is now being appealed by the French Competition Authority.

Fuel cell powered bus at the world’s first hydrogen filling station open to the public, Reykjavik, Iceland.

Hydrogen and electric fuel cell engines

Fuel cell engines running on hydrogen could make vehicle transport truly sustainable. Hydrogen can be made locally and water is the only direct emission. Carbon emissions can be zero if the hydrogen is produced by using renewable power to electrolyse water, or if it is reformed from gas or coal and the carbon stored underground. For the next 20–30 years, we expect most hydrogen to be made from natural gas or coal, with water and renewable energy a large-scale possibility later.

But the price of fuel cell engines must drop substantially and a hydrogen infrastructure needs to be built. Convenient ways to store hydrogen must be found and public trust in its safety established.

With these breakthroughs, hydrogen’s role in road transport could grow steadily over the coming decades.

Shell Hydrogen is building a commercial business to begin tapping this potential. We are setting up the needed infrastructure and investing in technologies to make, purify, store and sell hydrogen. In 2003, we opened four hydrogen filling stations with government and auto industry partners to gain practical experience in Reykjavik (the world’s first public filling station), Amsterdam, Luxembourg, and Tokyo. In 2004, we will open a hydrogen pump at an existing station in Washington DC.

Find out more

1 www.iogen.ca
2 www.shell.com/biofuels
3 www.shell.com/roadsafety
4 www.grsroadsafety.org
5 www.shell.com/fuelprices
6 www.shell.com/hydrogen
Protecting biodiversity

Meeting growing demand for energy without damaging biodiversity is a major challenge. We believe it makes good business sense to face this head on, working with others to reduce our impact and contribute to conservation.

Reducing our impact

We have had a Biodiversity Standard since 2001. Our environmental, social and health impact assessments include biodiversity. An online mapping system warns our planners if projects affect areas that are rich in biodiversity, so they can consult stakeholders and act early to reduce possible impacts.

New commitments

In 2003, we became the first energy company to commit not to explore or drill for oil and gas in natural World Heritage Sites. These are over 170 places recognised by the UN for their outstanding universal value.

We also committed to follow strict practices to minimise our impact when operating in IUCN – The World Conservation Union categories I-IV protected areas, to report on our activities in these areas, and to help strengthen the management of protected areas. We have identified three Shell companies that were operating in four of these IUCN protected areas.

Working with industry

We are part of the Energy and Biodiversity Initiative, whose recommendations to reduce the effects oil and gas operations have on biodiversity, were presented at the 2003 World Parks Congress. We also continue to work with industry associations to develop biodiversity standards for the oil and gas industry.

Supporting conservation

We work with a wide range of organisations around the world, including IUCN, The Smithsonian Institution and conservation organisation WWF. We have over 120 biodiversity projects underway, including scientific programmes (for example, in Gabon and Venezuela), conservation, education and skill-building initiatives (for example, in Australia, Brazil and Pakistan) and efforts to make conservation provide sustainable livelihoods for local people.

WHAT OTHERS SAY

“Shell’s leadership in biodiversity matters is exemplary. Shell was the first in the industry with its World Heritage/protected areas commitment. Equally important, it is proactively integrating biodiversity concerns into operations around the world.”

Thomas E. Lovejoy, PhD, President, H. John Heinz III Center for Science

Find out more

1 www.whc.unesco.org/heritage.htm
2 www.unep-wcmc.org/protected_areas/categories
3 www.shell.com/biodiversity
4 www.theebi.org
Payments to governments

We continue to support efforts such as the UK Government’s Extractive Industries Transparency Initiative (EITI) to promote full, public disclosure of the money paid to governments by oil, gas and mining companies. Being open helps governments manage these revenues better and reduces corruption.

The EITI recognises that reporting will only work if host governments and all companies in the sector, including state-owned firms, take part. In 2003, a number of developing countries (including Nigeria where we produce oil and gas), agreed to join EITI. This was an important milestone.

With the co-operation of the Nigerian Government, we have been reporting the taxes and royalties paid by Shell-run operations in Nigeria since 2002 (approximately $1.8 billion in 2003) and will continue to do so. 1

Sanctioned countries

When the international community temporarily imposes sanctions on a country, usually in the case of wars or human rights abuses, our policy is clear – we respect international law and abide by sanctions. For example, we did not operate in Iraq when the country was under UN sanctions. With those sanctions now lifted, we would welcome the chance to help Iraq rebuild its oil industry, once security conditions allow and an internationally-recognised government is established.

From time to time, individual countries also impose sanctions. For example, the USA has a general embargo on Iran, Cuba and Sudan. However, for certain non-US companies, some of the sanctions may conflict with EU legislation. This presents international business with a dilemma. Until this is resolved, we must decide our involvement on a case-by-case basis, always making sure that our operations comply with our Business Principles and the laws applicable to the Shell companies involved.

Climate change

Many people are concerned that greenhouse gases (GHGs) from human activities (mainly burning fossil fuels) could be changing the global climate. So are we. We believe action is needed now – by governments, industry and energy users – to stabilise GHG levels in the atmosphere without disrupting economic and social development.

Governments have so far failed to agree a common international framework for action. This makes tackling the threat to climate harder and probably more expensive. Meanwhile, we continue to find practical ways to reduce our GHG emissions cost-effectively and help our customers do the same.

In 2002, we met our target to reduce GHG emissions from operations to 10% below our 1990 baseline. In 2003, we continued to take voluntary action. Our emissions rose as business activities increased, but we remained on track to meet our 2010 target of 5% lower emissions than in 1990, mainly through ending continuous flaring and improving energy efficiency. We did more to provide lower-carbon transport fuels (see page 12). This is an important part of our programme because 85% of the GHGs from the oil we extract are emitted when it is used in customers’ vehicles.

In 2003, we prepared for the mandatory limits (caps) on GHG emissions from industrial plants that the EU will be introducing in 2005. These caps affect nearly a third of our global GHG emissions (30 million tonnes a year) and will create a large market for trading emission allowances under the EU’s Emissions Trading Scheme. We have a lot to do to prepare for this new market, but are confident our energy-efficiency programmes and the experience of Shell Trading will position us well. 2

Find out more

1 www.shell.com/paymentstogovernments
2 www.shell.com/climate
Location reports

Sakhalin

Alexey Okhotnikov, Russian Content Manager (top right), and Nick Binks (bottom right), Head of Contracting and Procurement for Sakhalin Energy, report on how the project’s contracting and procurement process is addressing stakeholders’ concerns that we provide economic benefits for Russia and maintain our environmental and social standards.

The project
Shell is the lead shareholder of Sakhalin Energy, which has been producing oil off the coast of Sakhalin Island, north of Japan, since 1999. In 2003, the project’s multi-billion dollar second phase began to develop offshore oil and gas fields and build Russia’s first liquefied natural gas (LNG) plant.

Potential social benefits
Phase two will help meet growing demand in Asia Pacific for clean-burning natural gas and will bring significant value to Russia. As an illustration, with oil prices at $24 per barrel, it could bring Russia $45 billion in royalties, taxes and production.

We will help Russian companies meet Shell’s technical, environmental and social standards. We estimate that the project will create up to 2,400 permanent jobs directly, and 13,000 more at the peak of construction. Islanders will benefit from Sakhalin Energy’s more than $250 million investment in local transport, telecommunications and hospitals, and from $100 million contributed to the local government’s Sakhalin Development Fund.
Working with contractors and suppliers

Oil and gas development offers the chance to revitalise the economy of the Russian Far East.

Our contracting and procurement activities are critical to this revitalisation. A top priority for 2003 was to help Russian and Sakhalin Island companies in their bid for contracts. With the main construction contracts now awarded, we are also working hard to encourage local employment and to make sure that contractors follow our standards.

The contracting and procurement process continued to develop. Here are some of the steps we have taken:

– Screening Russian companies wanting to bid for contracts for their ability to meet our standards. Over 60 have taken part in this programme, set up with Russian and Sakhalin Island governments. Twenty-five have qualified to bid for contracts and another 22 are being coached to help build their capabilities.

– Requiring all contracts to meet our technical, environmental and social standards, including our General Business Principles. Sakhalin Energy has controls in place to check for technical and health, safety and environmental compliance.

– Creating codes of conduct for temporary work camps on the island. These include hiring community liaison officers and banning hunting and fishing.

– Running programmes to raise skills on the island. For example, a Sakhalin Energy apprenticeship programme (which started in 2003) intends to train 300 Sakhalin islanders as project operators. The LNG project offers training and work experience in Japan for new engineering graduates from Sakhalin University.

– Promoting Russian and foreign joint ventures to help transfer skills. For example, Sakhalin Shelf Services, a joint venture between Japanese, Russian and US companies, has $46 million in contracts to upgrade the island’s fishing port.

These efforts are starting to show results. Sakhalin Energy awarded contracts worth more than $6 billion in 2003. We have committed to do our best to source at least 70% of the work hours, volume of materials and equipment from Russia, and are developing the needed controls to measure our performance in meeting this commitment.

Other social and environmental challenges

This remote, seismically-active island is home to around 600,000 people (including a number of indigenous groups) and is rich in wildlife, with many salmon rivers and also feeding grounds for the critically-endangered western grey whale. We have gone to great lengths to reduce our impact on this environment, manage earthquake risks, and limit disturbances to indigenous people. In 2003, we continued to act on our commitment to avoid any population impacts on the whales and to support monitoring and research by Russian and international scientists. All these efforts are described in detail on our website and we continue to discuss them with our stakeholders.

WHAT OTHERS SAY

External assurance

“As part of our assurance engagement, we determined how Sakhalin Energy management include sustainable development principles and considerations into their contracting and procurement processes and decisions. We completed work to see what actually happens in practice, to understand how the policy and procedures are implemented. To do this, we looked at three main projects: LNG development, onshore pipeline and road upgrade work, interviewing contractors and reviewing relevant documents and evidence. Our observations and findings have been reported to management. Our Assurance Report is on page 28.”

KPMG and PricewaterhouseCoopers LLP

Find out more

www.sakhalinenergy.com
Nigeria

Emmanuel Etomi, Sustainable Community Development Manager for Shell Petroleum Development Company of Nigeria (SPDC) reports on a new approach to help reduce conflict in the troubled Niger Delta.

I live in a society in serious conflict. This is being fed by corruption, poverty and high unemployment among youth in a region where little of the oil wealth has been returned to the people. SPDC is the operator of the Delta’s largest oil producer – a joint venture with the national oil company, Total and Agip. The conflict disrupts our operations and threatens our staff.

Government and local communities must take the lead in ending the conflict. But as part of an industry inadvertently contributing to the problem, we are also determined to help.

**Understanding our impact**

In 2003, we enlisted three internationally-known conflict experts to better understand how our activities are affected by, and contribute to, the conflict. Their fieldwork, which included working with Nigerian experts and local people, highlighted how the conflict makes it difficult for us to operate safely and with integrity; how we sometimes feed conflict by the way we award contracts, gain access to land, and deal with community representatives; how ill-equipped our security team is to reduce conflict; and how drastically conflict reduces the effect of our community development programme.

**Taking action**

Based on these findings, we will support the development of a Peace and Security Strategy (PaSS) to help reduce conflict by changing our operating, security and community development practices. In 2004, a PaSS Working Group – made up of local, national and international experts, stakeholders and representatives of the oil industry – will be created to design the strategy, monitor how it is put into practice and report on progress.
Heng Hock Cheng, Country Chair of Shell Companies in China, reports on our work with current and potential business partners to reduce project impacts.

Our $1.9 billion investment in China could grow to $5 billion within five years. Many of these investments are joint ventures with Chinese partners. All are expected to follow Shell’s investment review process, which checks that we are taking account of environmental and social issues.

**Nanhai petrochemicals project**

This is our largest investment in China – a $4.3 billion joint venture with CNOOC Petrochemicals Investment Limited to build a petrochemicals complex in southern China. In 2003, the project financing, the region’s largest, was completed and construction began.

People needed to be relocated and environmental impacts managed, from air emissions to effects on nearby coral reefs. A full environmental and social impact assessment was carried out before we decided to invest in 2002. The joint venture is committed to meeting international standards.

We continued to fulfil this commitment. For example, independent monitors began checking compliance with the environmental and social management plan. The government moved the last 1,000 families (3,500 people) living close to the construction site to two new villages, following a plan that is in line with World Bank standards. External experts arranged by the joint venture continued to monitor the government’s resettlement programme. The joint venture also launched a programme to employ people from the new villages, build skills and support small businesses. By the end of 2003, more than 200 villagers had jobs on the project and two construction contracts were signed with village-based companies.

**West-East project**

The $8.5 billion West-East project is developing natural gas in the west of China and delivering it to the fast-growing markets of the east. Discussion continued in 2003 on our potential involvement and so did our efforts to influence environmental and social standards.

For example, in 2002, it was agreed that environmental and social standards would need to be acceptable to all partners. The pipeline construction schedule was changed to accommodate detailed environmental and social management plans, and the route was adjusted to avoid specific culturally and environmentally sensitive areas. The UN Development Programme and others helped us understand and mitigate the impacts on the communities along the route. With PetroChina we checked that people were being resettled and compensated in accordance with Chinese law, which is in line with international practice.
Communities and our operations

Norco, Louisiana
Dwayne LaGrange, Norco Community Relations Analyst, reports
As a result of problems with environmental and safety performance at our refinery and chemicals plant in Norco, Louisiana, trust with many members of the community broke down. I am proud to say we have since made real progress earning that trust back. The many improvements we have made are detailed on our website, along with the Joint Statement of Success signed with our neighbours in 2002.

However, concerns about local air quality remain. Residents have questioned how it is measured and the accuracy of the information we provide. In 2002, an air monitoring working group was set up, chosen by an open vote of advisory panel members. It has two independent experts and another 20 representatives of the community, local government and Shell.

The group designed and implemented an air monitoring system, finding the best locations for monitors, deciding which substances to check and providing this information to the community. Initial results indicated air quality around our plant was safely within government limits. To reach conclusive findings and continue checking our performance, the group set up permanent monitors. Their findings are updated every three months and shared regularly with the community.

Manila, Philippines
Dr Lito Gapas, Business Health Adviser, Shell Philippines, reports
For over 90 years, the Philippines' main fuel storage depot has been at Pandacan, a 30-hectare site we share with two other companies in a densely populated part of Manila. Concerns on the part of local and national government about safety and security led to an agreement to scale down the depot and create a perimeter strip of community parkland between 10m and 50m wide.

WHAT OTHERS SAY

External performance assessment

Norco
“Dwayne LaGrange’s air monitoring report gives a clear picture of how the company was once viewed. Residents have been concerned for a long time about what was in our air. The project has been a big success because we now have an idea of what the air is like in Norco.”
Alfred Holmes, member of the Air Monitoring Working Group and local resident

Pandacan
“Based on our work with Shell at Pandacan, we concur with Dr Lito Gapas’s report. We believe our participation in the human health risk assessment work has helped ensure the process has been transparent and inclusive of a wide range of stakeholders.”
Pandacan Health Risk Assessment Panel

Find out more
1 www.shellus.com/norco
2 www.shell.com/pandacan
We have to earn the trust of people living close to our facilities, by operating safely and communicating openly. We have learnt that independent expert panels, community surveys and working groups can help, even at sites where trust has broken down.

**Durban, South Africa**

Richard Parkes, Managing Director, SAPREF, reports

It was two steps forward and one back at SAPREF, Shell and BP’s 50:50 joint venture refinery in Durban, South Africa in 2003. At SAPREF we have had a history of problems with our environmental performance and limited engagement with the community.

In 2003, we worked hard to start getting it right. The $49 million we have invested in environmental initiatives since 2001 began delivering results. Most significantly, we cut our sulphur dioxide emissions by a third in 2003 and nearly in half since 2001.

We shared the findings from the 2002 review of our social performance and began implementing its recommendations. For example, we surveyed 2,400 people in the area with the help of local groups, to create a common understanding of the community’s concerns. The results, once available, will be discussed with our neighbours.

Unfortunately, three off-site oil spills in the harbour set back our efforts to improve trust. The priority in 2004 is to continue improving overall operational performance and renew our efforts to make the Community Liaison Forum, initiated in 2003 and composed of SAPREF staff and community members, operational.

**Port Arthur, Texas**

Tom Purves, Manager, Motiva

Port Arthur Refinery, reports

Port Arthur, Texas, is home to four chemical plants and three refineries (one operated by our joint venture Motiva). Residents have many concerns about their neighbourhood, including the possible health effects of industrial pollution.

The refinery is continuing to improve its environmental performance. We have reduced our local air emissions by 33% over the last four years. In 2003, we installed a $32 million system to reduce flaring, as part of a six-year investment programme we expect will reduce our local air emissions by a further 30% by 2006. Local levels of volatile organic compounds continue to drop and remain below state and federal government safety levels. In addition, we are finding new ways to work with the community to address health concerns, building on the experience of our 11-year-old Community Advisory Panel.

We appointed a team of five people to be available around the clock to respond to environmental complaints. We also surveyed residents and found that their main concerns were unemployment, drugs, crime, education, pollution and health. We shared the results with the community and set up working groups (made up of community members and refinery staff), to help address these concerns. The issues will not be resolved quickly, but we hope progress can be made as these groups start work in 2004.

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**Find out more**

1 www.sapref.com
2 www.portarthurrefinery.com

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**WHAT OTHERS SAY**

**External performance assessment**

**SAPREF**

“Based on my experience with the recent community survey, I believe SAPREF is concerned for the environment as this report suggests. However, when SAPREF says ‘two steps forward and one back’, the community sees one step forward and the spills as GIANT steps back. Hopefully the survey will tell them how much they need to do to get the community in their favour.”

Alona Johnson, Chairperson, Wentworth Youth Council and community survey team member

**Port Arthur**

“We are satisfied that Tom Purves’ article accurately reflects Motiva’s recent efforts in environmental and community stewardship.”

Motiva Enterprises Community Advisory Panel
Performance data

Economic key performance indicators

<table>
<thead>
<tr>
<th>Total shareholder return¹ 1994–2003</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>16.20</td>
</tr>
<tr>
<td>BP</td>
<td>15.39</td>
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<tr>
<td>ExxonMobil</td>
<td>13.27</td>
</tr>
<tr>
<td>Shell Transport</td>
<td>11.67</td>
</tr>
<tr>
<td>Royal Dutch</td>
<td>10.82</td>
</tr>
<tr>
<td>ChevronTexaco</td>
<td>10.77</td>
</tr>
</tbody>
</table>

¹ Total shareholder return is calculated as the total of stock appreciation and yield from reinvested dividends before taxes. The figures shown are based on quarterly reinvestment of gross dividends, expressed in dollars. Data for Total, ChevronTexaco and ExxonMobil before the effective date of their respective mergers were replaced by data from the acquiring entities.

Find out more

www.shell.com/annualreport

* www.shell.com/shellreport/data

(for complete data tables – 2002 acquisitions not assured in 2002)

Environmental key performance indicators

<table>
<thead>
<tr>
<th>Global warming potential</th>
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</thead>
<tbody>
<tr>
<td>Million tonnes CO₂ equivalent</td>
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</table>

Emissions up. Expect to make our 2010 target (5% lower emissions than in 1990) as energy efficiency programmes and investments to end continuous gas flaring by 2008 compensate for business growth. Higher 2003 emissions were mainly due to increased production and related flaring in Nigeria as OPEC quota restrictions were lifted.

Slightly below previous year. From 1994 to 2003, we outperformed national indices although our performance relative to competitors weakened slightly. In this period, dividends, an important component of shareholder return, grew faster than local inflation.

Oil Products

<table>
<thead>
<tr>
<th>Oil Products</th>
<th>Refinery Energy Index</th>
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<tbody>
<tr>
<td></td>
<td>133</td>
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Chemicals

<table>
<thead>
<tr>
<th>Chemicals</th>
<th>Chemical Energy Index†</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>99.7</td>
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Exploration and Production

<table>
<thead>
<tr>
<th>Exploration and Production</th>
<th>Gigajoule/tonne production</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.82</td>
</tr>
</tbody>
</table>

Target met in Oil Products and missed in Chemicals. Oil Products improved their Refinery Energy Index (REI) with significant gains made in the USA. They will develop plans to improve controls on the quality of their REI data in 2004.

Our Chemicals business uses a Chemical Energy Index (CEI)¹ to compare energy usage per tonne of product to a 2000 baseline (100) at selected sites. They saw improvement at some smaller sites, but have yet to see improvement at the major locations. Both businesses expect to meet their 2007 targets by continuing to roll out Energise™ (page 26).

Energy intensity in Exploration and Production increased by 16% in 2003 as the Athabasca Oil Sands Project came on line. Exploration and Production has recognised that managing energy efficiency is becoming more important as the energy intensity of its portfolio rises and has set a new energy efficiency target for 2004.

Overall, we used 9% more energy in 2003 than in 2002.
Performance data

Target met despite increased flaring in Nigeria as oil production rose. We continued to implement major projects to gather and sell the gas produced at oil installations. However, our goal of ending all continuous flaring by 2008 is looking increasingly challenging particularly in light of the many projects which have to be delivered for gathering associated gas in the difficult operating circumstances in Nigeria.

As a result of two years of hard work by our joint venture in Nigeria to improve our data quality, our auditors have confirmed that our total flaring data in Nigeria are now reliable. Further gas metering facilities will be installed in Nigeria during 2004 to complete the project.

WHAT OTHERS SAY

“I have served on an advisory panel to Shell Canada on its greenhouse gas management strategy for the last four years. I have been impressed by the commitment by the most senior management of the company to taking a proactive attitude toward climate issues and by their willingness to involve stakeholders in their decision-making process.”
David Runnalls, President and CEO, International Institute for Sustainable Development

“Excellence in environmental management is reflected in continuous strong performance in eco-efficiency. Moreover, Shell’s breadth and accuracy of data collection and reporting is unrivalled in the oil and gas industry.”
Niki Rosinski, Dow Jones Sustainability Index (DJSI) 2003

“It is difficult to see how Shell’s welcome recognition of the global threat posed by climate change squares with its policy to continue expanding oil and gas exploration and production.”
Tony Juniper, Executive Director, Friends of the Earth ‘The Other Shell Report 2002’

“I hope you will see that shareholder value will be enhanced by your approach... Please stay ahead of the competition. I am concerned about what the oil companies are doing to protect the environment and, having looked at this issue in some detail, there is no doubt that your company is a long way ahead.”
Tell Shell, UK

External perception of environmental performance

Aim achieved of scoring highest in our industry for ‘environmental responsibility’ for the second year in a row. More than a quarter of respondents, surveyed through the independent Reputation Tracker conducted in 18 major Shell markets, ranked us ‘the best’ or ‘one of the best’ companies in this area. Environmental responsibility remained one of the three most important factors in determining a company’s overall reputation.

Find out more

* www.shell.com/shellreport/data
(for complete data tables – 2002 acquisitions not assured in 2002)
Social key performance indicators

Diversity and inclusiveness

We use three key indicators to monitor our progress in creating a place to work that values people’s differences:

**Diversity targets**

Progress made towards our target to have women in 20% of our senior positions by 2008 (9.4% in 2003, up from 8.3% in 2002). More than a third of people we hired through our central recruiting process in 2003 were women.

Progress made, but target missed to be able to fill all senior Shell representative (Country Chair) positions in a country or group of companies with a local national. We succeeded for 84% of positions, up from 78% in 2002.

**Diversity and inclusiveness indicator**

Progress made. Results of the 2002 indicator were used to develop improvement plans. We will measure our progress again in 2004.

**Diversity and inclusiveness standard**

Progress made. By the end of 2003, nearly 90% of our operations were carrying out improvement plans and monitoring their performance in line with the standard.

In 2004 we will review our strategy and targets.

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**Fatalities – fatal accident rate**

<table>
<thead>
<tr>
<th></th>
<th>employees and contractors</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>99</td>
<td></td>
<td>6.9</td>
</tr>
<tr>
<td>00</td>
<td></td>
<td>8.2</td>
</tr>
<tr>
<td>01</td>
<td></td>
<td>5.2</td>
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<tr>
<td>02</td>
<td></td>
<td>6.3</td>
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<tr>
<td>03</td>
<td></td>
<td>5.4</td>
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</table>

Target is zero fatalities. We deeply regret that five staff and 40 contractors lost their lives at work in 2003, down from eight and 45 in 2002. This may not include all deaths from long-term occupational illness. More than half of fatalities occurred in Africa. Our pro-active driver safety programmes (page 13) helped reduce deaths from road accidents to 19 in 2003 (23 in 2002). We continued the implementation of ‘Hearts and Minds’ – a programme to instill constant awareness of safety risks.

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**Injuries – total reported case frequency (TRCF)**

<table>
<thead>
<tr>
<th></th>
<th>employees and contractors</th>
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</thead>
<tbody>
<tr>
<td>99</td>
<td></td>
<td>3.7</td>
</tr>
<tr>
<td>00</td>
<td></td>
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<td></td>
<td>2.3</td>
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<tr>
<td>04</td>
<td></td>
<td>2.4</td>
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<tr>
<td>05</td>
<td></td>
<td>2.0</td>
</tr>
</tbody>
</table>

Target met. Our best performance ever in our established businesses. Our safety programmes continued to result in improvements in all our major businesses. We will continue to improve the quality of the information we get to manage safety performance, especially from the contractors who transport our fuels in Africa. The data for our lubricants business in the USA, acquired in 2002, are available separately on our website*. Because this business only put in place Shell data reporting systems during 2003, we will have this data assured from 2004 onwards. We will include it in our 2004 target and make further efforts to improve its performance.

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**Gender diversity**

<table>
<thead>
<tr>
<th></th>
<th>Senior leadership</th>
<th>Management</th>
<th>Supervisory/Professional</th>
</tr>
</thead>
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<tr>
<td>00</td>
<td>9.8</td>
<td>9.9</td>
<td>17.1</td>
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<tr>
<td>03</td>
<td>90.6</td>
<td>88.9</td>
<td>80.5</td>
</tr>
</tbody>
</table>

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Find out more

* www.shell.com/shellreport/data
  (for complete data tables – 2002 acquisitions not assured in 2002)

1 www.shell.com/diversity
Aim achieved. In 2003, we maintained our lead in overall reputation over our main competitors. In most of the 18 major Shell markets surveyed in the 2003 Reputation Tracker, the general public judged our reputation to be better than local or international competitors. Responding to the recent concerns of the financial community, especially as a result of the restatement of our reserves, we are increasing efforts to communicate transparently and restore our reputation. We will measure progress in the 2004 survey.

### WHAT OTHERS SAY

“In 2003, we contributed to the second edition of Shell’s Management Primer on ‘Dealing with Bribery and Corruption’. We expect Shell will further develop this excellent tool and continue training its employees to ensure that its anti-corruption policies are well understood and adhered to throughout its operations. Very importantly, we also encourage Shell to make its standards known throughout its supply chain. As the energy sector continues to grow, we ask Shell to foster honest business practices in the communities in which it invests. We also urge Shell to continue its work toward making transparent the payments by the extractive industry to host governments.”

Transparency International

“As a member of the Global Road Safety Partnership, Shell works with the government, NGOs and business partners to deliver sustainable improvements in road safety in the developing world. Shell is committed to safe road transport and its expertise is shared with GRSP’s partners to deliver road safety benefits for all.”

David Silcock, Chief Executive, Global Road Safety Partnership (GRSP)

“I would like to know why you find it appropriate to lay-off thousands of workers worldwide and at the same time increase the pay cheques of all your top executives?”

Tell Shell, UK

When it comes to corruption, our policy is not to make or accept bribes or facilitation payments. We track our success in living up to this policy by asking staff confidentially in the Shell People Survey. In 2002, 78% said their Shell company was acting with integrity, putting us among high-performing global companies. We will survey staff again in 2004 and report the results.

In 2003, we continued to improve detection of bribery, which is always a challenge. Our companies in 109 countries now offer staff hotlines, whistle-blowing schemes and other confidential ways to report possible incidents, up from 70 in 2002. In more than 90 countries, there are formal procedures to prevent facilitation payments by staff, contractors and suppliers. Proven incidents of bribery are reported to the Group Audit Committee and published on page 27 to signal our seriousness in ending these practices. Staff found guilty of bribery are disciplined. 1

### Respect for staff

Progress made. In 2002, 78% of staff said they were ‘treated with respect’, up from 73% in 2000. This placed us among high-performing companies. In 2003, we worked hard to treat staff fairly and with respect as we integrated our 2002 acquisitions and reorganised our Exploration and Production business. We will survey staff again in 2004.

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1 [www.shell.com/integrity](http://www.shell.com/integrity)
Other milestones and data:

Economic

– Achieved net income of $12.5 billion.
– Invested $14.3 billion to maintain and grow our business and sold assets for $4.5 billion.
– Produced 1% less oil and gas (including oil sands), after divestments. Expect production for 2004 to remain broadly flat with a dip in 2005 before increasing again from 2006 onwards. 1
– Ranked top brand by motorists for the seventh year running.

Environmental

– Eliminated the continuous venting of gas from all our oil production operations.
– Launched Energise™ energy efficiency programme at seven Shell facilities in 2003, making 12 so far where the programme has begun. We aim to run Energise™ programmes at more than 40 major Chemicals and Oil Products facilities by 2008 to find profitable ways to improve energy efficiency and reduce releases of greenhouse gases. 2
– Paid $165 million 3 in regulatory health, safety and environmental fines, settlements and compensation in 2003, including $49 million in investment projects to improve environmental performance in our US refineries and $37 million for a 1999 gasoline spill and fire from the Olympic pipeline in Washington State. We are working to improve the definition and supporting controls to deliver reliable reporting. It is sometimes difficult to decide which fines and settlements are related to health, safety and environmental impacts. For example, we have not included a $49 million settlement we paid in 2003 to resolve a dispute about paying royalties associated with gas we flared or vented from 1975 to 1999 at Auger and other offshore production facilities in the Gulf of Mexico. In 2002, we reported all fines but only selected settlements.
– Had provisions in place at the end of 2003 of $972 million for environmental clean-up, and $4.0 billion for decommissioning and site restoration liabilities.

<table>
<thead>
<tr>
<th>Environment</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carbon dioxide (CO₂)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>million tonnes</td>
<td>90</td>
<td>92</td>
<td>95</td>
<td>100*</td>
<td>106</td>
</tr>
<tr>
<td>Methane (CH₄)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>456</td>
<td>398</td>
<td>315</td>
<td>241*</td>
<td>234</td>
</tr>
<tr>
<td>Volatile organic compounds (VOCs)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>499</td>
<td>538</td>
<td>372</td>
<td>379</td>
<td>294</td>
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<tr>
<td>Sulphur dioxide (SO₂)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>304</td>
<td>277</td>
<td>274</td>
<td>270</td>
<td>292</td>
</tr>
<tr>
<td>Nitrogen oxides (NOₓ)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>218</td>
<td>202</td>
<td>213</td>
<td>213</td>
<td>219</td>
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<tr>
<td>CFCs/halons/trichloroethane</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>tonnes</td>
<td>12</td>
<td>6</td>
<td>5</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>Oil in effluents to surface environment</td>
<td>3,284</td>
<td>2,803</td>
<td>2,879</td>
<td>2,462</td>
<td>2,375</td>
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<tr>
<td>Water use</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>million cubic metres</td>
<td>N/C</td>
<td>N/C</td>
<td>1,701</td>
<td>1,710</td>
<td>1,690</td>
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<tr>
<td>Waste</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hazardous</td>
<td>272</td>
<td>400</td>
<td>445</td>
<td>504</td>
<td>554</td>
</tr>
<tr>
<td>Non-hazardous</td>
<td>468</td>
<td>490</td>
<td>452</td>
<td>524</td>
<td>510</td>
</tr>
<tr>
<td>Total</td>
<td>740</td>
<td>890</td>
<td>897</td>
<td>1,028</td>
<td>1,064</td>
</tr>
</tbody>
</table>

N/C = not calculated

Find out more

www.shell.com/environmentalperformance

* www.shell.com/shellreport/data
  (for complete data tables – 2002 acquisitions not assured in 2002)
1 www.shell.com/annualreport
2 www.shellglobalsolutions.com/energise

Preparing pineapples for solar driers provided by the Uganda Energy Fund, a Shell Foundation and DFCU Financial partnership that supports local enterprises. The dried fruit is sold locally and in the UK.
Social

Health and safety

– Implemented our Minimum Health Management Standards for more than 85% of our staff and aim to implement it for the rest in 2004. This means we will be managing occupational health with the same systems and rigour that we currently manage safety and environmental impacts.
– Implemented the recommendations made by our independent Animal Testing Review Panel in 2002. The panel continues to review our testing activities and publish its findings.

Economic benefits to society

– Collected more than $67 billion in sales taxes and excise duties and paid nearly $9.6 billion in corporate taxes and $1.7 billion in royalties to the budgets of the countries where we operated, 20% more than in 2002.
– Spent $5.2 billion in 2003 on goods and services from locally-owned companies in the developing world, more than half our total spend in those countries.
– Invested $102 million in social investment programmes, up from $96 million in 2002, the largest in the USA and Nigeria.
– Committed to having social performance plans in place at all major Oil Products and Exploration and Production sites by end 2004. Plans were put in place at all Chemicals plants in 2003. These plans guide our efforts to engage with stakeholders, reduce disruptive social impacts and generate benefits for the communities where we operate.

Sustainable development in the supply chain

– Actively promoted the use of local suppliers and contractors in 74 developing countries.
– Further integrated environmental and social considerations into our revised contracting and procurement processes.

Living by our Business Principles

– Continued raising the skills of our staff for managing human rights issues. For example, we tested our tool to help managers assess the human rights risks and performance of their operations in Oman, to prepare it for wider use.
– Needed to have armed security at our operations in 29 countries. This is more than in 2002, mainly as a result of concerns about terrorism and rising crime.
– Provided staff in all countries where we operated with access to staff forums, grievance procedures, or other support systems.
– Continued our ban on making political payments.
– Ended a joint venture and 49 contracts due in part to concerns about their willingness to operate in line with our Business Principles.

Find out more

www.shell.com/shellreport/data (for complete data tables)
1 www.shell.com/healthstandard
2 www.shell.com/animaltesting
3 www.shell.com/humanrights
4 www.shell.com/security

WHAT OTHERS SAY

“Shell’s official commitment to human rights and sustainable development definitely provides a new strategic framework for it to think about its obligations towards host communities. However, it will require more independent research on the ground to know the degree to which these pro-human rights policies have become a normal part of being a Shell employee rather than just the responsibility of external affairs.”
J. Paul Martin, Executive Director, Center for the Study of Human Rights, Columbia University

“I have worked with Shell on social performance in three locations and can say that the Company has made significant progress in understanding communities’ issues and how to engage them in constructive dialogue. The progress nevertheless is often uneven from location to location. Much more work is required to make it uniform.”
Moustafa A. Mourad, Community development specialist and former director at The Enterprise Foundation

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Moustafa A. Mourad, Community development specialist and former director at The Enterprise Foundation

Social

| % of countries (unless otherwise stated) |
|---|---|---|---|---|---|
| 1999 | 2000 | 2001 | 2002 | 2003 |

Unions

<table>
<thead>
<tr>
<th>Union membership</th>
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<tbody>
<tr>
<td>estimated % employees</td>
</tr>
<tr>
<td>involve unions in negotiations</td>
</tr>
</tbody>
</table>

Child labour†

Checking to ensure procedures in place to prevent use of child labour

| own operations | 82 | 84 | 89 | 86 | 78 |
| contractors | 46 | 51 | 57 | 56 | 57 |
| suppliers | 30 | 31 | 41 | 42 | 50 |

Business integrity

Reported cases of bribery* | 5 | 5 | 5 | 4 | 8 |

N/C = not calculated
† Prior to 2003 we asked if procedures existed, not if they were actually enforced.
* Proven cases of bribes paid or accepted by Shell employees, contractors or intermediaries. Prior to 2003 may also include offers of bribes.
Assurance and basis of reporting

Assurance report
To Royal Dutch Petroleum Company and the “Shell” Transport and Trading Company, p.l.c.

Introduction
We have been asked to provide assurance on selected data, graphs and statements of the Royal Dutch/Shell Group of Companies (the “Group”) contained in The Shell Report 2003. The Shell Report is the responsibility of management. Our responsibility is to express an opinion on the selected data, graphs and statements included below based on our assurance work performed.

Assurance work performed
For the safety and environmental parameters identified with the symbol on pages 22 to 26, we obtained an understanding of the systems used to generate, aggregate and report the data for these parameters at Group, Business, Zone and Operating Unit level. We assessed the completeness and accuracy of the data reported in respect of 2003 by visiting Operating Units to test systems and review data. We assessed data trends in discussion with management. We tested the calculations made at Group level. We also completed assurance procedures on the Refinery Energy Index and reported our findings to management.

For the Sakhalin Location Report on pages 16 and 17 we visited the location to inspect documentary evidence and held interviews with Business and in-country management and with three major Russian contracting companies to understand and test the systems, procedures, and evidence in place supporting the assertions and matters discussed within this Location Report. We also performed assurance procedures in relation to China West-East pipeline project and reported our findings to management.

We read the whole Report to confirm that there are no material inconsistencies based on the work we have performed.

Basis of opinion
There are no generally accepted international environmental, social and economic reporting standards. This engagement was conducted in accordance with the International Standards for Assurance Engagements. Therefore, we planned and carried out our work to provide reasonable, rather than absolute, assurance on the reliability of the selected data, graphs and statements that were subject to assurance. We believe our work provides a reasonable basis for our opinion.

Considerations and limitations
It is important to read the data and statements in the context of the basis of reporting provided by the management as set out below and the notes below the graphs. Environmental and social data and assertions are subject to more inherent limitations than financial data, given both their nature and the methods used for determining, calculating or estimating such data.

Our assurance scope is limited to those specific matters mentioned in our opinion below. We have not provided assurance over the contents of the entire Shell Report 2003, nor have we undertaken work to confirm that all relevant issues are included. In addition, we have not carried out any work on financial and economic performance data and data reported in respect of future projections and targets. Accordingly, no opinion is given in respect of them. Where we have not provided assurance over previous years’ data this is clearly disclosed. We have not performed work on the maintenance and integrity of information from The Shell Report published on the Group’s website.

To obtain a thorough understanding of the financial results and financial position of the Group, the reader should consult the Group’s audited Financial Statements for the year ended 31 December 2003.

In our opinion:
– The safety and environmental historical data and graphs (together with the notes) on pages 22 to 26, marked with the symbol , properly reflect the performance of the reporting entities for each of these parameters;
– The assertions and matters discussed in the Sakhalin Location Report, on pages 16 and 17, are fairly described and supported by underlying documentary or other evidence.

22 May 2004

KPMG Accountants N.V. The Hague

PricewaterhouseCoopers LLP
London

Basis of reporting
The following information has been prepared by management to explain how the Report has been put together.

Reporting scope
– The financial data are aggregated from Group companies, together with partnerships, joint ventures and other interests using the accounting principles used in the Group’s financial statements [see www.shell.com].
– The HSE data are aggregated from all companies, partnerships, joint ventures and other interests that are under Shell’s operational control plus a number of companies to which Shell companies provide operational services, unless otherwise specified. We report these HSE data on a 100% basis even where the Group’s interest is less. In the case of Chemical Energy Index (CEI), reporting is based on a selection of Chemical Units only. HSE data reported are based on our global “HSE Performance Monitoring and Reporting” guideline [see www.shell.com/enviromonitoring/guidelines where you can also find separate guidelines on CEI and REI reporting and a list of reporting entities].
– The remaining data are aggregated from all companies, partnerships, joint ventures and other interests either under Shell’s operational control or where the Shell entity is responsible for the activities concerned.

Data from companies that were disposed of or acquired during the year are generally included only for the period that companies were under operational control. Data from Shell Oil Products US Lubricants, an acquisition made in late 2002, are only shown for TRCF as it represents a significant contribution to the Group data [see www.shell.com/shellreport/data].

Comparability and limitations
The comparability of data is affected by changes to the portfolio of reporting entities, by changes in the methodology for determining certain data and improvement in information systems. During 2002, acquisitions made a material difference to the HSE data we reported. This year we report comparative 2002/2003 portfolios for all parameters, except TRCF [see Reporting Scope above]. The 2002 data shown in the Report were not assured in full as the 2002 acquisitions were excluded from the assurance scope [see www.shell.com/shellreport/data for the split of 2002 data]. Although we are confident in the overall reliability of the data reported, we recognise that some of these data are subject to a degree of uncertainty that relates with, for example:
– Different interpretation of reporting guidelines – e.g. health and safety data may be affected by local interpretations, cultures and practices and laws.
– Measuring, calculating or estimating the data – e.g. methods and measurement techniques used to determine environmental and safety data carry limitations in respect of accuracy.

It is important to read the data and statements in the context of the basis of reporting provided by the management as set out below and the notes below the graphs. Environmental and social data and assertions are subject to more inherent limitations than financial data, given both their nature and the methods used for determining, calculating or estimating such data.

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22 May 2004

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PricewaterhouseCoopers LLP
London
The Shell Report is part of our continuing
assessments for other location reports.
Independent panels, community members
or experts have provided performance
assessments for other location reports.
The Shell Report is part of our continuing
dialogue with stakeholders. Throughout,
in the ‘What others say’ boxes, you can
find their uncensored views, including a
representative sample of the e-mails sent
to ‘Tell Shell’.

WHAT OTHERS SAY

Tell us what you think
Share your views at tellshell@shell.com
or write to us (addresses on back cover).

Find out more
This year’s shorter Shell Report is supported
on the internet by additional performance
data and detailed discussions of our
approach to sustainable development and
related issues. Web links on each page
and on the back page show where to find
this information.

Find out more
1 www.shell.com

<table>
<thead>
<tr>
<th>Guide to contents</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 Message from the Chairman</td>
</tr>
<tr>
<td>3 The year at a glance</td>
</tr>
<tr>
<td>4 About Shell</td>
</tr>
<tr>
<td>5 Sustainable transport</td>
</tr>
<tr>
<td>14 Issues</td>
</tr>
<tr>
<td>16 Location reports</td>
</tr>
<tr>
<td>28 Assurance and basis of reporting</td>
</tr>
<tr>
<td>29 Find out more</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other links</th>
</tr>
</thead>
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<tr>
<td>Specific locations</td>
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<td>Norway</td>
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<td>Sakhalin</td>
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<td>SAPREF</td>
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<td>Cleaner burning fuels</td>
</tr>
<tr>
<td>Gas to Liquids</td>
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<td>Hydrogen</td>
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<tr>
<td>Road safety</td>
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<td>Environmental scenarios</td>
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<td>Wind</td>
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<tr>
<td>Downloads</td>
</tr>
<tr>
<td>Translated Shell Report</td>
</tr>
<tr>
<td>Annual Reports</td>
</tr>
<tr>
<td>Local reports</td>
</tr>
<tr>
<td>Details on reporting</td>
</tr>
<tr>
<td>Data tables</td>
</tr>
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<table>
<thead>
<tr>
<th>Find out more</th>
</tr>
</thead>
</table>
| You can see this report online at www.shell.com/shellreport. The ‘About Shell’
website also provides further details on many of the issues discussed in the report
and on other relevant topics. See www.shell.com/envandsociety for:  |

| Our commitments, policies and standards  |
| Shell General Business Principles  |
| Commitment to Sustainable Development  |
| HSE Commitment and Policy  |
| Diversity and Inclusiveness Standard  |
| Environmental Minimum Standards  |
| Social, Environmental and Health Impact Assessment  |
| Biodiversity Standard  |
| Minimum Health Standards  |
| Animal testing Standard  |
| Security Standard  |
| Management principles  |

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<thead>
<tr>
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<tbody>
<tr>
<td>Our position on key issues and topics</td>
</tr>
<tr>
<td>Animal testing</td>
</tr>
<tr>
<td>Biodiversity</td>
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<tr>
<td>Business integrity</td>
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<tr>
<td>Climate change</td>
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<td>Coal and crude proves</td>
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<td>HN and AIDS</td>
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<td>Payments to governments</td>
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<tr>
<td>Politically sensitive regions</td>
</tr>
<tr>
<td>Product stewardship – dealing with legacies</td>
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<tr>
<td>Sustainable transport</td>
</tr>
<tr>
<td>Water use</td>
</tr>
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</table>

| Making it happen |
| Our approach  |
| Creating business value  |
| Embedding sustainable development  |
| Environment  |
| Society  |
| Working with stakeholders  |

| Case studies |
| Our performance  |
| Economic  |
| Environmental  |
| Social  |
| Reporting and assurance  |
| Our approach to reporting  |
| Our latest performance report  |
| Local reports  |
| External assurance and performance assessment  |
| Reporting against the UN Global  |
| Compact Principles  |

| The Shell Report 29 |