

Profits and Principles – does there have to be a choice?



Front cover picture

This picture captures the vulnerability of life; of communities moving and changing as they go. It serves to emphasise the respect, care and sensitivity which companies, governments and all other influential bodies must exercise. And for us, it also illustrates our fundamental belief that we do not have to choose between profits and principles.

The picture shows a herd of caribou (*Rangifer tarandus*) crossing a tundra pond.

Cover photograph ©B&C Alexander.

1

We care about
what you think of us.

We want you to know
more about how we work
and how we strive to live
up to our principles.

This report is part of a
dialogue, and we will
continue to seek your views.

Introduction

This Report is about values.

It describes how we, the people, companies and businesses that make up the Royal Dutch/Shell Group, are striving to live up to our responsibilities – financial, social and environmental. It is also an invitation to you to tell us what you think of our performance, and in this way participate with us in the global debate about the role and responsibilities of business.

The following pages also relate the feelings and determination of over 100,000 people in the Shell Group who are dealing with profound change as they rise to the challenge of making the Group more efficient and competitive – in a way that conforms to the core values which have been the bedrock of the Group since it was founded.

It is a matter of pride and reassurance to us that throughout the years these core values have endured. They represent an unshakeable foundation on which to build at a time when society has rising expectations of business.

Debating expectations

Multinationals have been criticised as being overly concerned with profit and failing to take their broader responsibilities seriously: to defend human rights, to protect the environment, to be good corporate citizens.

Such accusations reflect a shift in what society expects of both business and government. Some commentators argue, for example, that the privatisation of traditionally state-run companies transfers power from government to the private sector. An opposing view holds that governments are merely realising that business and civil society can perform these functions better.

This debate is taking place in the context of a fast-changing world, characterised by global communications and diminishing respect for established authority, professions and social frameworks – a form of moral vacuum in which fear and doubt prosper. Faced with such uncertainty, people are withdrawing their trust in traditional institutions unless it can be demonstrated that such faith is warranted – what has been called a move from a 'trust me' to a 'show me' world.

Clearly, the forces of globalisation, rapid improvements in technology and dramatic changes in world order have caused considerable confusion over exactly what is – and is not – expected of business. Should it play a bigger role in society, by providing infrastructure and social services where government does not, and then face accusations that it is interfering or buying influence? Or should it concentrate on what it does best: serving its customers and getting the best return for shareholders?

Searching for answers

Answers are not always easy to find, but managers who run a business in this uncertain world have no choice but to make difficult decisions in the face of complex dilemmas.

We were all shaken by the tragic execution of Ken Saro-Wiwa and eight Ogonis by the Nigerian authorities.

We were ill-prepared for the public reaction to plans to dispose of the Brent Spar off-shore storage buoy in deep water in the Atlantic.

We believe that we acted honourably in both cases. But that is not enough. Clearly, the conviction that you are doing things right is not the same as getting them right. For us at least, this has been a very salutary lesson.

We were ready to learn from experiences, however painful, because of a planned process of change begun in 1994. It represented the most thorough and far-reaching review for over 30 years – our Transformation. Nothing was sacrosanct and fundamentals were questioned: the structure, the way business is done, the quality of leadership, relationships with people and our vision of the future.

One element of the Transformation involved a worldwide programme through 1996 of conversations with people to understand society's expectations of multinational companies, and another to explore the reputation, image and overall standing of the Group. This involved 7,500 members of the general public in 10 countries and 1,300 opinion leaders in 25 countries. We also interviewed 600 Shell people in 55 countries.

The news was both good and bad. Half of the general public and opinion leaders had a favourable view of Shell, while 40% were neutral and 10% had an unfavourable opinion of us. Shell was thought to be wanting in its care for the environment and human rights by a small but significant group of people.

We had looked in the mirror and we neither recognised nor liked some of what we saw. We have set about putting it right, and this report is a small manifestation of widespread action taking place across the Group.

This report is about values.

Economic responsibilities

The Royal Dutch/Shell Group is commercial in nature and its primary responsibility has to be economic – wealth generation, meeting customer needs, providing an acceptable return to investors, and contributing to overall economic development.

But there is also an inseparable responsibility to ensure that our businesses are run in a way that is ethically acceptable to the rest of the world and in line with our own values. Equally important, we must show we are doing so, by providing independently verified assurance. This approach is absolutely fundamental to the health of business.

We realise too that we must be part of the debate in order to learn from others, explain our actions and put our point of view forward. We may not always get it right but we do strive at all times to be good corporate citizens. We have a proud history of social responsibility and we want to build on that.

Much of what follows addresses the Statement of General Business Principles. This is our code of conduct to help those having to make difficult decisions. There has been a formal set of Principles since 1976 and the latest in a number of updates was completed in 1997 to take account of changes in society and world views.

The Principles show that we are very serious about our responsibilities to society at large, our shareholders, employees, customers and those with whom we do business.

Profits versus principles

This assertion is easy to make and hard to substantiate in a short publication, but we are determined to try. This is a first attempt at what will be an annual report. We will get better at it as we learn.

Success is almost entirely dependent on the heart-felt approval of all those in the Shell Group, and on how well we can equip ourselves with the right tools to tackle the many challenges which await us.

This is why part of our plans for improvement involves the development and integration of new processes and thinking to help us better manage our social and ethical responsibilities, measure performance and report regularly.

It is a big step for the Group. Shell companies are, in effect, reinforcing their global undertaking to society to live by their Business Principles and to be judged by their performance.

This undertaking may well be unique in a Group of our size and complexity. We are proud to play a leading role and we are confident that the Group, with its experience and global capacity, has much to offer.

We also know that we need to listen to others very carefully and therefore we would appreciate your advice. 'Tell Shell' reply cards are provided in the Report for you to send us your views on issues that concern big business and on the Report itself. Your comments will be taken into account and published on our website, if you so wish.

We hope, through this Report and by our future actions, to show that the basic interests of business and society are entirely compatible – that there does not have to be a choice between profits and principles.

Contents

Where to find what

Living up to our Principles

Pages 5-30

Look here for detailed evidence of how the Statement of General Business Principles is put into practice. We argue our approach and support it with examples from Shell businesses. A copy of the Statement of General Business Principles booklet is provided for reference in the 'Tell Shell' reply envelope at the back of this Report.

'Tell Shell' reply cards

Between pages 30-31

Your opportunity to tell us what you think of this Report and your views on a range of issues typical of those faced by managers of multinational companies. Fill in the cards and return them in the post-paid envelope or use our website.

Issues & Dilemmas

Pages 31-45

Find our view on significant global issues affecting society and the environment, and read about some of the dilemmas facing Shell managers.

Contributing to society

Pages 46-47

John Elkington, chairman of SustainAbility, looks at alternative ways to measure what Shell contributes to society across the three components of sustainable development.

Message from the Chairman and Road Map

Pages 48-51

Cor Herkströter, Chairman of the Committee of Managing Directors (CMD), of the Royal Dutch/Shell Group, looks to the future and gives a detailed Road Map of the Group's plans to manage and measure our contribution to sustainable development and social accountability. Look here for targets and timetables.

Auditors' Report

Page 52

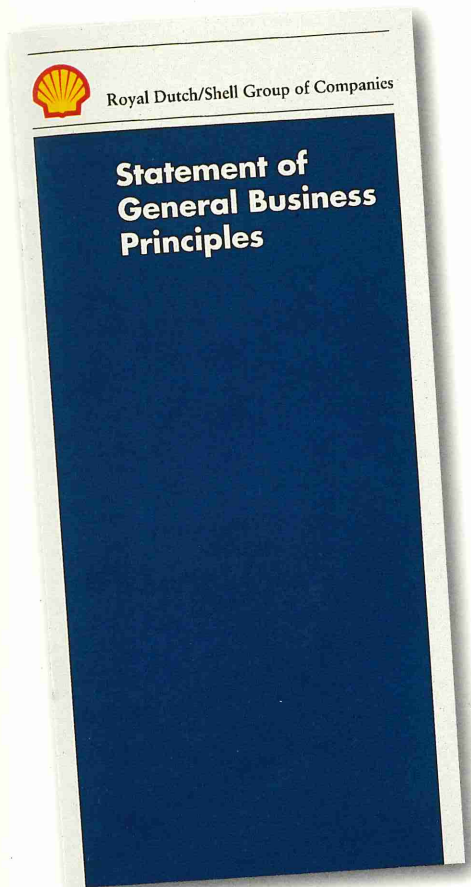
Annex

Pages 53-56

Find supporting detail here, including a description of the Group's businesses and how to contact us.

Reply envelope

Living up to our Principles



The Royal Dutch/Shell Group has a set of Principles which applies to all of our business affairs and describes the behaviour expected of every employee. The Principles are rooted in our core values of honesty, integrity and respect for people. We believe in the promotion of trust, openness, teamwork and professionalism, and in pride in what we do.

There has been a formal Statement of General Business Principles since 1976. This has been updated periodically, most recently in 1997 after extensive consultations with interested parties around the world. Relatively few changes were made, mainly because the core values on which the Principles were originally based have endured. The revisions reflect heightened public interest in human rights issues – we are the first major energy company to support publicly the United Nations Universal Declaration of Human Rights – and the emergence of the concept of sustainable development.

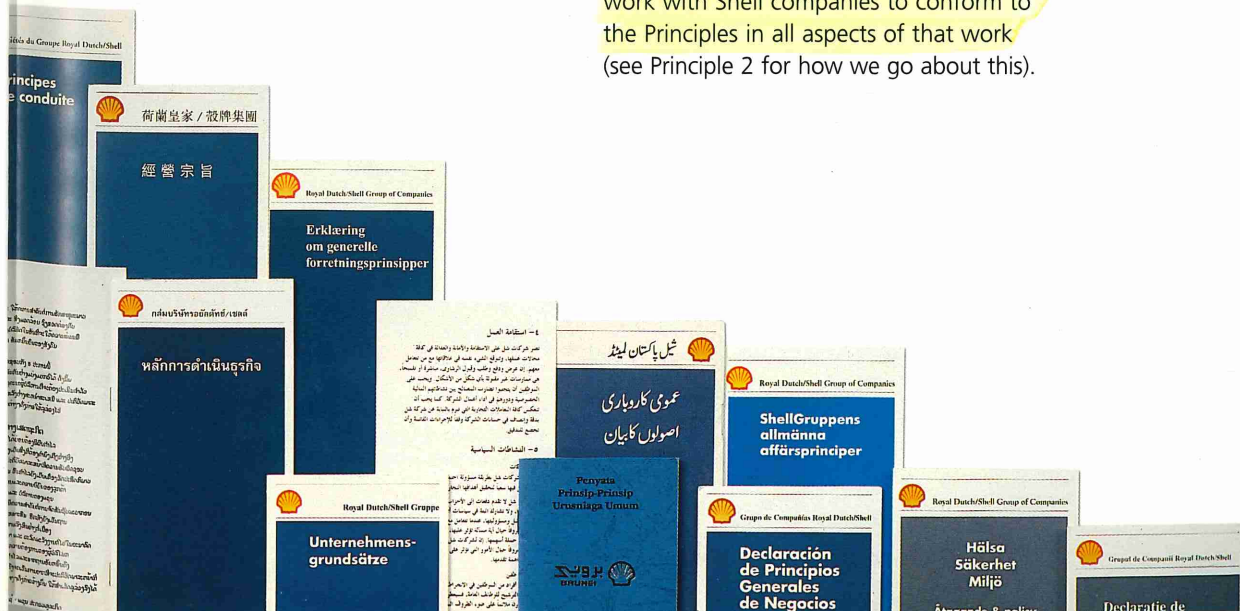
All Group companies are expected to comply with the Principles as a matter of course. In joint ventures we use our influence to persuade our partners to adopt and apply principles consistent with ours. We also expect contractors in their work with Shell companies to conform to the Principles in all aspects of that work (see Principle 2 for how we go about this).

This section attempts to show the extent to which our Principles work in practice. Where possible we provide objective evidence to support our claims using data from the Shell Report Survey Results (see Annex, page 56). This is indicated throughout this Report by:

This data has not been verified by the auditors.

We are developing management systems designed to enable future reports to include increasingly verifiable measures of the performance of Shell companies against the Principles (see Road Map, pages 49-51).

The Statement of General Business Principles has been translated into 34 languages, which cover the local languages of more than 96% of Shell employees, and of partners and contractors in 102 countries.



Living up to our Principles

Putting theory into practice

A Social Responsibility Committee was set up in 1997 consisting of six members of the Boards of the Parent companies of the Shell Group, three from Royal Dutch Petroleum Company and three from The "Shell" Transport and Trading Company, p.l.c. The role of the Committee is to review the policies and conduct of Shell companies with respect to the Business Principles, the Group Health, Safety and Environment Policy and Commitment, as well as major issues of public concern.

Specific commitments are made in the Business Principles to sustainable development and human rights. It is easy to talk about these issues but a lot more challenging to apply the theory in the field. Real progress will only be made by working together with others in a process that learns from experience and best practice. But Shell companies have made a start and are beginning to make headway on some day-to-day practicalities.

We have published an introductory guide for managers on human rights. Written with the help of independent experts, this booklet aids the understanding of human rights, its history, vocabulary and the dilemmas that a belief in such rights can pose. It will help Group companies better identify their roles and responsibilities in supporting human rights and forms part of an awareness programme designed to help managers deal with these issues in their work.

We are developing a detailed and practical guide on how to make oil and gas production more sustainable. Topics include:

- Tools and techniques to contribute to sustainable development: their relationship with existing management systems; checklists for projects; health and social impact assessments; life cycle assessments; full-cost accounting.
- Case studies on how to get started, from Shell companies in Canada and Peru; policy making; target setting; consulting with stakeholders; minimising impact on health, social structures and the environment; building social capital.

Embedding key policies

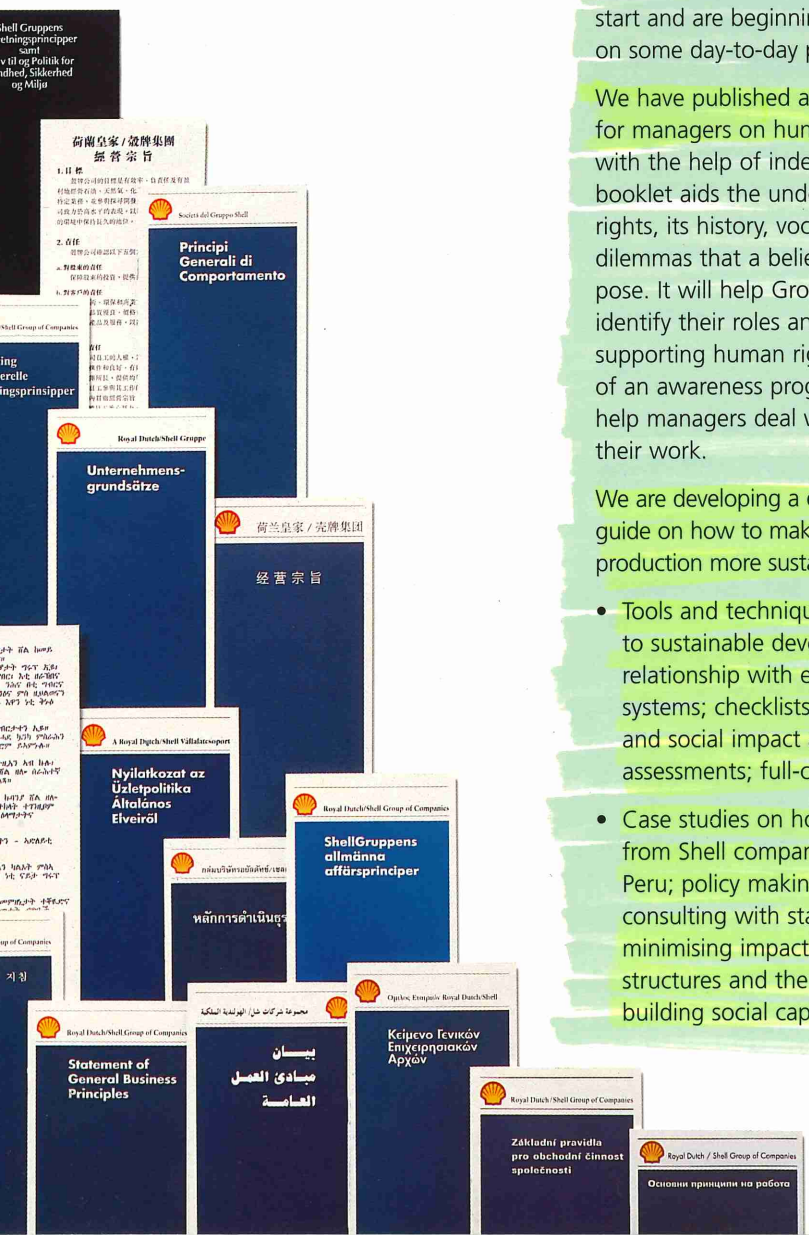
Company policies are of value only when there are rigorous procedures to make them work in practice. This section concentrates on implementation in key areas of the Statement of General Business Principles, in particular Business Integrity and Health, Safety and Environment (HSE).

Every year managers of Shell companies are required to sign letters covering performance in each of these areas. These provide confirmation to the Directors of the Group Holding Companies that the policies have been adopted and that procedures are being or have been implemented to ensure compliance.

Submission of the letters is a responsibility of the senior managers of Shell companies worldwide. Their responsibility is taken very seriously. Senior managers are encouraged to discuss their letters with their own management teams, and many ask their own team members to sign similar letters on a cascade basis.

Managers who sign the letters are held personally responsible for their content. Performance is monitored as part of the reward and career progression processes. The provision of false information or failure to reveal the truth is regarded as a very serious disciplinary matter and can lead to dismissal.

This process has evolved over the past two decades; it is as follows.



Letter of Representation

The Letter of Representation was first introduced in 1978. The letters are signed by the Chief Executive and Chief Financial Officer of Shell companies. They contain a number of assurances which include confirmation that business is carried out with integrity, according to Principle 4 (see page 20), and which are submitted in respect of all Shell companies. They are also a declaration by management as to the effectiveness of sound financial controls, the proper recording of transactions, and any instances of bribes or illegal payments.

The letters are in standard format and any exceptions or other matters reported are summarised and reviewed by the Group Audit Committee.

The process is reviewed by the External Auditors who report the results of their review to the Group Audit Committee.

The letters also support the representations made by the Directors of the Group Holding Companies to the External Auditors prior to completion of the annual Financial Statements of the Royal Dutch/Shell Group of Companies.

Health, Safety and Environment letter

A common HSE policy has been formally adopted by Shell companies, and all companies are committed to setting up a formal HSE management system by the end of 1999.

The HSE letter was introduced within the Group as public concern about HSE issues increased and is submitted by the Chief Executive of individual companies. It is designed to give assurance that the necessary management procedures, including systems and audits, are in place to ensure knowledge, understanding and implementation of the policy.

Adoption of the common HSE policy is being verified, along with certain performance data, and will be reported on by External Verifiers in the Group HSE Report and those of the major Businesses to be published in June 1998.

Business Principles letter

Following the update of the Statement of General Business Principles completed in 1997, the Boards of all Group Companies were invited to adopt the revised Business Principles as their own company policy, and to confirm their adoption in writing to the Chairman of the Committee of Managing Directors.

Confirmations covering Group companies in 125 countries have been received.

A number of confirmations are still outstanding, in most cases because the board meeting has not yet taken place.

In addition, a new annual letter, the Business Principles letter, has now been introduced.

These letters are from the Country Chairmen* and are intended to cover all Shell companies worldwide. They are designed to confirm that the necessary procedures have been put in place to ensure that the spirit is understood by employees and that the Principles are being implemented.

The letters do not have a standard format. Country Chairmen have been asked to cover a number of specific issues and have been encouraged to give as much detail as possible on how the procedures are being put into effect.

The letters received are being summarised and a report on the responses will be made to the Directors of the Group Holding Companies. Each signatory of a letter will have a formal meeting with the relevant Regional Managing Director, either directly or through a senior executive, to discuss plans for implementing and applying the Principles over the coming year. It should form the basis for action over the coming year, before the whole exercise is repeated on an annual cycle.

The deadline for the return of these letters has not permitted a full analysis in this report but a preliminary examination shows:

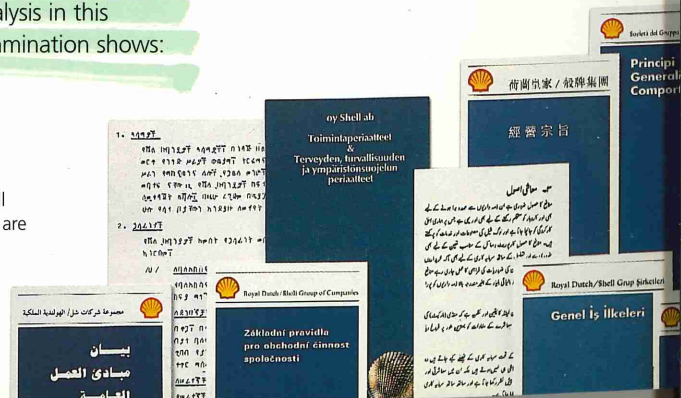
- A total of 127 Business Principles letters have now been received out of 129.
- The extent of the implementation already achieved is encouraging and is illustrated by extensive communications and awareness training programmes, and workshops with employees on the application of the Principles in the local environment.

We are keen to explore further the acceptance of these Business Principles in areas where operational control or financial authority does not vest in a Shell company exclusively – for example in joint ventures.

Independent verifiers have been requested to review the assertions set out above with regard to the process for the adoption of the revised Statement of General Business Principles. Their report is included on page 52.

Note: There is a considerable amount of overlap in the areas covered by the different Principles. We have chosen those aspects which we feel are pertinent under each Principle. If you would like to comment on our approach, please use the 'Tell Shell' reply card 9.

* In each country where Shell companies operate, one person acts as the 'representative' of Shell Group companies generally. This person is called the Country Chairman when several businesses are operating in a country, and is called the Shell Representative when only one business is present.



Living up to our Principles

Principle 1 Objectives

The objectives of Shell companies are to engage efficiently, responsibly and profitably in the oil, gas, chemicals and other selected businesses and to participate in the search for and development of other sources of energy. Shell companies seek a high standard of performance and aim to maintain a long-term position in their respective competitive environments.

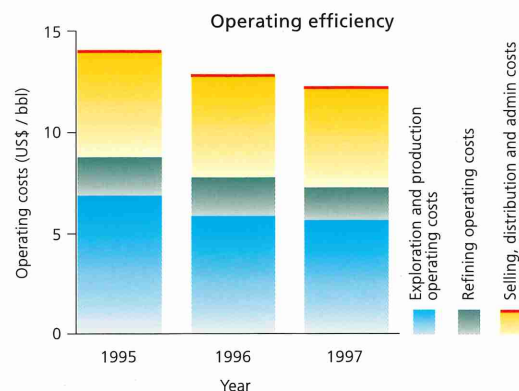
Acting responsibly

Shell companies have responsibilities to a wide range of interested parties, such as shareholders, employees, customers and others in society. And the responsibilities relate to our financial, environmental and social impacts on each of these groups. Living up to their expectations demands a long-term perspective, embraces many non-financial considerations, and calls for balance when requirements conflict. Our approach to these responsibilities is a main theme of this report.

Operating efficiently

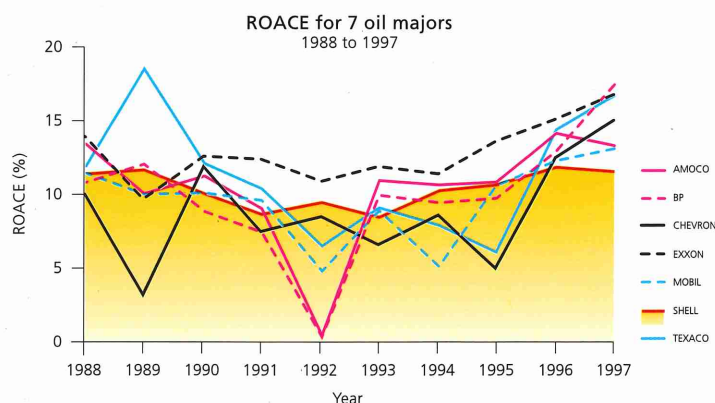
The efficiency of a business can be gauged in many ways, for example, by how well its employees perform (total staff hours per barrel of oil produced or sold); how low its costs are (costs per barrel, see graph); how much value it adds to the world's economy; and how eco-efficient it is. Eco-efficiency refers to the provision of goods while progressively reducing the environmental impact of their lifecycle to sustainable levels.

The choice of measure depends largely on the perspective of those who are judging. Financial measures are better established and are the most general, they enable investors to compare the performance of different businesses, and to be assured that their capital is being used as efficiently as possible. A traditional efficiency measure among investors is how well a company uses its capital and assets, such as Return On Average Capital Employed (ROACE) – how much money is made from the money invested.



The Group finds ROACE useful in judging the economic efficiency of operations worldwide. Their aggregated performance over the past 10 years is shown in the graph below, compared with the average for the oil sector.

The Shell Group is bottom when compared with the main competitors, and the performance gap widened in 1997. This can be explained, in part, by the mix of businesses that make up the Shell Group and in part by the holding of large cash reserves. The Group is determined to improve its performance and have committed to deliver a minimum of 13% ROACE in 1998 and 15% by the year 2001, based on an oil price of US\$ 18 per barrel. It will be tough to achieve, but we will continue to make better use of our existing assets and cash reserves and to invest in areas of growth.



Making a profit

By most measures the Shell Group has been a leader in total profit (see Principle 2, responsibility to shareholders). Profits are essential to sustain a private business: without profits to re-invest, a business ceases to exist and contributes nothing. They also enable us to fulfil our social and environmental obligations (see Principle 3). Our Principles aim to ensure that profits are both fairly earned and well used.

Other sources of energy

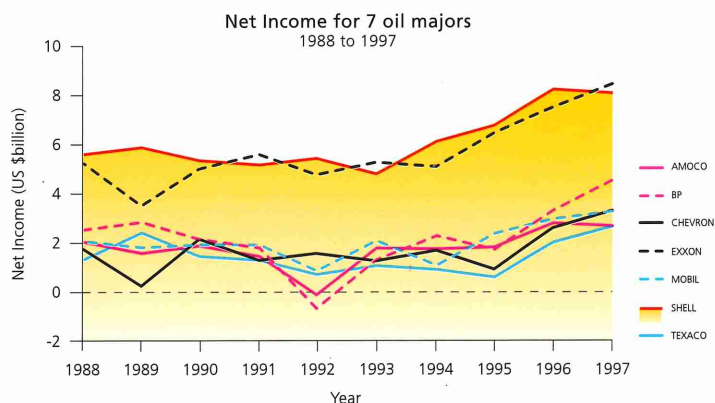
The Group's new business Shell International Renewables, aims to be a major force in commercial renewable sources of energy, which we see as gaining a 5 to 10% share of the world energy markets by 2020 (see Renewables, page 44).

Shell companies have invested in the development of biomass (plant matter) and solar energy for the past 20 years. We have tree plantation interests in Argentina, Chile, Congo, New Zealand, Paraguay and Uruguay. We have played a lead part in the development of sustainable forestry standards and the use of wood as a clean source of renewable energy.

In 1997 we committed US\$ 500 million over five years on investments in renewable energy technologies, especially those that exploit solar power and biomass. We aim to achieve a 10% share of the photovoltaics market by 2005.

This investment is small compared with the US\$ 1 billion which Shell companies spend each year exploring for oil and gas, but we see it as significant when compared with other commercial investments in new sources of energy. Renewables are now one of our core areas of business and demonstrate our intention to invest in areas of sustainable growth.

We are, however, cautious in our approach. Solar power, for example, needs to become five times less expensive if it is to compete in the electricity market at today's prices. Continued research and development is essential. Besides, other forms of energy are emerging which might overtake current technologies. We want to be in a position to take advantage of any investment opportunities that arise.



A bright future from biomass fuel

By the middle of the next century biomass fuel could be supplying as much electricity as oil and gas does today.

Shell companies are exploring the potential to supply small communities with electricity from wood grown in plantations nearby. Specially developed trees would be grown and harvested according to sustainable forestry practices. The wood would be turned into gas in specially designed gasifiers, and then converted by a gas engine and a generator into electricity.

Burning wood – and growing more to replace it – does not increase the net concentration of carbon dioxide (CO₂) in the atmosphere, because the trees absorb as much CO₂ when growing as they release when burnt.

A typical 140 kiloWatt biomass system could supply a village of 50 families with all their electricity needs, including refrigeration for essentials such as medicines. The system can also provide heat for small-scale industrial uses, such as drying farmed crops.

A wood-based system can be used in conjunction with solar collectors, in what we call a Sun Station (see Renewables, page 44).

Solar in the home

Shell Solar provides one of the most reliable and long-lasting solar home systems available. The 50 Watt system has been designed for simple and easy operation in remote locations and is supplied as a complete kit ready to be installed. In a sunny climate it can provide enough electricity to run a household's lights, radio and television.

Living up to our Principles

Principle 2 Responsibilities

Shell companies recognise five areas of responsibility:

To shareholders

To protect shareholders' investment, and provide an acceptable return.

To customers

To win and maintain customers by developing and providing products and services which offer value in terms of price, quality, safety and environmental impact, which are supported by the requisite technological, environmental and commercial expertise.

To employees

To those with whom they do business

To society

Protecting shareholders' investment

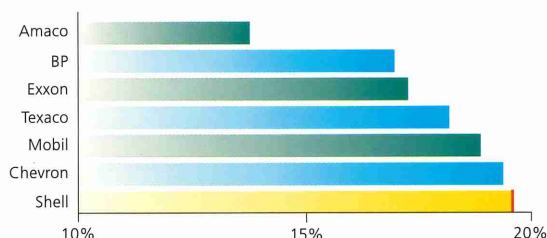
As a minimum, Shell companies comply with all legal controls governing the way companies conduct their financial affairs. These are designed to protect the interests of shareholders and other investors.

We are also committed to good corporate governance – ensuring that companies are properly directed, supervised and controlled – and we do our utmost to operate in accordance with best business practice in this field.

The Parent Companies of the Royal Dutch/Shell Group both have an excellent record in providing good returns at low risk to investors, which is also fundamental to the protection of shareholders' investment. One of the ways in which we approach the management of risk is through our pioneering work at developing scenario planning (see page 23) – exploring different pictures of how the future could be – for investment planning and evaluation.

Shares in the Parent Companies are often passed down from one generation to the next, reflecting the value and stability in which they are regarded.

Total Shareholder Return
7 oil majors, average for 1988 to 1997



Operating to best business practice

The Parent Companies, Royal Dutch Petroleum Company and The "Shell" Transport and Trading Company, p.l.c., each conform to two fundamental recommendations found in voluntary codes of practice: the establishment of separate committees composed of non-executive directors, one to set directors' pay and the other to check the integrity of financial reporting. In 1967 the companies introduced the joint Remuneration and Succession Review Committee and in 1976 the joint Group Audit Committee.

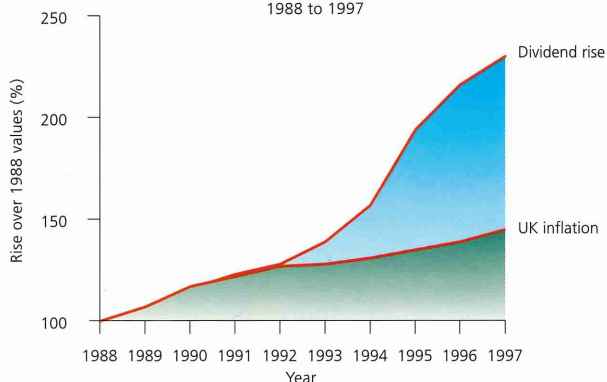
Providing an acceptable return

'Acceptable' is used intentionally, rather than 'maximum'. This is because it reflects our responsibility to make profits while also taking full account of social and environmental considerations, as well as the long-term success of investments.

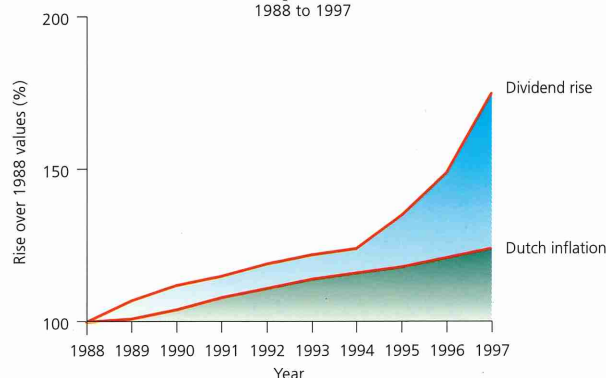
Total Shareholder Return is a recognised measure of long-term financial performance. It combines changes in share price growth with dividends. An investment in shares in the Parent Companies in 1988, with all dividends reinvested, would now give the returns shown above.

Shell's stated objective on dividends is that they should provide increases at least in line with inflation averaged over a period of years.

The "Shell" Transport and Trading Co, p.l.c.
Dividend growth on 1988
1988 to 1997



Royal Dutch Petroleum Co
Dividend growth on 1988
1988 to 1997





20 million customers a day

Customer value

There are over 47,000 Shell retail stations serving more than 20 million customers a day worldwide. These sell fuel, lubricants and other fast-moving consumer goods, such as food and household essentials. The popularity of the Shell brand is an important performance indicator for our businesses. We have conducted market surveys for many years. In 1996 we commissioned independent researchers to carry out the first global Brand Tracker of retail customers, covering 52 countries. This was extended to 98 countries in 1997. When retail customers were asked which brand they would prefer, all else being the same, Shell was most preferred in 48 countries, and was in second place in a further 22 (see graph below).

Some of our businesses, such as Shell International Chemicals and Shell Exploration and Production, mostly sell directly to other companies rather than individual consumers. These Shell businesses carry out regular research into how their customers view their products and services. They also commission opinion polls and survey the views of groups in society interested in our businesses who might be affected by their activities.

Reducing environmental impact of products

It is easier for us to affect and monitor environmental impact if we have direct control over the process (eg making fuels). Our HSE reports, for example, show that the eco-efficiency of Shell refineries has improved considerably over the past five years. However, Shell companies accept that the responsibility for products extends beyond their production and sale, and they must do what they can to help reduce the overall impact.

Take fuels, for example. It is technically possible to reduce urban emissions by reducing the content of some of the potential pollutants during the refinery process. Low-sulphur diesel, for instance, has been introduced in a number of markets. Shell leads the world in the sales of unleaded petrol and we have a proven track record in the development and marketing of cleaner fuels. Shell companies have also pioneered methods for measuring the local impact of exhaust emissions from various types of vehicles.

However, the production of cleaner fuels invariably involves higher costs. Higher energy requirements and consequently higher emissions of CO₂ may also result. Additionally, the reduction in the content of one pollutant may only be possible by the increase in another. Further decreases in pollutants may involve extremely high costs but only a small improvement in air quality.

Clearly complex decisions are required, often involving difficult trade-offs. For instance, the cost of lower emissions will have to be recovered, either by increased prices to customers (which may not always be welcome) or by changes in the tax regime and thus reduced government income.

We acknowledge our responsibility to contribute in this area and Shell companies work closely with governments by providing the results of research into technical feasibility, costs and the impact of emissions so that balanced decisions can be made.

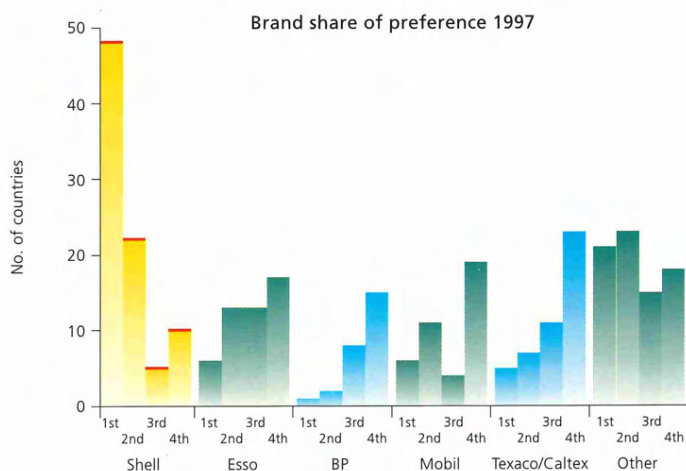
Responsible care of chemicals

Our chemicals businesses support Responsible Care®, a voluntary programme initiated by the global chemicals industry to boost its performance in HSE. Responsible Care® includes a commitment to be open with the public and to report on performance.

Enshrined in the programme is the idea of Product Stewardship, in which the company takes certain responsibilities for its products throughout their lifecycle (see Mauritania example, page 42). There is a strong emphasis on working with customers (mainly those in business) to ensure safety and the reduction of environmental impact. This involves advice, information and sometimes direct help in improving standards.

A key feature of Product Stewardship is the appraisal of customer facilities and our customers are visited regularly to check on the adequacy of their equipment. Shell chemical companies work hard to ensure that customers can handle their products safely. There are many occasions when orders have been declined until Shell companies have been able to work with the customer to achieve the necessary equipment and procedures to handle products safely.

At the end of 1996 Shell chemical companies had Product Stewardship initiatives in 45 companies operating in 30 countries, and the number is growing (see Shell Chemicals HSE report page 53 and website www.shell.com/chemhse).



To shareholders

To customers

To employees

To respect the human rights of their employees, to provide their employees with good and safe conditions of work, and good and competitive terms and conditions of service, to promote the development and best use of human talent and equal opportunity employment, and to encourage the involvement of employees in the planning and direction of their work, and in the application of these principles within their company. It is recognised that commercial success depends on the full commitment of all employees.

To those with whom they do business

To seek mutually beneficial relationships with contractors, suppliers and in joint ventures and to promote the application of these principles in so doing. The ability to promote these principles effectively will be an important factor in the decision to enter into or remain in such relationships.

To society

Employee rights and conditions

The most fundamental right of each employee is that their life, health and safety is protected (see page 24).

We employ more than 100,000 people in 132 countries. Their working conditions, terms of employment and, where necessary, redundancy payments are monitored to ensure these are competitive, both nationally and within the relevant industry sector.

- The lowest paid Shell employee (in US\$ terms) worldwide receives 1.6 times the statutory minimum wage in that country.

Equality and opportunity

We probably employ the most diverse group of people in the world and we value the benefits this brings. The vast majority of Shell staff are from the countries where the companies are based. This is reflected throughout management, and is beginning to be seen in the top jobs.

Still, many of the top 400 jobs in the Group are held by British, Dutch and American men. We are eager to change this through improved staff development programmes, recruitment, training and education and by embedding diversity into business planning – but most importantly by bringing about a change in corporate culture. Recently, a deliberate effort to increase the contribution from women at the most senior levels of the Group was announced.

We have formal policies to encourage equal opportunity employment in all countries where this is not a legal requirement. In some countries our position has to be handled with particular sensitivity to take account of cultural issues, religious beliefs, affirmative employment programmes and laws on sexual preference.

Awards and acknowledgements for the efforts of Shell companies in promoting equal opportunities have been received in Australia, Pakistan, the Philippines, South Africa and the USA.

Our primary aim is to establish and maintain high quality, direct and open dialogue with all individual employees. Where unions or works councils are an established part of the employment culture and legal framework, our relationship with them is respectful, inclusive and complete, often covering significantly more than minimum requirements.

- Shell companies in 77 countries have organised forums for staff to discuss employment conditions. In 82 countries employee welfare is protected by clearly stated grievance procedures. On 548 occasions in 1997 staff either tabled issues, or were invited to do so.

- In 1997 the Group had 5,700 expatriates of 67 nationalities working in 112 different countries around the world.

Shell Oil recognised for equal opportunities

In 1996 Shell Oil Company of the USA received the Moses Leroy Foundation Award presented by the Martin Luther King Jr. Community Centre for outstanding and ongoing support for equal opportunities – the first corporation to win the award. HISPANIC, a US magazine, included Shell Oil Company for three consecutive years (1995-7) in the top 100 US companies which provide the most opportunities for Hispanics. These are two of many examples where the company has been publicly recognised for encouraging people from minority groups in the US (see www.shellus.com).

Constructive partnerships with local companies make good business sense.

Training leads to better working conditions

Intensive training of employees and contractors on the Cormorant and Dunlin Alpha platforms in the North Sea has enhanced future profitability by 19%, secured jobs, improved competitiveness and made the working environment more satisfying by encouraging employees to make improvements for themselves.

Shell Exploration and Production, which operates the platforms, was one of the 'supreme winners' of the UK's 1997 National Training Awards.

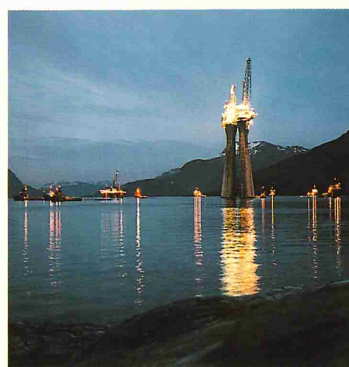
Seeking mutually beneficial relationships

We aim to forge constructive, long-term alliances with local companies because it makes good business sense. Where this cannot be done – because partners fail to meet our standards on employee human rights, corruption, HSE or quality – we will explore ways to resolve the problems. If this fails, we will find other partners who can meet our standards.

■ In 90 countries Shell companies are helping local suppliers to reach Shell's required standards. In 60 countries, Shell companies provide training for suppliers and contractors, ranging from road safety to HSE practices and Quality Assurance. We also participate in the development of new products, and improvements to meet international standards.

Shell companies are committed to major programmes to support and encourage the development of local suppliers and those from minority groups. For example:

- Brunei – Local Business Development Policy
- Canada – Aboriginal Programme
- Malaysia – Petronas Vendor Development Programme
- Singapore – Local Industry Upgrading Programme
- South Africa – Affirmative Action/Black Business Development Programmes
- USA – Minority and Women's Business Programme.



'Troll' – an achievement
of partnership

Health, safety, environment and human rights

Shell companies do not work with suppliers and contractors who are not able to meet Shell standards. In more than 100 countries Shell companies screen suppliers for their ability to meet HSE standards and the human rights of their employees. We welcome the development of recognised independent standards which will help Shell companies and their suppliers measure and monitor performance in this area.

■ In 88 countries our Statement of General Business Principles is provided or explicitly discussed as a normal part of major contract negotiations.

In 1997, at least 95 contracts were cancelled because contractors failed to adhere to our specified standards on HSE, or employee human rights.

Child labour

The use of child labour is of increasing concern in many parts of the world. Shell companies employ only those people above the legal working age, and seek to use contractors and suppliers who follow the same rule.

The use of child labour is more prevalent in certain parts of the world and a number of Shell companies in those regions operate specific screening procedures. For example, Shell China formally checks that no child or forced labour is used and Bharat Shell in India specifically monitors its contracts for the use of child labour.

To shareholders

To customers

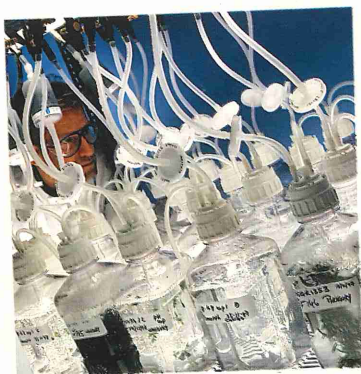
To employees

To those with whom
they do business

To society

To conduct business as responsible corporate members of society, to observe the laws of the countries in which they operate, to express support for fundamental human rights in line with the legitimate role of business and to give proper regard to health, safety and the environment consistent with their commitment to contribute to sustainable development.

These five areas of responsibility are seen as inseparable. Therefore, it is the duty of management continuously to assess the priorities and discharge its responsibilities as best it can on the basis of that assessment.

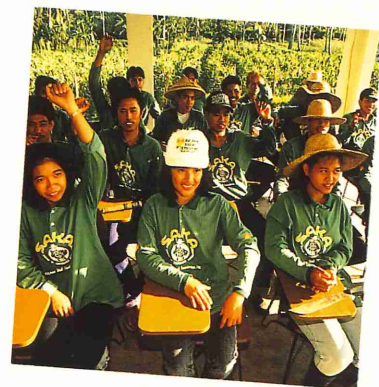
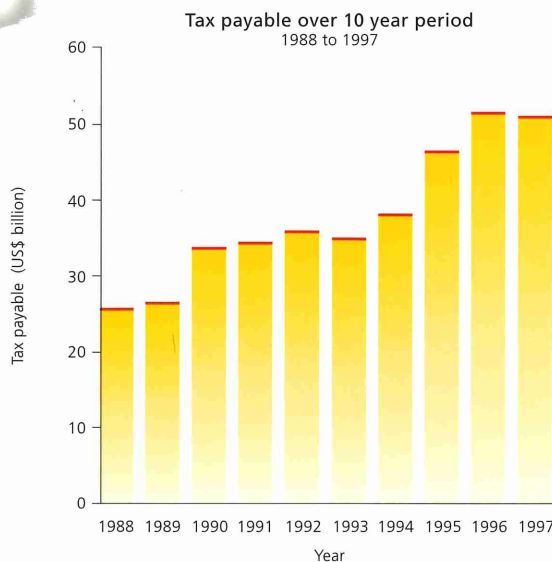


US \$ 500m research investment

Corporate citizenship

There are, as yet, no universally accepted measures by which to judge our performance as a corporate citizen committed to the concepts of sustainable development, although some of the economic aspects can easily be quantified.

- **Tax.** Shell companies are a major contributor to the infrastructure of economies where they operate. The total tax and other duties paid to governments worldwide is shown in the graph. As economic engines, Shell companies are now providing more than US\$ 50 billion in tax revenue each year. To put it in a human context, The United Nations Development Programme (UNDP) report on Human Development 1997 estimates that the annual costs of universal access to basic social services are: basic education for all (US\$ 6 billion), basic health and nutrition (US\$ 13 billion), reproductive health and family planning (US\$ 12 billion) and low cost water supplies and sanitation (US\$ 9 billion) totalling US\$ 40 billion.

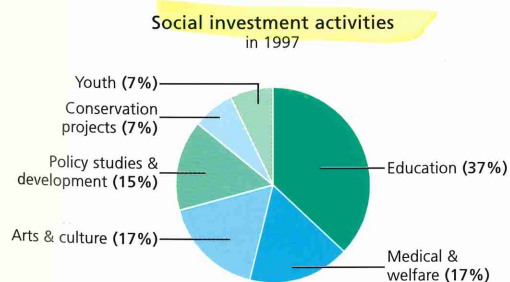
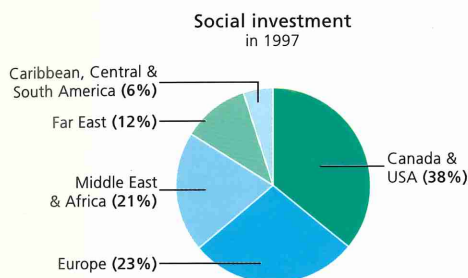
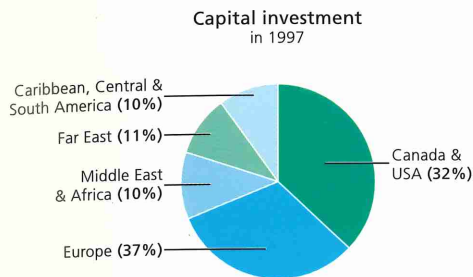


Shell community support
- Philippines

- **Employment.** Shell companies employ more than 100,000 people directly and another 240,000 or so contractors. Further employment is provided through business generated for suppliers. We paid over US\$ 6 billion in employee remuneration and related costs in 1997.
- **Research and Technical Services.** Shell companies invest over US\$ 500 million in research and technical services each year, the results of which directly or indirectly benefit world understanding and technical capability.
- **Social investment and charitable giving.** Over the five years from 1992-1996 we have contributed on average 1.05% of net income after tax – equivalent to 0.6% net income before tax – to community causes, social projects and charities. In 1997 our contribution totalled approximately US\$ 78.9 million, an increase of 15% from the previous year's total of US\$ 68.4 million.

Globally, Shell companies' social investments reflect their operations, as shown by comparing contributions with capital expenditure (see pie charts).

Contribution programmes of Shell companies address issues of direct relevance and concern to the communities where they operate. This is reflected in the range of causes supported.



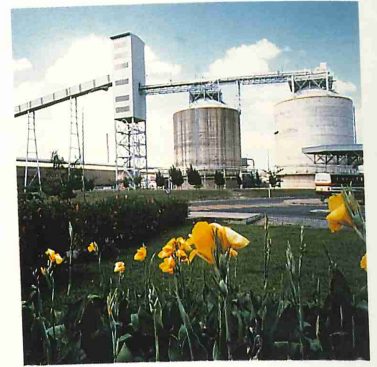
Environmental laws

Companies, especially those involved in heavy manufacturing, may at times fail to comply fully with environmental laws. This is not necessarily a wanton flouting of the law, but is often caused by human error or equipment failure.

The significance attached to the transgression and the size of the penalty depend greatly on the nature of the particular environmental laws. Penalties range from fines against the company through to imprisonment for directors. Generally, the environmental laws which companies most often break are associated with permits issued by the authorities governing the amount of pollution they are legally allowed to emit – known as consent levels.

If a company unwittingly exceeds its consent level, say, when machinery breaks down, then it can be liable to prosecution. In many instances the companies themselves inform the authorities when this happens. Often no direct damage is caused and the size of the fine, if one is levied, reflects this.

In many countries authorities acknowledge the difficulties in immediately complying with new laws and allow companies time to reach the desired level of performance. In some countries the laws regarding environmental liability are far reaching and can involve companies in severe penalties and remediation costs.



Striving for balance

We strive to be good corporate citizens but we sometimes make mistakes.

Shell Seeks Clemency for Ogoni 19

Shell Petroleum Development Company Nigeria Limited (SPDC), the Anglo/Dutch multinational oil prospecting company has made fresh pleas for clemency for the 19 Ogoni activists still awaiting trial for the murder of the four prominent Ogoni chiefs in 1994 for which playwright Ken Saro-Wiwa and eight other Ogonis leaders were executed.

Speaking yesterday in Lagos at a valedictory press conference, the outgoing Chairman/Managing Director, Mr Brian

• Restructures Operation as MD leaves Nigeria

By Isichei Osangb

He said though they had made a case for fair trial and failed, they are not relenting in seeing that the remaining 19 do not go the same way.

"We urge fairness and plead for fair trial and leniency in the case of the remaining 19, as well as other people facing such criminal charges", he said.

He added that the group noted all the comments on the issue, but they were not much they could do.

"There would be a major re-organisation in July to bring our operations closer to the frontline. We want our people to move closer to the oil producing communities", Anderson said.

He said there would be a devolution of powers by granting greater autonomy to the regional divisions of East and West. This, he said, would involve further splitting of the two divisions into three.

Nigeria, his heart still remains with the country he has served and lived for the greater part of his life. He called for an improved government's investment and cash call payments in the industry to enable joint venture partners to operate effectively.

He noted with dismay that it quite unfortunate that the government is still owing the company \$148 million.

Supporting fundamental human rights

Shell operates in 132 countries worldwide. Human Rights groups claim that the authorities in over 90 countries have violated the rights of their people, as defined by the United Nations. It is inevitable that many Shell companies will be doing business in such countries (see page 32).

Our position on two high-profile cases: Nigeria

The execution in 1995 of Ken Saro-Wiwa and eight other Ogonis shocked and saddened all of us.

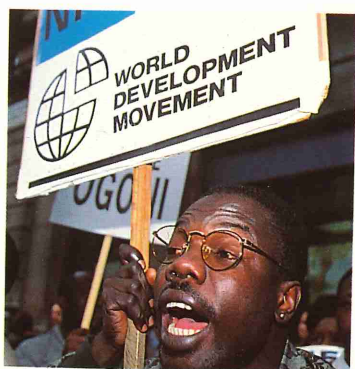
Before Mr Saro-Wiwa's arrest we said that while we did not necessarily agree with all of his views, he had the right to voice his opinions. After his arrest we said he should be treated fairly in prison and should be given the necessary medical attention. We did not seek to influence his trial, but after the verdict the Chairman of the Group's Committee of Managing Directors sent a letter to the Nigerian head of state urging him to grant clemency for all those sentenced.

Twenty Ogonis are currently detained in Nigeria in connection with the same incident. We are the only major company operating in the country to call publicly, and repeatedly, for humane treatment, a fair trial for the detainees and clemency for those found guilty. We have made these appeals both publicly and privately. We will continue to promote humanitarian values in Nigeria.

For example, when oil unions took part in the general strike of 1995, production by Shell Petroleum Development Company (SPDC) fell by a half. We took the position that we would not work under military protection to increase the flow of oil.

Nigeria is poor, despite being Africa's leading oil producer. Its population of more than 100 million has a gross domestic product of only US\$ 260 per person. It has many development challenges.

There is a lack of government investment in the social infrastructure of the area in which we operate. We recognise a responsibility to act. In 1997, the Shell joint venture spent US\$ 32 million on a wide range of community and development projects, including the building of hospitals and schools (see the Shell Nigeria website www.shellnigeria.com).



Street protest, London

The Warrenton community, Shell and the North Cape Province have provided a model of the kind of partnership that is rebuilding South Africa.

*President Mandela,
30th August 1996.*

South Africa

Shell South Africa has advanced over nearly 100 years from a small agency based in Cape Town to a significant nation-wide commercial enterprise, an integral part of the national economy with deep roots in South African society.

During the apartheid years, when pressure was first exerted on Shell to withdraw from South Africa, the company was employing more than 2,500 people, representing all the different racial and cultural groups in the country. An equal opportunity employer for many years, Shell speeded up black advancement in the company from the beginning of 1980. The company provided housing for black employees in segregated 'white areas' and offered legal assistance should they be prosecuted under apartheid laws.

The company's commitment to employees was encapsulated in what were enlightened employment policies for South Africa at the time. These included:

- equal pay for equal work
- recruitment, development, training and advancement of black staff to redress the imbalance between black and white staff within the company
- housing assistance to promote home ownership
- retirement benefits, medical aid, educational assistance for employees and their children
- promoting good industrial relations with both unionised and non-unionised employees.

The company ran so-called 'statement' advertisements (see right) which condemned detention without trial, closure of newspapers and called for democracy and the release of political prisoners. Their purpose was to express the company's condemnation of inhumane and unjust practices, its belief in a free and equal society and to provide financial support for the alternative press.

Shell South Africa continues to fund and promote a wide range of community projects in the country. Its work has been publicly recognised and was most recently shortlisted for the Worldaware Award for Sustainable Development in 1997. It won the Lawrie Group Award for Social Progress in 1997, for Shell's Centre for the Advancement of Science and Mathematics Education (CASME). The judges said "with its CASME project and ongoing Educational Services, Shell has been a long-standing contributor to South African education, both during and after apartheid".



*President Mandela opens
Rolihlahla primary school*

ONE STEP CLOSER
TO DEMOCRACY.
—
LET'S GO
ALL THE
WAY!

CORPORATE ADVERTISING

FREE THE DEMOCRATIC PROCESS

- Shell urges Government to:
1. End the State of Emergency
 2. Release and unban all political leaders
 3. Lift restrictions on democratic organisations
 4. Allow and encourage freedom of expression

We look forward to the
release of all political
prisoners, the
unbanning of political
organisations and
freeing of the
democratic process.

Shell
supports
freedom of
association

SHELL WELCOMES THE RELEASE OF

Walter Sisulu
Oscar Mpetha
Andrew Mlangeni
Raymond Mhlaba
Elias Motsoaledi
Ahmed Kathrada
Jaftha Masemola
Wilton Mkwayi

LET THE PEOPLE SPEAK!

- Shell urges Government to:
1. End the State of Emergency
 2. Release and unban all political leaders
 3. Lift restrictions on democratic organisations
 4. Allow and encourage freedom of expression

LET
JUNE 10
FREE THE DEMOCRATIC
PROCESS



Living up to our Principles

Principle 3 Economic Principles

Profitability is essential to discharging these responsibilities and staying in business. It is a measure both of efficiency and of the value that customers place on Shell products and services. It is essential to the allocation of the necessary corporate resources and to support the continuing investment required to develop and produce future energy supplies to meet consumer needs. Without profits and a strong financial foundation it would not be possible to fulfil the responsibilities outlined above.

Shell companies work in a wide variety of changing social, political and economic environments, but in general they believe that the interests of the community can be served most efficiently by a market economy.

Criteria for investment decisions are not exclusively economic in nature but also take into account social and environmental considerations and an appraisal of the security of the investment.

Profitability

The idea of profit is seen as quite acceptable by the majority but some perceive it as exploitative and uncaring, which is unfortunate because economic sustainability is one of the three supporting pillars of sustainable development, a concept fully endorsed by all members of the United Nations (see www.un.org and www.undp.org).

Business has a number of social and environmental responsibilities but without profits a company – no matter how big or small – ceases to exist and can make no contribution to any of its stakeholders.

Competitiveness in the marketplace must be a primary concern for all businesses, and Shell's are no different. The emphasis is now increasingly on how companies compete – the ethical framework which determines their actions – and how they use their profits.

Regular profits enable Shell companies to carry out our social and environmental responsibilities laid out in the Principles. Profits give us the confidence to take a long-term view, and the capacity to avoid the temptation of short-term wins, which could undermine our commitment to sustainable development.

Criteria for investment decisions

This Principle helps our managers find a balance between ensuring the commercial success of investments and our long-term responsibilities to society and the environment. The Royal Dutch/Shell Group, from its origin as two small companies in the 1890s, has grown to a Group of more than 2000 companies. It has been successful for over a 100 years. And to continue, it is essential to have endorsement from society – what some call a 'licence to operate'.

This will involve keeping in tune with society's long-term expectation of business. One of the tools we use to do this is scenario planning – exploring different pictures of how the future could be. We are acknowledged leaders in this field and we have developed scenarios specifically to help us decide on investments. Making good, secure investments involves the balancing of many issues, ranging from political stability of the country in which we intend to do business, through to the health of the global environment.

Environmental Impact Assessments are undertaken for major projects. We are increasingly conscious of the need to be more systematic in the assessment of the social impact too. The care and sensitivity we have shown in new projects, such as our search for gas in Peru and our gas project at Malampaya in the Philippines, is evidence of the progress we are making in this area.

Without profits, no private company can sustain principles.

*Without principles,
no company deserves profits.*

Doing it right in Peru

Shell Prospecting and Development Peru (SPDP) is assessing natural gas reserves in the upper Amazonia region of Peru in South America. The area, which straddles the Camisea River, is home to a number of indigenous peoples, borders the Manu national park and is rich in biodiversity.

The Camisea Project is important to Peru because it could substantially increase the country's reserves of gas, which would provide cleaner alternatives to widely-used diesel. It could also protect foreign currency reserves by reducing imports of fossil fuels and providing earnings from exports.

SPDP knew from the beginning that the project had to conform to the highest technical, environmental and social standards. This meant using the best available technology and being open and responsive to those who could be affected by the operations.

The project has given SPDP an opportunity to pioneer the way large companies should work in remote and sensitive regions of the world, which is particularly pertinent to the Group's commitment to contribute to sustainable development.

SPDP's approach, which is being implemented with the help of others, has three main elements:

- Be open, consult widely and co-operate with local and foreign interested parties. The project is being monitored by Red Ambiental Peruana, a national health umbrella organisation made up of 35 Peruvian non-governmental organisations (NGOs). Pro-Natura, a Swiss-based NGO is working with SPDP to ensure that it is constantly aware of its commitment to sustainable development.
- Minimise the impact on the health and social structures of local people, and their environment. The Royal Tropical Institute of Amsterdam, working with Peruvian experts, has assessed the health of local communities and the Catholic Church are working with SPDP to protect and improve the health of people in the area. All SPDP workers have to carry a Health Pass showing that they have been vaccinated. SPDP is helping in regional vaccination campaigns. The Smithsonian Institution has made an inventory of the local environment (including biodiversity assessment) and has joined Peruvian environmental organisations to monitor for any detrimental effects of the project.
- Work to increase the social capital of the region, in this way ensuring that the local communities benefit from the project. Alternativa, a Lima-based NGO, is helping local communities deal with their waste in an innovative way. Senati, a leading training institution in Peru, has developed workshops on sewing and cloth making in Nuevo Mundo, Cashiriari, Camisea and Kirigueti (see www.camisea.com).



Camisea - air lifting supplies



The only route in

Living up to our Principles

Principle 4 Business Integrity

Shell companies insist on honesty, integrity and fairness in all aspects of their business and expect the same in their relationships with all those with whom they do business. The direct or indirect offer, payment, soliciting and acceptance of bribes in any form are unacceptable practices.

Employees must avoid conflicts of interest between their private financial activities and their part in the conduct of company business. All business transactions on behalf of a Shell company must be reflected accurately and fairly in the accounts of the company in accordance with established procedures and be subject to audit.

No bribes

We do not bribe, nor do we accept bribes. We do not sanction illegal payments of any kind. We investigate all suspicious circumstances. Any employee found to have bribed or to have accepted bribes is dismissed.

We believe that cutting corruption is essential and leads to greater equality, a happier workplace, more efficient economies, rapidly increasing investment flows and the spread of prosperity.

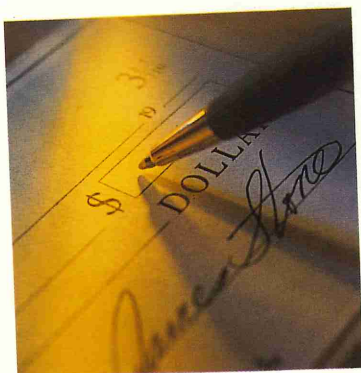
It is a fact, though, that Shell managers are regularly offered bribes, or urged to pay them to secure business and we work hard to reduce this pressure. Employees are assured that they will not be penalised if they lose business because they choose not to compromise Shell's Principles.

Bribe and you're out!

Shell companies have 'official' no bribes policies in all 132 countries in which they operate, backed by procedures to detect such cases.

The policy and actions taken to enforce it are part of a strong anti-corruption culture within Shell. It is reinforced through a range of interrelated actions, such as supporting international initiatives against corruption by government, business and pressure groups (for example, the Organisation for Economic Co-operation and Development (OECD) Convention to Combat Bribery of Foreign Officials), and thorough internal investigations of suspicious circumstances.

This is helping to establish Shell companies as 'no bribes' organisations where business is won for business reasons.



All bribery corrupts

In 1997, Shell companies reported 23 instances in which Shell staff were detected soliciting or accepting bribes in any form.

In all cases, the financial value involved was small, but in some cases the consequences could have resulted in high costs to the company. All cases were investigated, and the lessons learned were circulated internally to improve the systems.

Every case resulted in termination of employment.

No cases were reported in which a bribe was offered or paid by or on behalf of a Shell company.

The policy is to withdraw from potential business opportunities if they cannot be conducted in line with the Business Principles.

For example, we withdrew from the market in Italy for 14 years in 1976 when it became clear that companies could not do business without making unauthorised payments. We uncovered evidence of extortion demands linked to the payment of political contributions totalling more than US\$ 4.5 million. The matter was fully investigated, and the General Manager was dismissed.

Statement of General Business Principles
(Revised text as of 10 December 1997)

As an employee of Shell International Exploration and Production B.V. (SIEP) I confirm that I have received, read and understood

- the Statement of General Business Principles (SGBP), signed by the Group Managing Director Cor Herkströter in March 1997;
- the note dated 5 November 1997, signed by Henk Dijkgraaf, Chairman of the SIEP Board and (.....)/relevant RBD, addressing "SIEP Business Principles: SIEP Implementation";
- the Note on Conflict of Interest, signed by.....

- for relevant staff

I have been assured that I will not suffer if business is lost as a result of the observance of the SGBPs and relevant attachments.

I confirm I have read the above documents. For me as an individual, any unclear points in the SGBPs and related attachments have been satisfactorily clarified in discussions with my supervisor.

Consequently, I confirm I can carry out my day-to-day work within the spirit and the letter of the SGBPs. I am aware that as of today, the Statement of General Business Principles and its attachments as outlined above will form part of my Contract of Employment with Shell International Exploration and Production B.V.

I have been assured that I will not suffer if business is lost as a result of the observance of the SGBPs and relevant attachments.

I understand that I have a personal duty to bring all (real or suspected) contraventions of the SGBPs and relevant attachments mentioned above to the attention of my supervisor.

.....
(name)

.....
(date)

When is a gift a bribe?

Gifts are an essential part of doing business in some countries, where it would be rude not to bring a present to the first business meeting. Elsewhere gifts, especially if they are substantial, can be regarded as a form of bribery.

At what point does a gift become a bribe? And who decides? This is a dilemma that Shell managers often face. Our overriding principle is that nothing should be hidden. The policy is that we declare all gifts, and those above a token value are declined. Some Shell companies have a policy of pooling gifts and auctioning them, with the proceeds going to charity.

Living up to our Principles

Principle 5 Political Activities

Of companies

Shell companies act in a socially responsible manner within the laws of the countries in which they operate in pursuit of their legitimate commercial objectives.

Shell companies do not make payments to political parties, organisations or their representatives or take any part in party politics.

However, when dealing with governments, Shell companies have the right and the responsibility to make their position known on any matter which affects themselves, their employees, their customers, or their shareholders. They also have the right to make their position known on matters affecting the community, where they have a contribution to make.

Of employees

Where individuals wish to engage in activities in the community, including standing for election to public office, they will be given the opportunity to do so where this is appropriate in the light of local circumstances.

Some of the issues in this Principle are hard to measure, and little quantified evidence is available. We are trying to develop suitable measures of performance for use in subsequent reports. Please use the 'Tell Shell' reply cards if you have suggestions on the sort of evidence you want to see.

Social responsibility

We know that the integrity of employees – as individuals – will earn the trust and respect of those with whom they deal, as well as people from the societies in which they live and work.

Shell companies make large investments over long timescales and they know that they can only prosper if they act responsibly within the societies of which they are a part. Their primary commitment is to the country and its people, rather than just to the government of the day.

In 1996 we held a series of round-table discussions in 14 countries together with other forms of research to get the views of the way in which society's expectations of large multi-national companies were changing and might expect to change in the future. The results of this consultation helped us improve our Principles and other key elements which determine how we run our business. We will continue to consult – this report is part of that process – to ensure that our actions are aligned with the values and expectations of the societies in which we operate.

No party politics

Business has no mandate to participate in party politics, although, as a major generator of economic wealth, the oil industry clearly has considerable social and political impact. Shell companies do not make contributions to political parties and treat this issue in the same way as bribery and corruption (see page 20).

Not all countries have political parties. As part of our anti-corruption commitment, Shell companies in 108 countries have clearly stated policies forbidding payments to political parties. In 1997, there were no reported cases of political donation.

We do, however, work with regulators and policy makers and we make our position known on many matters of government policy, regulation and legislation likely to affect our business. This is done as part of the democratic process. We also work with trade associations which also lobby on behalf of legitimate trade interests.

Making our position known

Shell companies believe in the right to make their position known, either privately or publicly, on issues which affect their business or their employees, such as statutory low pay and political detentions. We can also be of help in some circumstances where our knowledge or expertise contributes to the better understanding of issues affecting communities and nations. We realise that this must be done with sensitivity because it can easily be misinterpreted as interference or trying to exercise undue influence.

*Our commitments are to the communities
and the nations in which we operate,
not just to the government of the day.*

Business is not a political player and has no mandate to participate in party politics.

Political payments in the USA

The Shell Oil Company was recently criticised for helping employees in the USA to make contributions to the political candidates of their choice. At their request, donations were – and still are – deducted from the employees pay and sent directly to a political action committee made up of employees who decide which candidates will receive financial support. Shell Oil also provides a mechanism for employee donations for unions and charities. This support for the freedom of choice for individuals is common practice among US companies. Such administrative help is seen as part of our commitment to allow employees the right to participate personally in party politics.

A number of Shell employees have personal involvement in local and community politics, while others have been granted extended leave to stand for election and have taken up political positions at national level. These are individual matters and Shell companies do not keep figures.

Helping to picture the future

Shell has considerable experience at building scenarios – alternative pictures of how the future could look. We use scenarios to help plan our own business.

The summaries of the two scenarios 'Just do it' and 'Da Wo' from the Global Scenarios 1995-2020 are featured right.

We have also helped other organisations in developing their own scenarios in various subject areas, such as:

- sustainable development with the World Business Council for Sustainable Development in 1997
- climate change with the Intergovernmental Panel on Climate Change
- the Mont Fleur scenarios in South Africa between 1990 and 1994, which helped shift government thinking towards a democratic system
- the Nigeria Scenarios in 1997 which were presented to the Vision 2010 Committee, and which perhaps uniquely brought together government ministers, traditional leaders, special interest groups, NGO members, public figures and business for the common goal of visioning a better future for Nigeria.

We share our internal scenarios with key opinion formers in government, inter-governmental institutions, NGOs and academics.

Just Do It!

In this scenario, success comes to those who take advantage of quick-moving opportunities in a world of hyper competition, customisation, and rapid technological innovation. This world allows the fullest expression of individual creativity and rewards those who can experiment with new ways of doing business.



Da Wo ('Big Me')

In this scenario, countries and companies discover that success calls for a committed investment in relationships, where trust and the enabling role of government provide the long-term strategic advantage. Asia already has an advantage because its societies and businesses are at home in a world in which the individual – 'small me' – understands that self-interest is inextricably linked to the welfare of the whole – Da Wo ('Big Me').

大我

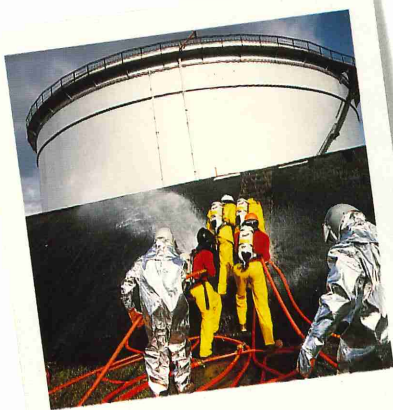


Living up to our Principles

Principle 6 Health, Safety and the Environment

Consistent with their commitment to contribute to sustainable development, Shell companies have a systematic approach to health, safety and environmental management in order to achieve continuous performance improvement.

To this end Shell companies manage these matters as any other critical business activity, set targets for improvement, and measure, appraise and report performance.



Firefighting exercise
with contractors

Management systems

In 1997 the Group published its first external HSE report covering all Shell operations. This and subsequent reports of our major businesses – Exploration and Production, Oil Products and Chemicals are available by post or via our website.

We were slower than some large companies to report in this way. We realise that society now expects open and verified reporting, and we are committed to reporting regularly. We are consulting with interested parties and employees on how to give a full picture of our HSE performance.

This is only a brief summary of our progress on HSE. Please read the Group Report for more detail (see www.shell.com).

- Every Shell company has adopted the Group Policy and Procedures on health, safety and environment.
- More than 90 companies already have HSE management systems in place. The target is to have such systems installed in all companies by the end of 1999, and to have an assurance process in place to ensure that the targets are met.
- Independent auditors will check adoption of the HSE Policy and Procedures. Furthermore, they will check a representative number of companies to assure themselves that the data we collect and publish accurately reflects the HSE performance of the Group.

Environmental reporting

The Shell Group's environmental reporting has been praised by the US-based Investor Responsibility Research Centre (IRRC).

They said the Group "provides the most extensive environmental data for its global operations" and commend all four of the Group's HSE reports published in 1997.

Managing the environment to international standards

Getting a qualified independent auditor to confirm that companies are managing environmental matters to agreed standards is a fast-growing trend. Two examples of recognised environmental management systems standards are:

- ISO 14001. Published by the International Organisation for Standardisation (ISO), this is part of a new family of environmental management systems standards, called the ISO 14000 series. ISO standards are recognised worldwide.
- Eco-Management and Audit Scheme (EMAS). This is the European Union's environmental management standard. EMAS is compatible with the ISO standard, but goes further to require conforming sites to report publicly on the results of regular audits which must be verified by outside experts.

Our position is that all Shell companies must have a certifiable HSE management system in place by the end of 1999.

In many cases this has already been achieved. For example, Shell refineries in Argentina and Sweden, lubricant production in Germany and exploration and production activities in Thailand have all received ISO 14001 accreditation (see www.iso.ch).

All Shell companies must have a certifiable HSE management system by the end of 1999.

Safety

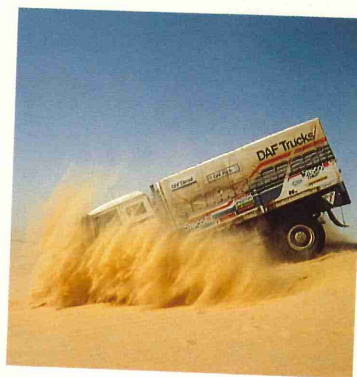
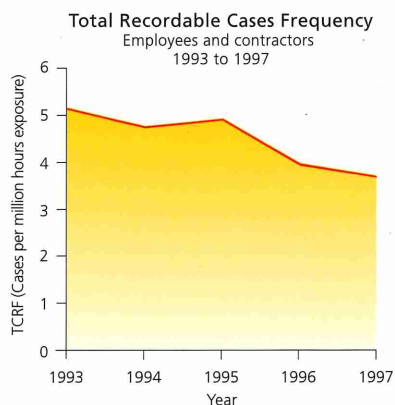
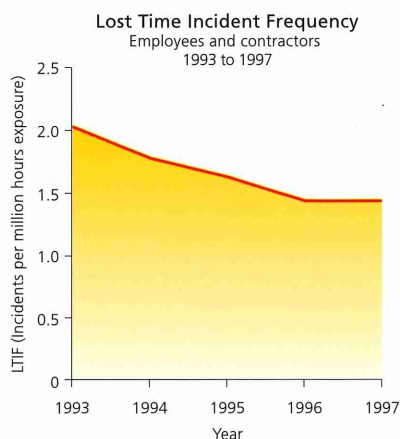
Life is a fundamental human right and the safety of all people at our sites is paramount. We take our responsibilities very seriously. Shell companies train their employees and contractors to work safely and provide the necessary systems and technology to ensure their safety. They strive to encourage a culture of safety in the company and among their contractors.

Our goal is no harm to people. The accidental death of anyone working for us, including those employed by contractors, must be reported immediately to a member of the Committee of Managing Directors. Each case is fully investigated and action is taken to prevent similar accidents from happening again.

We deeply regret that 8 employees and 61 contractors lost their lives in 1997 worldwide, mostly in road accidents. Shell companies continue to work hard to ensure that drivers are as well trained and as safety conscious as possible.

We use two standard measures to gauge safety performance: Lost Time Incident Frequency (LTIF) and Total Recordable Cases Frequency (TRCF). They indicate overall safety performance of employees and contractors against the total number of hours exposed to work related risk, and are fully explained in the Group HSE Report. Total exposure was some 290 million exposure hours for employees and some 444 million exposure hours for contractors in 1997. (These are interim figures only, see the Group HSE Report 1998 for verified data).

All employees on our sites, including those of contractors, are treated in the same way. Safety data from contractors are collated to help in the analysis of the causes of accidents and to help in our programmes to improve the safety records of contractors.



Special training for demanding terrain

Improving road safety in Oman

In Oman, company employees have to do a lot of driving on dirt roads, over long distances in intense heat. Such conditions increase the risk of accidents.

Petroleum Development Oman (PDO) is particularly concerned about road safety and is committed to reduce the number of road accidents and decrease the risk of serious injuries they cause. Among the many initiatives introduced in 1997 are:

- on-the-road spot checks of company vehicles and drivers by an independent road safety monitoring team
- mandatory training for all company and contractor drivers in the interior of Oman under the PDO driving permit system
- an electronic monitoring system in the vehicle which recognises good and bad driving behaviour.

PDO's research shows that human behaviour is one of the major contributing factors in accidents – people will break rules knowingly, especially when they are alone and unsupervised in vehicles.

This means, as a minimum, careful training of employees is essential. But more important, we have to convince them that the rules will really help protect them and other road users.

PDO has significantly improved the road safety performance in Oman and will continue to do so through effective training, sustained vigilance and accurately targeted safety campaigns.

PDO has been greatly helped by the Grand Mufti, the highest advisory officer for Islamic Affairs in Oman. He addressed employees and contractors in August 1997 and emphasised the sanctity of life and the religious and legal consequences of wasting life by reckless driving.

Living up to our Principles

Principle 7 The Community

The most important contribution that companies can make to the social and material progress of the countries in which they operate is in performing their basic activities as effectively as possible. In addition Shell companies take a constructive interest in societal matters which may not be directly related to the business. Opportunities for involvement – for example through community, educational or donations programmes – will vary depending upon the size of the company concerned, the nature of the local society, and the scope for useful private initiatives.



Encouraging road safety – Thailand

Debating the role of business and government

"A moral vacuum is appearing as governments everywhere cede authority to business", says Professor Homer Erickson of Miami University. "The role of government is declining as is the old 70s and 80s agenda of rampant self-interest. The public is pressuring business everywhere to act responsibly".

Professor Erickson's views reflect the spirited global debate about the respective and evolving roles of business and government in society.

Some see governments voluntarily withdrawing, or being forced to do so by their constituency, from those areas of society where business can do a better job. This has led, in many societies, to the privatisation of state-owned businesses, such as telecommunications, airlines and prisons.

There are also calls from the media, governments and non-governmental organisations for business to do more than merely pay its taxes and create jobs. They want business, especially in the less developed parts of the world, to deliver development, fight corruption, provide schools and healthcare, and generally act as a stabilising influence on society.

At the same time business is criticised for exerting too much influence on society, for perpetuating the negative impacts of globalisation (see page 36), and having too much sway with government. These critics want business to play a much lesser role, or for the activities of multinational companies to be better controlled either through legislation or voluntary codes.

In the face of these conflicting demands some companies have been slow to join the debate but many are looking more closely at their role in society.

(For more information see www.wbcsd.ch, www.oneworld.org/oxfam and www.oecd.org).



"Livewire" winner
Ronan McNamara

Performing effectively

The success of Shell's business has a positive effect on the communities of which it is a part. For example, Shell companies pay remuneration and related costs (totalling over US\$ 6 billion in 1997) to more than 100,000 employees, and many more are employed by contractors who work with us, or by our suppliers. We are widely involved in training and coaching of suppliers and contractors, whose skills are then benefiting the local community.

We realise that communities want us to do more than simply pay taxes and leave the building of the necessary infrastructure to government, for instance roads, schools and hospitals. A Shell company is not, and should never be, a stand-in for government, nor is it a charity. But when invited, Shell companies aim for mutual benefit through partnership with communities, developing the ability of people to work together for the common good. Some people use the term 'building social capital'.

Community programmes

Contributing actively to communities throughout the world has always been very important to us. Responsibility rests with Shell companies which address issues in their particular countries, as well as with Shell International which supports societal issues of international concern. We have a three-tier approach.

First, we provide long-term support to a range of community activities within particular geographic areas. For example, Shell Philippines has supported the Philippine Business for Social Progress (PBSP) initiative ever since it helped found the organisation in 1970. PBSP now has over 180 member companies and has worked with over 1,000 partner organisations and supported over 3,000 projects with funding in the region of US\$ 50 million.

Second, we promote sustained involvement in helping to develop and encourage best practice on a particular social issue. For example, we have had a role in spreading good models for small business development across many countries. A programme called Livewire, which encourages and advises young entrepreneurs in starting and running their own businesses, was set up by Shell UK 15 years ago and is now operating in Australia, Bahamas, Chile, Hungary, the Netherlands, Oman and South Africa as well as the United Kingdom.

Schools education programmes, ranging from environmental awareness to road safety training, are also supported in many countries in the world.

Third, we recognise that as a global citizen we have opportunities and responsibilities to help address the critical issues of the global community. Shell's international social investments programme seeks to address issues fundamental to sustainable development, including economic development, environmental care and social progress.

The report Shell's Investment in Society features a number of case studies (see page 53 and www.shell.com).

Helping community banks fund inner-city entrepreneurs

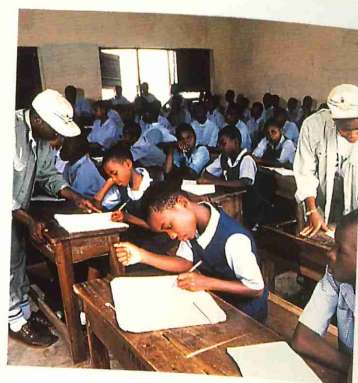
Shell Oil of the USA has formed alliances with two inner-city community banks in a pilot programme to help provide funds for minority and women owned businesses and entrepreneurs.

Shell community financing companies – especially set up for the purpose – will provide capital to expand the lending capacities of the Unity National Bank in Houston and Founders National Bank in Los Angeles. It is hoped that the funds will help rejuvenate the communities served by these banks.

If the trial is a success the scheme could be extended to four more cities yet to be named, with a possibility of US\$ 45 million being invested in the pilot project.

"Communities are living entities that private and corporate citizens must work together to sustain and grow," said Shell Oil's President and CEO Philip Carroll.

"This Community Banking Initiative provides an excellent opportunity for us to help support the communities that support our company."



Sponsored teachers in Nigeria



Living up to our Principles

Principle 8 Competition

Shell companies support free enterprise. They seek to compete fairly and ethically and within the framework of applicable competition laws; they will not prevent others from competing freely with them.

Shell was born of free enterprise. We believe in sustainable growth through meeting consumer needs in a responsible manner. The best way of achieving this is by free and open competition. Highly regulated markets, and restrictions on trade, lead to inefficiencies, stagnation and less wealth creation for all (see page 36).

Even though controlled markets can be very profitable for the select few, we encourage countries to move to free markets where companies can compete on quality and service as well as price. Shell companies are keen competitors in one of the world's most competitive industries, which is characterised by tight margins, ever-more demanding technical challenges and stiffer laws to protect safety and the environment.

Our main competitive advantage is our ability to develop and use advanced technology to improve the efficiency of our business. This, combined with our financial strength, means Shell companies can compete fairly in markets all round the world (see page 36).

We strongly believe that living up to our Principles is both right and good for our business. Such integrity and adherence to high standards gives Shell companies a further competitive edge in the long-term. We also believe that free markets, consumer choice and fair competition all contribute to a more free society.

In developed countries, market competition agencies regularly review competitive practices. This has involved Shell companies at least five times in Europe in the last five years. It is also common for companies to challenge competitors in the courts in today's highly litigious environment.



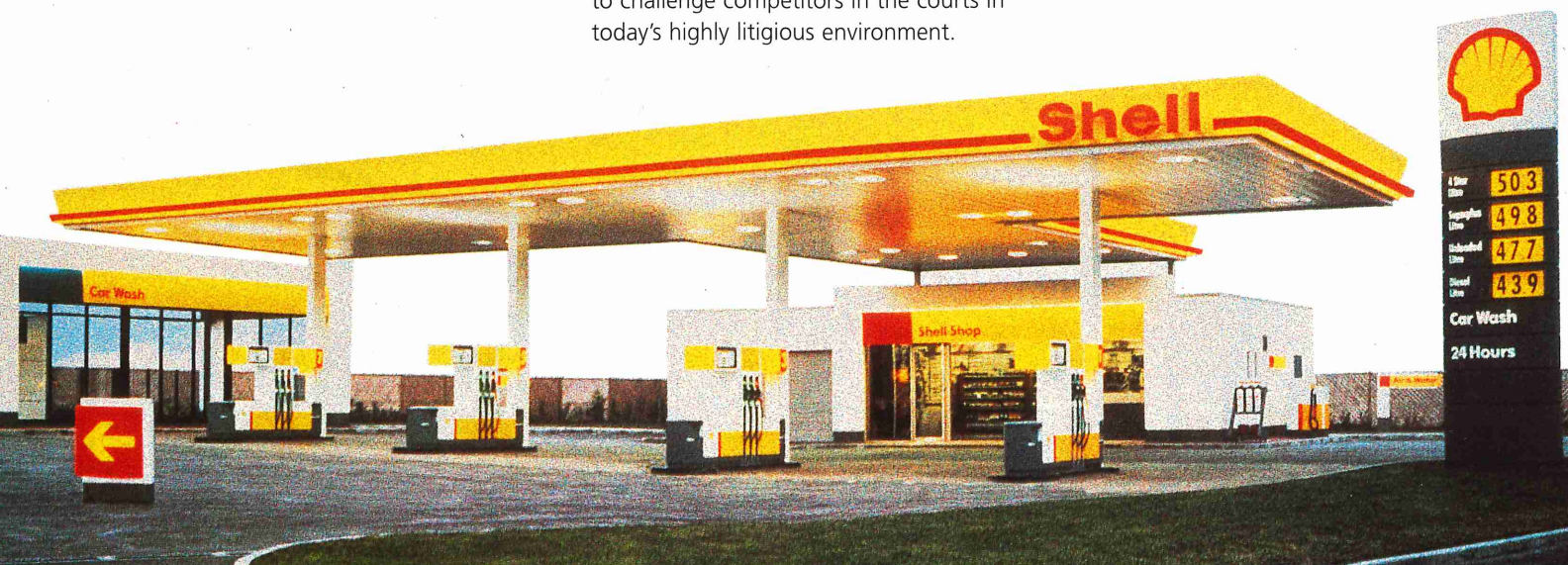
Delivering profits in a free market

In the last five years, two cases have been reported in which Shell companies were found to have taken anti-competitive action.

In one case, the company was subject to tight state regulation on refinery gate prices and margins, and failed to reduce the price at the same time as the regulation required. There was a fine of US\$ 670.

In the other, an EC Commission decision from 1988 relating to PVC, which had been annulled was re-issued against Shell International Chemicals Limited.

The business was fined 850,000 ECU. This decision is subject to appeal.



Living up to our Principles

Principle 9 Communications

Shell companies recognise that in view of the importance of the activities in which they are engaged and their impact on national economies and individuals, open communication is essential. To this end, Shell companies have comprehensive corporate information programmes and provide full relevant information about their activities to legitimately interested parties, subject to any overriding considerations of business confidentiality and cost.



Camisea –
communication in action

Confidentiality and openness: uncomfortable bedfellows

Companies are often accused of being secretive and arrogant in the way they dismiss requests for information from outsiders.

Such attitudes are beginning to change as business realises that its success depends on the approval of a broad range of people, including those outside the organisation.

"Tomorrow's successful company can no longer afford to be a faceless institution that does nothing more than sell the right product at the right price", says an Economist editorial.

"It will have to present itself more as if it were a person – as an intelligent actor, of upright character that brings explicit moral judgements to bear on its dealings with its employees and the wider world."

Business is starting to talk about a move away from a 'trust me' world of the past where people trusted business (and government) to do the best for society, to a 'tell me' and increasingly 'show me' world, where business has to demonstrate that it is indeed doing the best it can for the broader society.

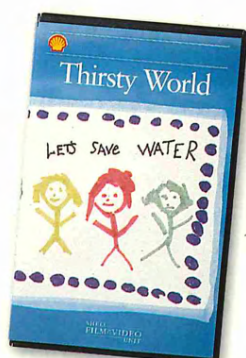
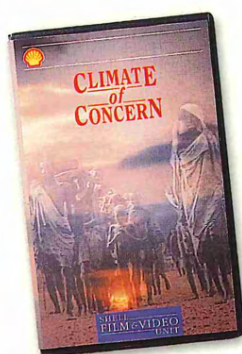
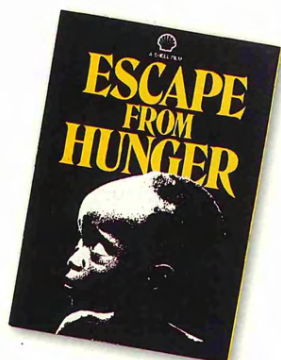
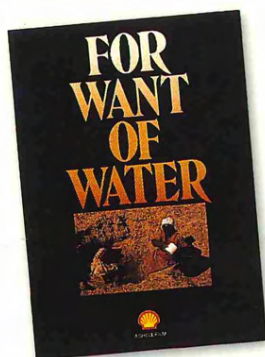
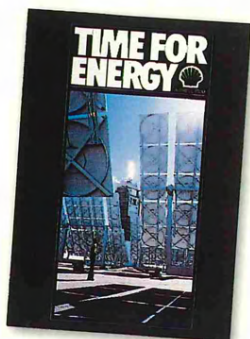
A 'show me' world means that business has to be far more open in its dealings with society and make much greater efforts to accommodate requests for information. It is struggling to find a way of doing this while operating in a highly competitive market where information is highly valued and can be used by competitors to thwart success.

The necessity to keep some information confidential will always prevent business – as it does for government – from being totally open about its activities. Successful companies will be those who find a balance where legitimate demands for information are treated with openness rather than arrogance.

Open communication

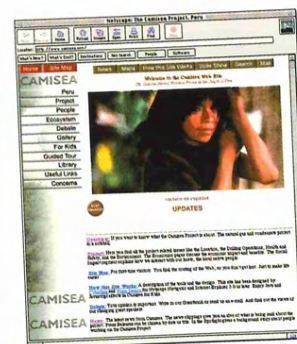
Communications technology and the expectations of those who depend on Shell, or who are affected by our activities, have changed dramatically in recent years and continue to do so.

Our traditional corporate culture has not necessarily encouraged openness. But we are now trying hard to be more accessible and open in the way we deal with requests for information, and in the style in which we communicate with employees in the Group, the media, opinion formers and the general public. We are also determined to listen more and get involved in debate and dialogue.



For example:

- We organise regular meetings with interested parties around the world to hear their views and expectations. In 1996 we held round-table discussions in 14 countries to discover people's attitudes towards multinational companies and Shell in particular.
- We commissioned a global survey by MORI in 1997 to get statistical data to support the findings of our round-table discussions.
- Our senior managers accept invitations to speak in a wide range of forums. The speeches are published.
- Major effort is put into the training of senior executives and external affairs staff to help them understand the issues which are of public concern, and to communicate clearly and accurately. This includes self-assessment methods backed by competence development programmes.
- Shell International runs an award-winning website (www.shell.com). This has a discussion group dealing with matters of public concern. There are links to other sites, including those of our critics. There are 28 linked Shell websites in different languages dealing with specific issues or regional interests. Notably there is a regularly updated site on the fate of the Brent Spar storage buoy with more than two years of discussion and information, and another on Shell's activities in Nigeria. Our websites are interactive and we encourage debate. We respond to 95% of enquiries within two working days.
- Besides our internal magazines and staff newspapers, we have an intranet (an interactive computerised information system available to employees via their computers) and in 1997 we launched a Group-wide satellite television network, carrying real-time presentations by senior management, news and information about Shell companies and other relevant topics.
- We have an award-winning film and video unit which produces documentaries that contribute to world debates on such issues as deforestation, water, soil erosion and poverty.



- We produce briefs on a wide range of energy-related and global issues, including managing air quality and vehicle emissions, climate change and sustainable development. These are posted on our website.
- We hold informal shareholder meetings in the UK and the Netherlands to keep in touch with private shareholders in the parent companies.
- In January 1998 we held our first ever meeting with institutional shareholders to talk about non-financial matters.
- We have increased our public transparency by providing more opportunities for the international media to meet and question members of the Committee of Managing Directors 'on the record'.

Such a change in attitude is in line with what people expect of us, and it makes good business sense too. This is because it helps us understand the needs of a fast-changing world and enables us to act quickly and decisively.

This Report is itself symbolic of the change in approach within Shell, and is an example of our determination to be as open as possible in a highly competitive world. Our plans to manage and measure social accountability (see Road Map, pages 49-51) implies a commitment to the development of partnerships and dialogue with interested groups.

Please use the 'Tell Shell' reply cards if you have suggestions on how we can improve our communications.

The revenue generated for the local government by your operations represents some 20% of the national GDP. Over the last 50 years there have been several different regimes in power. These situations are typical of those faced by some managers in the everyday conduct of their business and the factors they have to take into account when making decisions.



Shareholder value Vs social investment?

Companies must strike the balance between providing the financial returns that shareholders rightly expect and investing money in the social fabric of the countries and communities in which they operate?

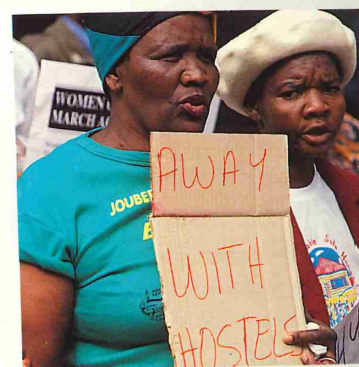
How would you do this?

For Shell's approach see Business Principle 2

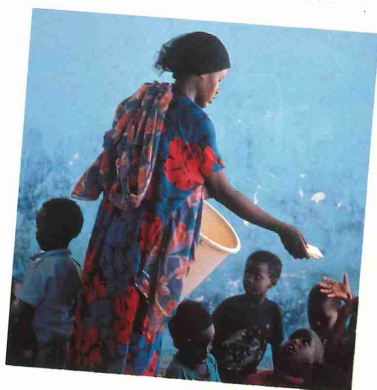
Economic muscle and political influence.

Under what circumstances, if any, should a major company use its economic power to deliver, or at least influence, political change – especially in nations with undemocratic governments and poor human rights records?

Undoubtedly companies can be a major force for good – but should an un-elected body impose its will on a country?



For Shell's approach see Business Principle 2



Go in or stay out?

Multinational companies may have to decide whether or not to do business with developing country where bribery and corruption are commonplace and there is little regard for environmental issues:

1. should you go in and expose yourself to possible criticism that you are willing to engage in business with such a government?
2. should you stay out and deny the country and its communities the economic benefits your presence would bring – and indeed the financial returns your shareholders might expect from such an opportunity?
3. what would be the basis for your moral stand for either option?

For Shell's approach see Business Principle 2

In considering many of the following questions you may find it helpful to put yourself in the position of the manager of a local operating company of a multinational corporation. Imagine that your company has been present in the country in question for 75 years. It has assets of some US\$ 500 million and 1,000 employees of whom 98% are local staff.

our view

☐ Tick here if you would like your view posted on our website.

Your name and address (voluntary).

our view

☐ Tick here if you would like your view posted on our website.

Your name and address (voluntary).

our view

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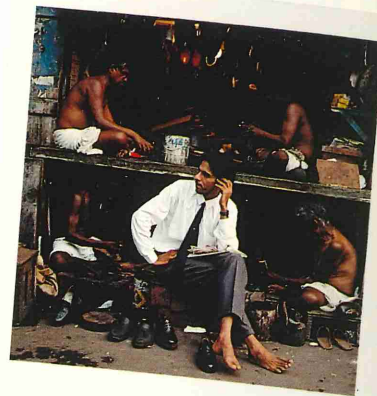
Your name and address (voluntary).

Islands of wealth.

When multinational enterprises operate in developing countries, they bring with them new jobs and greatly increased prosperity. Unfortunately, this often creates 'islands of wealth' where a small but significant number of local people are paid considerably more than the rest of the population. In turn, this can lead to inequalities and tensions. How can companies tackle this question?

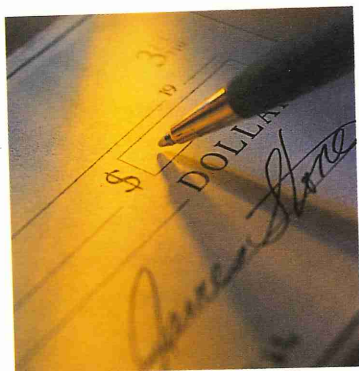
Would you pay local employees at international rates in the belief that the wealth will spread to the wider community?

Would you pay local rates and face accusations of exploitation and double standards?



For Shell's approach see Business Principle 2 & 8

When is a fee a bribe?



Most people agree that the giving and receiving of bribes is morally unacceptable and undermines economic and political freedom. But at what point does a consultancy fee – for example one paid to an influential intermediary for negotiating a major piece of additional business – become a bribe?

The company could take various forms of action:

1. view the contract as big enough so that it could afford to pay the intermediary a sum equivalent to a small percentage of the total contract value and leave it up to him to decide how best to use the money
2. try to put the intermediary on a retainer – in other words, engage him on a short term contract to work for the company
3. try to draw up a contract detailing what the consultancy fee may or may not be used for
4. another course of action.

What would you advocate and why?

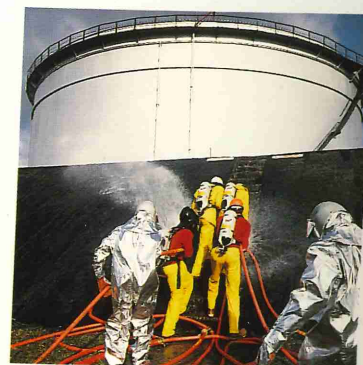
For Shell's approach see Business Principle 2 & 8

The high price of health, safety and environmental standards.

Multinational enterprises often work with state run companies as joint venture partners. In poorer nations, however, economic pressures may force authorities to adopt lower Health, Safety and Environment standards than those practices in the developed world. Multinationals can take various courses of action, for instance:

1. accept the lower standards and the possible accusation of operating double standards
2. make a stand for higher standards even though the country's economy cannot afford them
3. pull out of the deal altogether and let another company make the decision, or
4. adopt an alternative strategy.

What would you advocate and why?



For Shell's approach see Business Principle 2 & 8

In considering many of the following questions you may find it helpful to put yourself in the position of the manager of a local operating company of a multinational corporation. Imagine that your company has been present in the country in question for 75 years. It has assets of some US\$ 500 million and 1,000 employees of whom 98% are local staff. The revenue generated for the local government by your operations represents some 20% of the national GDP. Over the last 50 years there have been several different regimes in power. These situations are typical of those faced by some managers in the everyday conduct of their business and the factors they have to take into account when making decisions.

view

Click here if you would like your view posted on our website.

Your name and address (voluntary).

view

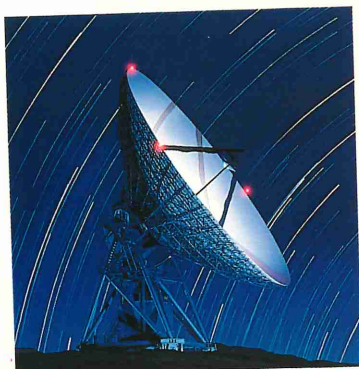
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Communications.

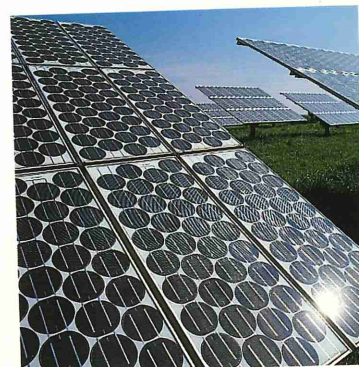
Multinational companies are sometimes accused of being overly secretive and impersonal as well as lacking the willingness or the means to communicate effectively. How do you think companies can improve the way they communicate with interested parties and society at large?

For Shell's approach see Business Principle 9

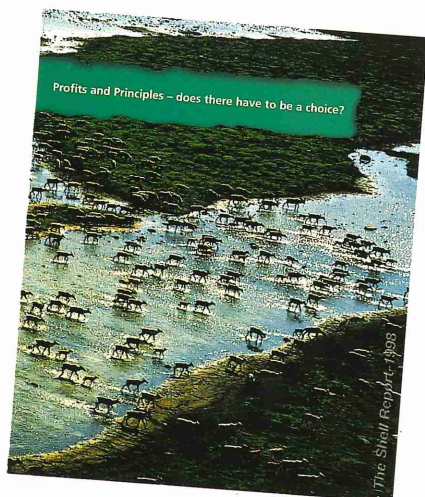
Pace of development in renewable energy sources.

What can multinational energy companies – working either alone or in partnership – do to speed up the pace of development and drive down the cost of renewable energy sources?

What factors could help or hinder this?



For Shell's approach see Business Principle 1



What do you think of this Report?

1. What did you like about this report?
2. What could we have done better?
3. What evidence of our performance or coverage of issues would you like to see more of in future?

view

here if you would like your view posted on our website.
name and address (voluntary).

view

here if you would like your view posted on our website.
name and address (voluntary).

view

here if you would like your view posted on our website.
r name and address (voluntary).

Issues & Dilemmas

Here we discuss six critical social and environmental issues facing the Group: human rights; climate change; globalisation and the role of multinational companies; operating in politically sensitive regions; dealing with industrial legacies; renewable resources. A short summary of the issue is followed by Shell's approach.

Many of these issues are still emerging and present us with dilemmas on how to act. Our Business Principles give us basic guidance on how to resolve dilemmas, but there are many areas where no one yet knows the best approach. We are committed to work with others to find the right path and we would appreciate your views. These can be sent to us on the attached 'Tell Shell' cards or directly to our website.

...to fail to do good when it is in one's legitimate power to do so is rightly condemned by the world.

***Sir Geoffrey Chandler,
Amnesty UK.***



Issues & Dilemmas

Human Rights

Human rights are the universal rights which every human being is entitled to enjoy and to have protected.

The underlying idea of such rights – fundamental principles that should be respected in the treatment of all men, women and children – exists in some form in all cultures and societies.

Such rights are enshrined in the Universal Declaration of Human Rights adopted by the United Nations in 1948. The declaration covers two broad sets of rights: one is known as Civil and Political Rights; the other as Economic, Social and Cultural Rights. More detail from UN (see www.un.org) and Amnesty International (see www.amnesty.org) and Human Rights Watch (see www.hrw.org).

Responsibilities of government

Governments are held responsible for the protection of human rights. They must protect the life, liberty and security of their citizens. They should guarantee that no-one is enslaved or subjected to arbitrary arrest, detention or torture. Everyone is entitled to a fair trial. The right to freedom of thought, conscience and religion and the right to freedom of expression are to be protected.

Governments are expected to improve the living conditions of their citizens by, for example, guaranteeing the right to food, clothing, housing and medical care, the protection of the family and the rights to social security, education and employment – and to promote these rights without discrimination of any kind.

Some commentators have argued that the idea of universal human rights conflicts with the very specific characteristics of local or regional cultures and customs – or may vary in different religious contexts. However, the governments of such regions have argued that strict measures curbing political freedoms were necessary to prime their economies, or that development can be regarded as a separate aspiration. This is despite the fact that at least half the 30 articles of the Universal Declaration specify economic, social and cultural rights which constitute much of the development effort.

Duty of business

Companies have a responsibility to respect the civil and political rights of their employees and many would accept that their suppliers and contractors should act likewise. There is still considerable debate on whether business can or should use its influence with the governments of the countries in which it operates to address broader issues of human rights.

Most multinationals choose to stay politically neutral and not to interfere in what they see as national issues. But companies that play a major economic role in a country are coming under increasing pressure from human rights groups and others to speak out against human rights abuses or to divest – particularly when complaints to governments fail.

Campaigners argue that companies should recognise a direct self-interest in promoting the preservation of human rights. The violation of human rights often leads to civil instability and uncertainty in the investment climate. And even in stable times, a lack of positive action from companies in this regard can damage corporate reputations.

UNIVERSAL DECLARATION of HUMAN RIGHTS



ON DECEMBER 10, 1948, the General Assembly of the United Nations adopted and proclaimed the Universal Declaration of Human Rights, the full text of which appears in the following pages. Following this historic act the Assembly called upon all Member countries to publicize the text of the Declaration and "to cause it to be disseminated, displayed, read and expounded principally in schools and other educational institutions, without distinction based on the political status of countries or territories".

Shell's approach

We support the Universal Declaration of Human Rights, and have made specific reference to this in our Business Principles (see page 5).

This is what we have done to ensure we act in the best possible way when confronted with human rights issues.

- We speak out in defence of human rights when we feel it is justified to do.
- We included specific references to human rights in our Business Principles when they were updated in 1997. This followed widespread consultation with many different interest groups, including those defending human rights.
- We engage in discussion on human rights issues when making business decisions.
- We have established a regular dialogue with groups which defend human rights. One such dialogue was with Amnesty International and Pax Christi together. This has subsequently been published by Pax Christi (March 1998) to assist others addressing this topic (see www.antenna.nl/paxchristi).
- We are setting up Social Responsibility Management Systems (see pages 49-51), designed to help in the implementation of our Business Principles, and therefore our stated support for human rights.
- We are developing awareness training and management procedures to help resolve human rights dilemmas when they arise. This includes a guide to human rights for managers (see page 6).

It is abundantly clear that issues and possible courses of action differ according to culture and local conditions. This makes it important for Shell managers to be trained and fully briefed so that they have both the knowledge and authority to take appropriate action in their particular circumstances (see page 6).

We continue to debate the issues within the Group and work with human rights specialists to improve our understanding of the subject (see *Working in Politically Sensitive Regions*, page 38, see www.shell.com).

Pax Christi and Amnesty International wish to take this opportunity to again express their appreciation of the pioneering role that Shell is fulfilling in recognising that multinational corporations bear responsibility in the field of human rights. On the basis of the contacts that both organisations maintain with various other companies, they expect that other multinational corporations will be taking similar or further reaching measures in the future.

Pax Christi and Amnesty International, Utrecht 1997.

Extract from correspondence on the Shell Group's Statement of General Business Principles.



Issues & Dilemmas



Pioneering CFC-free products

Climate change

Human activities, especially the use of fossil fuels, may be influencing the climate, according to many scientists, including those who make up the Intergovernmental Panel on Climate Change (IPCC).

Gases present in the atmosphere, such as water vapour, carbon dioxide (CO₂) and methane, keep the earth warmer than it would otherwise be, by acting as an insulating blanket and trapping some of the sun's rays – the natural greenhouse effect.

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

Their concentration in the atmosphere has been rising since the industrial revolution. This has led to an enhanced greenhouse effect and there is concern that it will cause the world to warm up, which could lead to a change in climate and local weather patterns, possibly with increased droughts, floods, storms and sea level rise. The average temperature of the earth has risen by about half a degree Celsius over the last century, possibly due in part to greenhouse gas emissions caused by human activity.

What the world has decided to do

Most of the world's nations were sufficiently concerned to sign a United Nations agreement, the Framework Convention on Climate Change (FCCC), in 1992. Industrial countries aimed to reduce emissions of greenhouse gases to the level they were in 1990, by the year 2000. Very few countries will meet this target.

At a conference in Kyoto (December 1997), stronger commitments under the Convention were agreed. Rich countries will be legally bound to reduce their greenhouse gas emissions by at least 5% on average relative to 1990 levels, by the years 2008 to 2012. This is the first real step in what will likely be a series of further international negotiations to tackle the issue globally.

Shell's approach

Curbing the use of fossil fuels has obvious business implications for Shell. Nonetheless, we share concern over the impacts of potential climate change and believe that prudent precautionary measures are called for. The reductions set out in the Kyoto Protocol provide the necessary direction to encourage such measures.

Shell companies are committed to play their part – and to help customers play theirs – in making the savings in energy needed. We feel strongly that further research is needed to help the world better understand the potential impact of climate change and we continue to contribute funds to make this happen.

We think agreed mechanisms to curb greenhouse gas emissions should be highly flexible and allow reductions to be carried out where they can be achieved most efficiently and be of the greatest benefit to everybody. We welcome the possibility of emissions trading and partnerships between countries to implement reductions jointly.

The world needs to take action now. But we must do so carefully, appreciating that the timescale is necessarily long, that our understanding will develop, and that the human costs of stunting economic development would be very high.

Unfortunately many assertions about future climate are based on simplistic extrapolations of current energy trends, which lump all fossil fuels together. This ignores their very different impacts.

The carbon intensity of energy supply has steadily fallen as we have moved from wood, to coal, to oil, to gas. All the world's estimated resources of conventional oil and gas could be consumed without raising atmospheric carbon concentrations above the limits suggested by even the most pessimistic observers. The real problem is with the very much larger resources of carbon intensive coal.

Climate change - the most serious and difficult issue for sustainability.

The decarbonisation trend will continue as the world moves towards a greater use of renewables and, possibly, other forms of energy. With this in mind, Shell companies have been active for 20 years with research into the viability of renewables and the development and harnessing of technologies. We think renewable sources could be supplying 10% of the world's energy by 2020, and perhaps half by 2050. Our past activities, our inclusion of renewables as a core business activity and our recent investment commitments are discussed in more detail on pages 9 & 44.

Read on if you would like to know more detail on what shapes our thinking.

What shapes our thinking

We are influenced by our view of sustainable development and the long-term energy scene.

We believe that affordable, clean and reliable energy products are essential to sustainable development: meeting the needs of the present without compromising the ability of future generations to meet their own needs.

Fossil fuels supply around 85% of the world's primary energy needs. There are no alternatives available now in sufficient amounts – at a price consumers are willing to pay – to replace these fuels. But we expect renewable sources to get cheaper over the next few decades.

This view is based on our work with independent experts to make educated guesses on what might happen in the future. We see three developments:

1. The eventual consumption of most of the world's conventional oil and gas, mainly because these fuels are highly effective, convenient to use, and easy to transport.
2. Use of coal will grow, but not to the same level as some others would suggest.
3. CO₂ emissions could peak in the period 2020-2030, at a level below that of many long-term estimates made by others, including governments. This would lead to stabilisation of atmospheric CO₂ levels at just over twice the pre-industrial level, close to the target proposed by the European Union.

Energy markets are changing fast. We have to plan for this and do the best for the Group, our shareholders and the broader society. In short, Shell companies expect to do the following:

- Continue to produce oil and gas to fuel the next 20-30 years of economic growth, particularly in developing countries. Growth is essential if fast-growing, and often poor, populations are to improve their living standards. This means we have to continue to find more reserves.
- Provide more natural gas. This fuel will be in high demand for the next few decades because it is abundant; can be converted efficiently into electricity; is relatively cheap to find and transport; and emits far less CO₂ and other pollutants than competing fuels. We will continue to reduce the amount of CO₂ our fuels emit on use by concentrating on low-carbon materials such as gas and renewables.
- Develop our businesses in gas-fired power generation. Electricity is essential for development and improvements in the quality of life, especially in developing countries.
- Develop renewable energy sources, (which is discussed in detail on pages 9 & 44).
- Reduce emissions from their own operations. Since 1992 we have reduced flaring of unwanted gas by 20%, venting by 26% and the emissions of chloro fluoro carbons (CFCs) and halons by 85%. We are committed to cease continuous flaring and venting by 2008. (Gas is produced as a by-product of oil production. Flaring refers to the burning of unwanted gas. Venting is the release of gas without burning. Natural gas and CFCs and halons are powerful greenhouse gases. Flaring creates CO₂, the principal greenhouse gas).

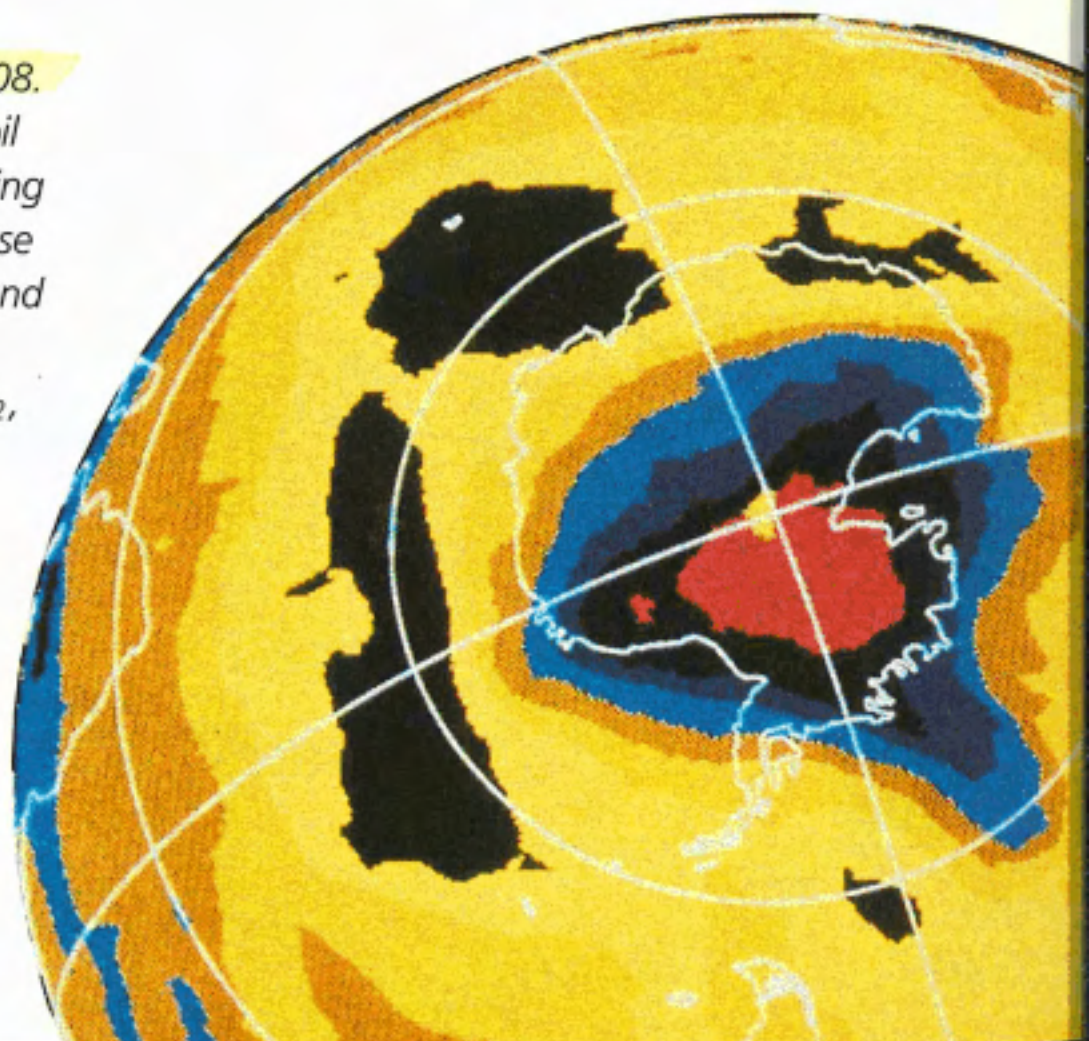
- Help customers reduce their emissions. This is achieved by providing lower-carbon fuels, especially natural gas and renewable energy sources. Many Shell companies have promoted automotive LPG, a fuel with a lower carbon content than gasoline. Modern petrochemicals products made by Shell chemical operations allow the substitution of energy-intensive materials, such as steel with less energy-intensive plastics. This has helped reduce the weight of cars, improving fuel efficiency. Further improvements, albeit small in CO₂ emissions, come from the additives used in fuels and lubricants that improve or maintain engine efficiency.

Lobbying and industry associations

Shell companies belong to many industry associations, some of which take a view on climate change and lobby regulators. The most controversial of these is the Global Climate Coalition of the USA.

Shell Oil in the USA remains a member of the Global Climate Coalition, which has a style unique to the USA reflecting the political culture. Shell Oil believes it has a better chance to influence the actions of the Global Climate Coalition, and persuade its fellow members of the view held by Shell companies on climate change, if it remains a member.

More information is available on the Shell position (see Climate Change brief on www.shell.com and recent speeches by Group Managing Directors, page 56).



Issues & Dilemmas

Globalisation and the role of multinational companies

Globalisation – the combination of much freer movement of capital and much freer trade in goods and services around the world – brings many benefits but is also causing deep concern about its social and environmental consequences.

The debate about globalisation's benefits and drawbacks, and the role of multinationals in particular, is characterised by splits between those who argue that progress and the eradication of poverty are best achieved by allowing global markets to emerge, and others who think this is unlikely to address human and environmental concerns adequately.

The key issue is whether markets sufficiently encourage companies to take such concerns into account, and to what extent new standards and corresponding new accounting tools are needed (see pages 47 & 50).

Inter-government support for the idea of sustainable development, which gives equal weight to economic progress, environmental protection and social responsibility, has intensified the debate.

Nothing new

Free trade and capital flows existed before the First World War, although on a much smaller scale than today. The end of communism and the almost universal support for market economies, combined with improvements in information technology, have encouraged the trend towards globalisation.

This has allowed those developing countries which adopt policies compatible with globalisation to grow very fast. In the 1800s it took Britain 85 years to double the income per person. China has achieved the same in a decade. Those countries which have not benefited tend to have adopted policies which discourage trade and investment.

Globalisation means that some businesses can now choose to make goods in one region of the world and sell them in others, constantly seeking out the most efficient locations. Investors too have the opportunity to look for the highest rate of return in a growing number of capital markets around the world.

Some commentators argue that multinational companies probably make the biggest contribution to – and benefit most from – globalisation, mainly because they have the infrastructure, technology and access to funds to take advantage of the many opportunities. It is estimated that the top 500 multinationals account for nearly 70% of global trade and 80% of international investment.

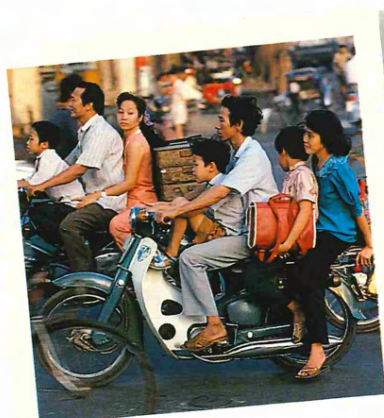
Increasing direct investment

Increased activity by large companies in developing countries can boost trade, create jobs, and help alleviate poverty. Such investment, known as Foreign Direct Investment (FDI), is on the rise and is fast replacing overseas aid, which is shrinking as donor governments cut back.

FDI also eliminates the financial risks that developing governments face if they borrow money from banks or raise it on the capital markets. Companies bear the risk if their investments fail. Both government and the business benefit if the investment is successful, through taxes paid and profits made.

But many people are deeply concerned that while multinationals might create competitive companies in the developing world, they can also destroy local enterprises which find it difficult to compete. People feel powerless to affect the actions of multinationals and often accuse such companies of ignoring their social responsibilities and rigging international regulations and codes of conduct in favour of big business.

Multinationals are also accused of operating double standards in areas such as wages, safety and the environment: paying lower rates in the developing world, and working to lower safety and environmental standards than they would in their home countries. It is, though, also acknowledged that multinationals with long-term investments – and which are also under public scrutiny – have sufficient incentives to observe relatively strict standards worldwide.



Growing demand for mobility



A world hungry for energy

Another major concern is that globalisation reduces the bargaining power of low-skilled labour and increases job insecurity, and thus contributes to poverty, inequality and social disintegration. This is because production of manufactured goods can be moved from one country to another with relative ease, but workers are far more restricted in their ability to cross borders. The movement of light manufacturing companies from the USA to Mexico is an example.

Companies working with natural resources – for example mining, oil and gas, and tree plantations – have to make long-term commitments because of the capital-intensive nature of their business.

Some social and environmental groups want, as a minimum, voluntary codes of conduct for multinationals. There is also a demand for legal instruments which would place greater control on the activities of multinationals and force them to include social and environmental factors in their investment decisions.

Such demands are often resisted by developing countries because they are seen as cultural imperialism, designed to impose a barrier to their development by reducing their competitive advantage. Producers in emerging economies also accuse regulators in the developed world of creating barriers to trade by imposing environmental conditions on trade. Two examples are standards designed to protect dolphins in the tuna fishing industry and the environmental labelling of paper products in the European Union.

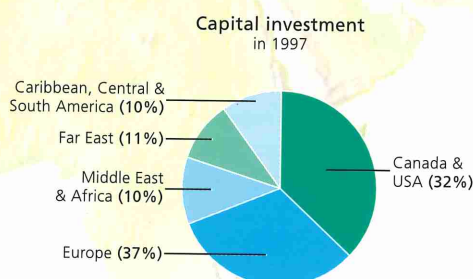
Shell's approach

Shell strongly supports globalisation as a way to ensure greater prosperity for all. There are two key issues in the debate: the role of private enterprise and the call for global standards.

Enterprise

In principle, private enterprise is beneficial and it works best when there is competition in markets. This provides strong incentives to innovate and adopt best practice, which ultimately leads to higher living standards.

History shows that such prosperity also brings demands for higher social and environmental standards. Shell companies, due to the capital intensive nature of their operations, are long term investors. In 1997, the capital investment of Shell companies worldwide was in excess of US\$ 12 billion (see pie chart for breakdown). In addition more than US\$ 1 billion was spent in exploration worldwide. It would be short sighted for Shell companies to practice low standards at the beginning of the investment cycle, only to have to raise them later at much greater expense.



Standards

Special standards governing private and public enterprise may be helpful to consumers, workers and the public at large. The appropriate authorities should decide on these standards and Shell companies will then conform to them. The Business Principles act as a safety net against abuse or inadequate exercise of such authority.

In some cases it may be sensible to have mandatory standards. Ideally these should be set as a result of dialogue between the relevant interest groups. Where this is not possible – where governments are weak or uncaring – then international standards may be useful.

The imposition of such standards creates many dilemmas, mainly because those who campaign for the standards are often doing so on behalf of others who might, or might not, appreciate the help.

The principle of different standards is enshrined in a United Nations agreement 'Principle 11 of the Rio Declaration of 1992), which makes it clear that national environmental standards have to be effective but "standards applied by some countries may be inappropriate and of unwarranted economic and social cost to other countries, in particular developing countries".

Shell companies do not pretend to operate in an identical manner around the world, although some standards are global by their very nature. The importance of human life is the same worldwide and Shell operates to the same standard in the areas of occupational health and safety.

Other standards to which we adhere must depend on local circumstances, such as the condition of a region's environment, what the customer wants and is willing to pay for, and the law. In any event, each Shell company has adopted and will conform to the Group's Statement of General Business Principles and HSE Policy.

The debate within the Group on the issue of standards is aimed at achieving the best policy to ensure that Group-wide standards bring the intended benefits for Shell companies, the people who depend on them, and protection for the environment.

As a minimum, the Group supports the efforts of government and inter-governmental organisations, such as the Organisation for Economic Co-operation and Development (OECD), to introduce measures like the Multilateral Agreement on Investment (MAI), which will enhance international investment within a sensible framework.

Issues & Dilemmas

Operating in politically sensitive regions

Multinational companies, especially those in the oil and gas industries, sometimes operate in politically unstable regions of the world, characterised by oppressive regimes, civil unrest, armed insurgency and terrorist or guerrilla activity.

Energy is a state concern and oil companies are inevitably involved in discussions with the prevailing government, either by licensing agreements, fiscal obligations or through joint ventures with state-owned companies.

These relationships expose companies to criticism from human rights and other groups which see the involvement of business as an endorsement of government policies and actions.

Other than human rights (see page 32), two areas are of particular concern. One is the way companies organise their security operations and the other is the role of foreign companies in joint ventures.

Security

Companies have a duty of care to provide security for their employees, as well as a responsibility to shareholders for the protection of property and information. The security risks can include malicious practices, crime, civil disorder, extremism, terrorism and armed conflict. As ordinary citizens, companies would expect the state's forces of law and order to give appropriate protection against the more serious threats to people and property. However, they would be expected to provide routine security of their own assets, which may include guarding. This can sometimes be seen as running private armies or using and paying for troops and police from an oppressive regime.

Joint ventures

Some campaigners argue that companies in joint ventures with the state, even if they are minority shareholders, should use their influence – or their own resources – to ensure higher levels of pay, better standards of safety and environmental protection, and to defend human rights.

Shell's approach

We are very concerned by the human rights issues associated with politically sensitive regions. We support the Universal Declaration of Human Rights (our position is on page 33) and all our actions are based on our Business Principles (see page 5).

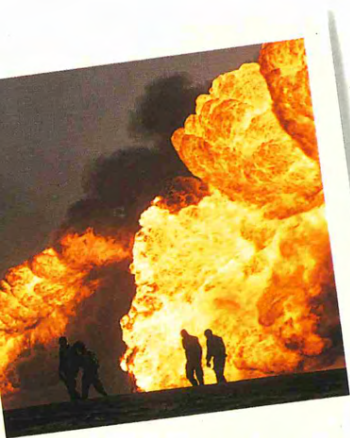
The Group's businesses are highly capital intensive and involve long-term commitments. We know from considerable experience that governments change, often for the better, as has happened in South Africa and in the former Soviet Union. Our commitments are to the communities and the nations in which we operate, not just to the government of the day.

Security

We realise that all private security arrangements have to be handled with great sensitivity. The need arises only in exceptional cases when required by law, or when the state has insufficient resources to provide normal protection. We have established a dialogue with Human Rights groups to ensure that our security guidelines and actions reflect current thinking.

Nigeria is a good example of where security is needed. Shell Petroleum Development Company (SPDC), the Shell company in Nigeria, has reviewed its security force guidelines against three United Nations documents: UN Basic Principles on the Use of Force and Firearms by Law Enforcement Officers; UN Code of Conduct for Law Enforcement Officials; and UN Pocket Book on human rights for the Police.

As a result, and in line with the Statement of General Business Principles, the guidelines were updated to include explicit reference on the need to respect and protect human dignity and uphold the human rights of all persons.



Aftermath of Gulf war

Joint ventures

We are involved in a number of joint ventures around the world. In some, the Shell company is the majority shareholder and totally in charge. In others where it holds a minority stake it might be responsible for running the daily affairs of the joint venture, but it does not necessarily control the decisions made by the venture as a whole (as in Nigeria, see below). In all minority ventures where a Shell company has a substantial investment (greater than 20%) it makes a concerted effort to see that the Principles or a compatible set of Principles are accepted by partners.

Shell companies will no longer form joint ventures where partners decline to adopt Business Principles compatible with ours. One of our dilemmas is how to deal with existing joint ventures where partners currently reject such Principles, or fail to implement them.

The case when Shell companies are a significant shareholder, but with a minority stake, can pose many dilemmas, especially in the areas of pay, and health, safety and environment.

Take Nigeria. Shell Petroleum Development Company (SPDC) is the operator of a joint venture on behalf of the government-owned Nigerian National Petroleum Corporation (NNPC – 55% interest), Shell (30%), Elf (10%) and Agip (5%). The partners fund the operations in proportion to their shareholding.

The joint venture's partners recommended a business programme for 1997 which, including community and environment projects, cost some US\$ 1.9 billion. This was dependent on funds being made available to cover the NNPC's 55% share from the government's 1997 budget, which has to balance the growing needs of a nation with many development and economic challenges.

It became clear in February 1997 that sufficient funds were not going to be available from the government. The joint venture's budget was reduced by 40%, which led to major cuts in its activities. SPDC managed to maintain the community programme at US\$ 32 million and spent US\$ 94 million in 1997 on environmental improvement projects.

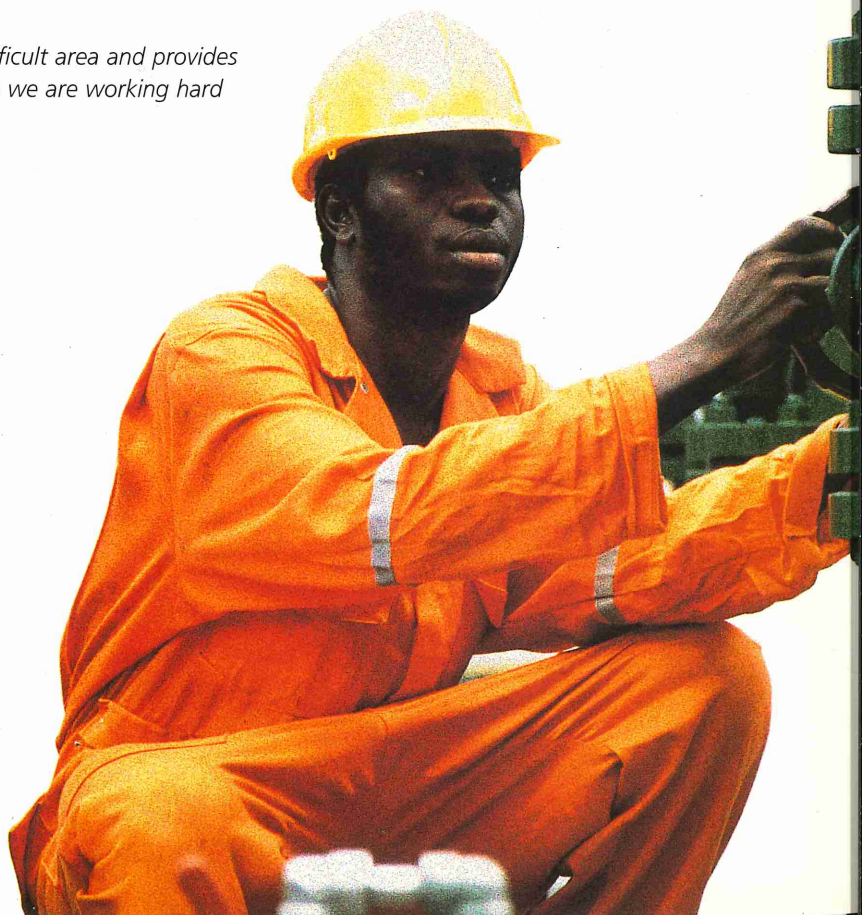


Standards – a challenge for joint ventures

But budget cuts and consequent reductions in production mean that planned projects and published improvement targets will have to be rescheduled. Earlier promises on environmental improvements will not be met on time.

What does a Shell company do when faced with this situation? Some say it alone should make up for the shortfall, even if this is not its responsibility under the terms of the joint venture. Such action would not only fail its investors, but it could also encourage other joint venture partners to make similar and probably unfair demands.

This is clearly a difficult area and provides us with a dilemma we are working hard to resolve.



Issues & Dilemmas

We have learned that we must change the ways we identify and address issues, and interact with the societies we serve.

Dealing with industrial legacies

Most companies involved in manufacturing and heavy industry have to deal with environmental problems created by past activities, of their own or a predecessor's making. In some cases the practices which led to these are no longer acceptable.

For example, paint makers often own property contaminated with lead, which used to be an ingredient in paint before it was known to be harmful to health if ingested. The soil on sites of old municipal gas factories is usually contaminated with coal tars. Heavy industry often owns property contaminated with chemical solvents used for degreasing.

Oil production companies own platforms and other installations that are no longer needed and oil distributors often have to deal with ground contamination from fuel which has slowly leaked from storage tanks.

Much of the industrial contamination of soil does not pose an immediate hazard, as long as the property is left undisturbed. Contamination which is an immediate threat to people and the environment, such as contaminated ground water, usually has to be cleaned up, in most countries as a matter of law, with the company responsible bearing the cost.

National laws differ on the responsibilities companies have to bear for historical contamination, and the level of remediation required. Generally, contamination reduces the value of both the property and the companies who own it.

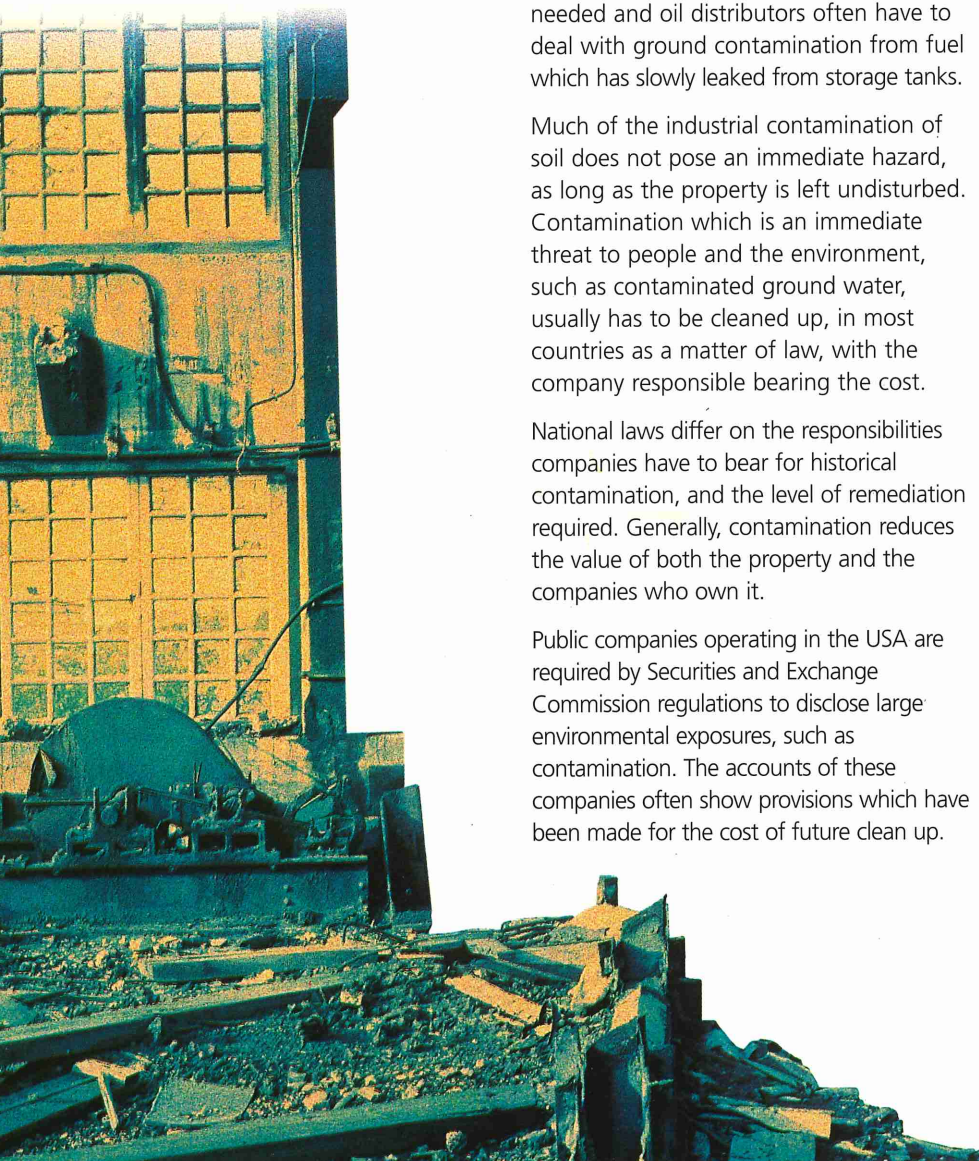
Public companies operating in the USA are required by Securities and Exchange Commission regulations to disclose large environmental exposures, such as contamination. The accounts of these companies often show provisions which have been made for the cost of future clean up.

Shell's approach

Cleaning up contaminated soil and water is the responsibility of the companies who own the sites. As part of their Commitment to HSE, Shell companies undertake to assess contamination and to put control and remediation plans in place. The companies have to make decisions on restoration based on conditions on the spot and work closely with local authorities.

The disposal of obsolete oil platforms and other installations is controlled by national laws and international agreements. For example, in the UK, the process adheres to the International Maritime Organisation guidelines, an approach contained within the UK Environmental Protection Act. This allows, in some circumstances, for a portion of the installation to be left, providing there is adequate water clearance. Before this is allowed to happen the requirements of OSPARCOM (an alliance of 12 nations bordering the North East Atlantic) must be met.

Unless there are specific legal stipulations on how installations are to be decommissioned, Shell companies come to an agreement on the best option with regulators and will also consider the wider social implications. Our experience with the Brent Spar has taught us that sticking to the letter of the law is not enough. We need to dispose of installations in a way that is also acceptable to the broader society.





focus of global debate

Dialogue leads to Brent Spar solution

Brent Spar, the redundant storage and loading buoy which was the centre of controversy over plans for its deep-sea disposal in 1995, will be used to build a quay extension near Stavanger in Norway, if the plan meets official approval.

The original plans, which were given statutory and government approval, were opposed when the time came to carry them out. Protesters felt that the sea should not be used as a dumping ground and were concerned that other oil installations would be disposed of in the same way if the sinking of the Spar went ahead. Many false allegations were made but these were difficult to rebut in the highly-charged atmosphere of confrontation that prevailed at the time.

Protests were vocal and physical. They ranged from the personal intervention of senior politicals in several European countries, to the occupation of the Spar by Greenpeace activists. There were violent attacks on Shell service stations in Germany, with 50 damaged, two fire-bombed and one raked with bullets.

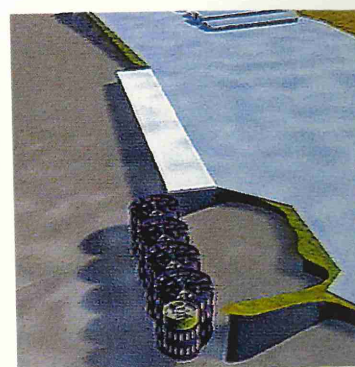
In the face of such public opinion against its plan, Shell UK halted the disposal and the Spar was towed to a mooring in a Norwegian fjord while its final fate was decided. Tests by an independent Norwegian foundation, Det Norske Veritas, disproved claims by Greenpeace that the Spar was a 'toxic timebomb'. Greenpeace later apologised.

A two-year dialogue process then started with a series of meetings in Denmark, Germany, the Netherlands and the UK to help Shell UK identify a solution by gathering a wide range of views – known as the Brent Spar Dialogue. Shell UK consulted with non-governmental organisations, opinion formers and experts on the best disposal options. Participants were asked for their opinion on the issue, and later on in the selection process, to help choose between the shortlisted options for the Spar's disposal.

This unique consultation exercise has helped to promote a different approach to decision making in the Group, and has shown new ways in which Shell companies can be more open and accountable (see the Brent Spar website www.shellexpro.brentspar.com).



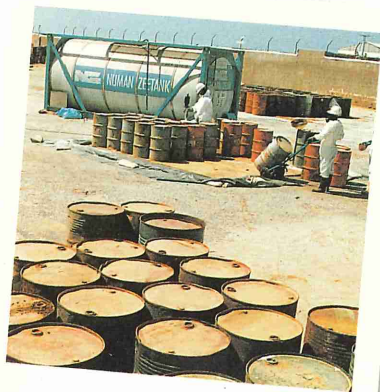
Hidden depths of the problem



The recycled solution

Our 'Way Forward' for Brent Spar has helped to promote a different approach to making decisions in Shell, and has stimulated us in developing new ways of being more open and accountable.

Safe disposal of obsolete pesticides.



A blueprint for disposal
- Mauritania

Product Stewardship in Mauritania

In 1997 Shell International Chemicals completed a project with the non profit-making German Agency for Technical Co-operation (GTZ) and the government of Mauritania to remove and safely dispose of 186,000 litres of obsolete dieldrin insecticide and some 1,500 contaminated storage drums from sites around Mauritania, North West Africa.

The dieldrin was provided by aid agencies as a strategic stock for the control of locusts in the 1960s and 70s. The licence to use the material was later withdrawn when newer products became available – but the stocks remained. With time the stores posed a potential threat to the environment and communities. As the makers of the dieldrin we took responsibility under our commitment to Product Stewardship to help in the disposal. Shell International Chemicals provided technical advice, assistance and training, and paid for the transport and high-temperature incineration in the Netherlands.

Earlier collaborative projects with GTZ provided invaluable learning on how to deal safely with obsolete pesticides. Further projects are underway with the intention of disposing of all unwanted dieldrin stocks.

Shell's multiparty approach to the disposal of obsolete pesticides is being used as a model for similar operations elsewhere.



How to help the environment heal itself

Shell Gabon has been working with the Gabon government and the World Wide Fund for Nature (WWF) to rehabilitate disused exploration areas in the country's forests.

Gabon, in West Africa has some of the largest oil reserves south of the Sahara and is rich in tropical rain forests. Shell Gabon has been working in the country for over 20 years.

Early exploration, mainly in the 1960s, led to the building of bridges and rough roads made from crushed stone; clearing of sites to accommodate drilling platforms also made from crushed stone; erection of engineering equipment, concrete cellars, flow-lines and the digging of mud pits to store waste hydrocarbons.

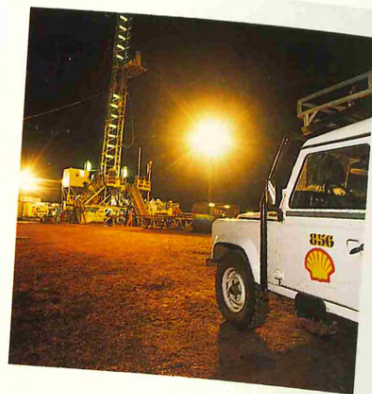
When insufficient oil was found, most of the infrastructure was abandoned as was common practice at the time. The roads and clearings were subsequently used by other oil companies and by loggers.

In 1993, working with the Gabon government and a representative from the WWF, Shell Gabon set about returning an area surrounding 26 disused sites to a condition where the environment could recover naturally. This involved:

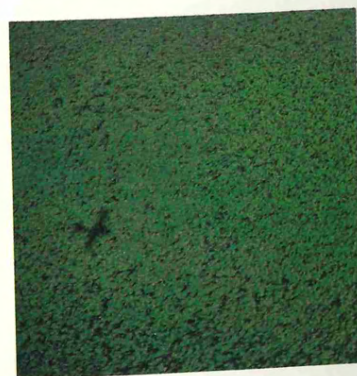
- plugging wells and cutting off access pipes below ground level
- removing all debris, or burying it if removal was more damaging
- cleaning up and filling mud pits
- stabilising the sides of the platforms to minimise erosion and limit surface water run-off
- breaking bridges and destroying access to roads and tracks to avoid re-use
- seeding the sites and tracks to speed natural regeneration of vegetation.

In 1996 the job was completed to the satisfaction of the Gabon government and the WWF. Shell Gabon is using its knowledge to plan in advance for the eventual rehabilitation of its producing sites in the country.

The work has led to the initiation of standards, procedures and tools which are being used by other Shell companies worldwide. The experience also underlines the need to include rehabilitation in the planning of new exploration ventures – now considered best practice by responsible companies.



Operations in Rabi-Gabon



Restoring the rainforest - Gabon

Issues & Dilemmas

Renewable resources

One answer to the challenge of achieving sustainable economic development in the face of fast-growing populations is the development of locally-based renewable energy sources, supplying local markets.

Technologies to exploit renewable energy sources, such as wind, sun and biomass (plant matter), are developing fast. But except in niche markets none can yet compete effectively with the convenience, cost and efficiency of fossil fuels. This, of course, will change as populations grow, requiring energy supplies that fossil fuels cannot deliver. Renewable resources are expected to provide between 5% and 10% of the world's energy within 25 years and the market share could grow rapidly after that, perhaps expanding to half by 2050.

This trend will substantially affect the viability of those energy companies which are reliant on fossil fuels. Furthermore, the environmental drawbacks of a continuing dependence on such fuels – mainly emissions and exploration in socially and ecologically fragile regions of the world – have led to calls for oil companies to invest much more in the development of renewables.

A substantial shift away from fossil fuels will certainly reduce many of the environmental risks involved in finding, transporting, processing and using oil, gas and coal, although renewables are not totally free from environmental and social impacts.

The burning or gasification of biomass is considered environmentally sound when converted to useable energy without harmful emissions. This is because plants regrown for this purpose absorb as much carbon dioxide as they release when burnt, and therefore do not increase the concentration of greenhouse gases in the atmosphere.

The creation of additional plantations is a positive means of absorbing CO₂ when mature trees are used for traditional uses such as paper and timber. In spite of the benefits, tree plantations can create controversy. The issues include:

- the type of land used and the conditions under which it is acquired and occupied
- what happens to local people when trees are planted and what benefits or disadvantages result
- what types of trees are grown
- how the plantations are managed
- how wildlife and ecosystems are protected
- what the impact is on water supply.

All of these issues must be addressed in the planning and management of plantations.

Renewables are clearly set to play an increasingly important part in satisfying the world's need for energy and this provides energy companies with potentially attractive opportunities.

Shell's approach

We have been experimenting with renewable energy technologies for 20 years. In 1997 we made a commitment to invest US\$ 500 million over five years in renewables and in the process created another core business, Shell International Renewables. That this business was set up demonstrates the Group's commitment to the development of renewables.

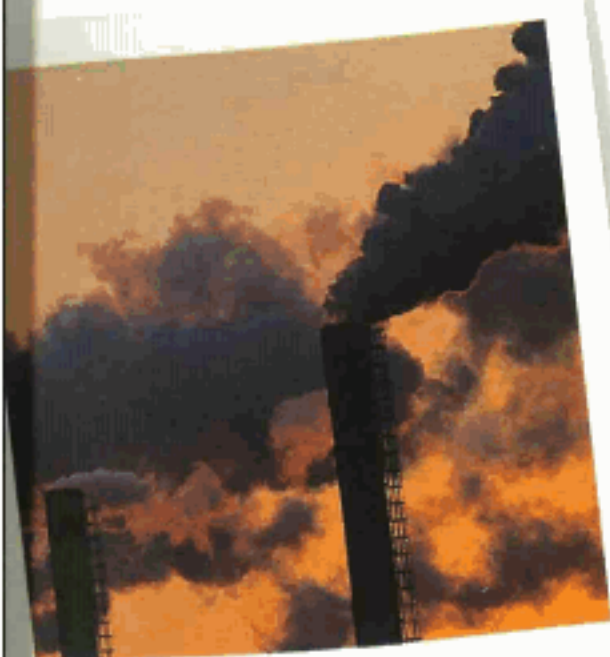
The decision illustrates how integral environmental issues are to business.

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

Shell International Renewables will devote most of its effort to three areas: solar electricity, forestry as a business in its own right and biomass power generation.



Cultivating renewable resources



Conventional power generation



Solar power

Solar

We expect that the cost of producing photovoltaic panels could drop at the rate of 6-8% each year over the next 20 years. This would mean that 10 years from now, the cost of solar electricity could be three times cheaper than it is today.

The experience of Shell companies with pilot systems in both sunny and cold climates shows how effective and useful the technology can be – however fossil fuels are cheaper to use. We are working to reduce the cost of making solar panels and looking at new technologies to increase the efficiency of conversion from sunlight to electricity.

We have a team working on a design for a 10 MegaWatt manufacturing line which can be set up anywhere in the world, depending on local conditions.

Forestry and Biomass Power

Wood is a key source of renewable energy. It is converted into energy by combustion and is ideal for small-scale power stations in the developing world.

Shell companies have invested in plantation forestry since the early 1980s and have gained considerable experience in all aspects of the business, including the environmental and social issues. For example, we worked with the World Wide Fund for Nature (WWF) to produce the Tree Plantation Review, a series of 12 reports on a range of social, economic and environmental issues that affect the development of forestry plantations. Shell International Renewables recently prepared revised guidelines for safe working practices and environmental management of tree plantations.

As part of the process, each of our plantation companies is committed to achieving ISO 14001 certification, the first having been accredited in July 1997.

Solar and Biomass combined

The two technologies can be combined in what we call a 'sun station' to supply villages and small towns with an uninterrupted supply of electricity.

We are also investigating other technologies, such as offshore wind farms, to see how our expertise can help to develop a range of energy technologies.



Contributing to Society

A personal view.

A Personal View

We invited John Elkington to contribute his personal thoughts on the challenges that Shell companies, and like minded enterprises, face as they set about embracing the concept of sustainable development.

John Elkington, Chairman of SustainAbility; Member, EU Consultative Forum on Environment and Sustainable Development; author, *Cannibals With Forks: The Triple Bottom Line of 21st Century Business*.

Why we decided to work with Shell

I should explain SustainAbility's decision (as a values-led consultancy) to work with Shell. For two years after the Brent Spar and Nigerian controversies, my colleagues and I fended off requests for help from various parts of the Shell Group. There was no disputing Shell's need, but our logic was simple. First, rightly or wrongly, we sensed that many Shell executives were still in denial. Second, we believed we could better leverage change from outside. And, third, we work with the environmental, human rights and development movements: even had we wanted to say yes, a link-up would have been unacceptable to many of our own stakeholders.

But we kept a watching brief and – late in 1997 – accepted an invitation to meet and challenge a range of top Shell people, including chairman-designate Mark Moody-Stuart. We found a widespread recognition that Shell must now perform against what we dub the 'triple bottom line' of sustainable development.

More specifically, we were impressed by: Cor Herkströter's candid analysis of the company's weaknesses; the thoroughness of the Shell 'Society's Changing Expectations' stakeholder review (see pages 2 & 22); the Committee of Managing Directors' clear commitment to the new accountability Road Map (see pages 49-51); the development of Exploration & Production's sustainable development guidelines; and the formation of the Shell Renewables business (see page 44), with clear market share targets.

Given that a sustainable oil company is a contradiction in terms, we were also intrigued by the brief of the new Shell Chemicals executive vice-president responsible for sustainable development.

It not only covers health, safety and environment (HSE), but also such 'mainstream' areas as strategy and planning, portfolio management, mergers and acquisitions, and joint ventures. The implication: sustainability considerations will help reshape the Shell Chemicals portfolio of businesses over time. Hopefully, the approach will spread to other Shell businesses.

The sustainable development community, meanwhile, must develop its toolkit for triple bottom line accountability and management. Offered the opportunity to embark on a multi-year work programme with Shell's new Social Accountability Team, we consulted our own international Council and Faculty – and jointly concluded that the time had come to commit. This is an open-ended experiment, requiring extensive piloting in Shell businesses. We will report regularly on the experience and outputs.

Can Shell account for the triple bottom line?

If sustainable development is to become a global reality rather than remain a seductive mirage, governments, communities, companies and individuals must work together to improve their 'triple bottom line' (economic, social and environmental) performance. To this end, we not only need new forms of accountability but also new forms of accounting.

This does not mean that every aspect of a company's performance can – or should – be reduced to a 'common currency' of money values. But if we are to manage a given company's performance effectively we also need to be able to measure it. We must find accurate, useful and credible indicators of progress in terms of economic prosperity, environmental quality and social justice.

Sustainable value creation

Companies exist to create wealth, so the most direct contribution they can make to sustainable development is to create long-term value on an economically, socially and environmentally sustainable basis. A key 21st century challenge, in short, will be 'sustainable value creation'.

But how can we measure progress against the emerging economic, social and environmental performance indicators? Try to benchmark Shell's – or any other company's – performance against Shell's Statement of General Business Principles and you will find it hard, if not impossible. In part, this is a problem of data availability. But it also reflects weaknesses in accounting theory and the fragmentation of standards and metrics in this field.

This is a problem both for outsiders, who increasingly want to track corporate performance, and for companies like Shell. To create long-term trust and shareholder value, companies need to manage this complex new agenda, but to do so both companies – and their stakeholders – must be able to measure progress against the triple bottom line.

What about shareholder value?

At the heart of the emerging sustainable value creation concept is a recognition that for a company to prosper over the long-term it must continuously meet society's needs for goods and services without destroying natural and social capital.

The approach does not necessarily imply a new concept of what companies are primarily for; rather, it extends the time-horizon over which the full range of a company's – and its shareholders' – interests should be assessed. But it also, as signaled by stakeholders in Shell's 'Society's Changing Expectations' consultation process (see pages 2 & 22), demands a deep shift in corporate culture, values, decision-making processes and behaviour.

Happily, the evidence suggests no fundamental conflict between sustainable value creation and long-term shareholder value added. The real difference is that for value creation to be sustainable, a company must acknowledge and manage the full range of relevant economic, social, ethical and environmental costs associated with its activities.

Shell International has now assembled an internal Social Accountability Team, pooling resources with Arthur D. Little (ADL) and SustainAbility, to develop a range of 'total net value added' metrics. The indicators will be developed with inputs from Shell's internal and external stakeholders.

What would triple bottom line accounts cover?

Unfortunately, these new forms of accountability have taken most parts of the accountancy world by surprise, with most accountants ill-prepared for the challenge.

Even financial accounting, evolving for 500 years, is still developing rapidly. There are huge debates, for example, over how to account for new financial instruments like derivatives. Environmental accounting has a much shorter history, of perhaps 20 years, with most progress made in the 1990s. And, while embryonic versions have been around for some time, social and ethical accounting and auditing are only now getting into their stride.

So we need intense, focused efforts not only to develop these three different forms of accounting but also to evolve frameworks which enable the results to be increasingly integrated – to ensure both full accountability and efficient business operations. Let's look briefly at each form of value in turn.

Economic value added: The scale of Shell's economic contributions is indicated by the figures for its sales (1997: over US\$171 billion), sales taxes (1997: over US\$43 billion) and total taxation paid (1997: over US\$50 billion).

Shell focuses on 'Return on Average Capital Employed' (ROACE: see page 8), but another approach – 'Economic Value Added' (EVA) – is promoted by US investors concerned to know whether given companies or industries are adding or destroying value. The profits a company makes are adjusted for the costs of the capital employed. A linked concept, Market Value Added (MVA), calculates how much value a company has created since it was founded.

To measure total net value added, however, EVA and MVA values will need to be adjusted for the linked impacts – both positive and negative – on natural, human and social capital. The internalisation of such costs and benefits represents one of the greatest challenges both for business and for accountants.

Environmental value added: Among other things, we must adjust our measurements of wealth creation and profit with a charge for the natural capital employed – and, in the case of non-renewable resources, often consumed for a one-off benefit.

Our natural capital is a combination of renewable and non-renewable resources. Even in the case of renewable resources, the most important values are not in the timber produced by a forest or in the fish produced by a sea, but in the ongoing capacity of such ecosystems to produce yields on a sustained basis. Some types of natural capital may be substitutable by technology and other forms of man-made capital, but most are not.

Even companies pioneering in the environmental accounting field have typically not yet integrated environmental accounting into their mainstream accounting, although some are working in this direction. Key barriers include the lack of a standard methodology, the fact that accountants and auditors lack environmental experience, the difficulties involved in identifying environmental costs (particularly in companies pursuing integrated investment strategies), and the valuation of liabilities.

Social value added: The ultimate bottom line for any project or business must also be adjusted for impacts on human and social capital. In the case of human capital, we must account for knowledge and skills developed or lost. In the case of social capital, the focus might be on the levels of resilience, mutuality and trust in communities, be they villages, mega-cities or world regions.

New benchmarks are emerging, among them Social Accountability 8000 (SA 8000), developed by the US Council on Economic Priorities (CEP), and the revision of the International Chamber of Commerce's (ICC) sixteen environmental principles to embrace emerging social requirements. New organisations like the UK-based Institute for Social and Ethical Accountability (ISEA) aim to bridge the divide between the different forms of accounting, auditing and reporting. But the social accounting challenge has hardly begun to be addressed.

Total net value added: Despite the barriers, we will see significant progress made on triple bottom line accounting, auditing, reporting and benchmarking. There will be huge debates about who sets the standards and how to value particular outcomes, but our understanding of which technologies, which companies and which economies are adding or subtracting value will be transformed.

Working with the Shell Social Accountability Team and ADL, we aim to evolve a better picture of the total net value added by Shell. If you would like more information, please call me on +44 (0)171 937 9996 (e-mail: elkington@sustainability.co.uk). A background briefing paper is available on the web (see www.shell.com).

Message from the Chairman

*There does not have to be a choice
between profits and principles.*

Writing this message has been on my mind throughout the preparation of this Report. How, I wondered, can I succeed in expressing my thoughts which are both rational and passionate about the changes taking place in the Royal Dutch/Shell Group?

Fundamental to this is our commitment to support sustainable development and to embody this in our strategic planning and the daily conduct of our businesses.

It's true that this document – and more importantly, the planned Social Responsibility Management System of which it is a part – are entirely logical undertakings, as significant for our businesses as any other commercial activity. It would be quite wrong to cast the process in anything other than sane and sensible terms.

But I know too, as someone who has been at the centre of the Transformation of the Group, that it is about much more than sober facts and sound figures. It involves the passions and feelings of the people who make the Royal Dutch/Shell Group what it is. People from different backgrounds and cultures, all held together by a common desire to do their business with integrity so that they can hold their heads high in their communities and among their families and friends.

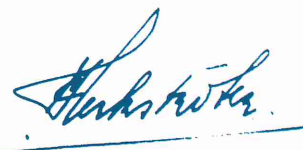
That such determination exists, and is so strongly imbedded in our organisation, makes me feel particularly proud of the plans we have put in motion to reinforce the ethical underpinning of the Group as it enters its next hundred years. We believe fundamentally that there does not have to be a choice between profits and principles in a responsibly run enterprise.

Our plans reach into the very heart of our corporate culture and pulse through the entire organisation, in every corner of the world. They are based on our commitment to contribute to sustainable development and the concept of social accountability. This represents my personal commitment, it is the commitment of all my colleagues on the Committee of Managing Directors, as it is of the whole of the Group.

It is tempting for me, as I prepare to retire, to look back with nostalgia on an eventful and exciting past, but I find myself only looking forward. Forward towards the fruits of what has been sown in the 1990s – plans that will help ensure a sustainable future for the tens of thousands of people who work within Shell and the hundreds of thousands who benefit in so many ways from our activities, now and in the future.

On the fold-out page opposite is a Road Map which shows details and timings of those plans – in the context of earlier developments. Like any long journey through uncharted territory, I'm sure there will be good and bad times ahead with many unexpected problems and difficulties. We might not get to all the targets on time and there will inevitably be detours, but I know we will eventually attain our stated objective: to provide the necessary evidence so that others may judge if Shell is living up to its principles.

Thank you for reading this far. Please use the 'Tell Shell' cards to let us know what you think of us, how you would like us to improve and how you might tackle some of the issues we face on a daily basis. We might not always agree with your views, but I promise they will be taken seriously.

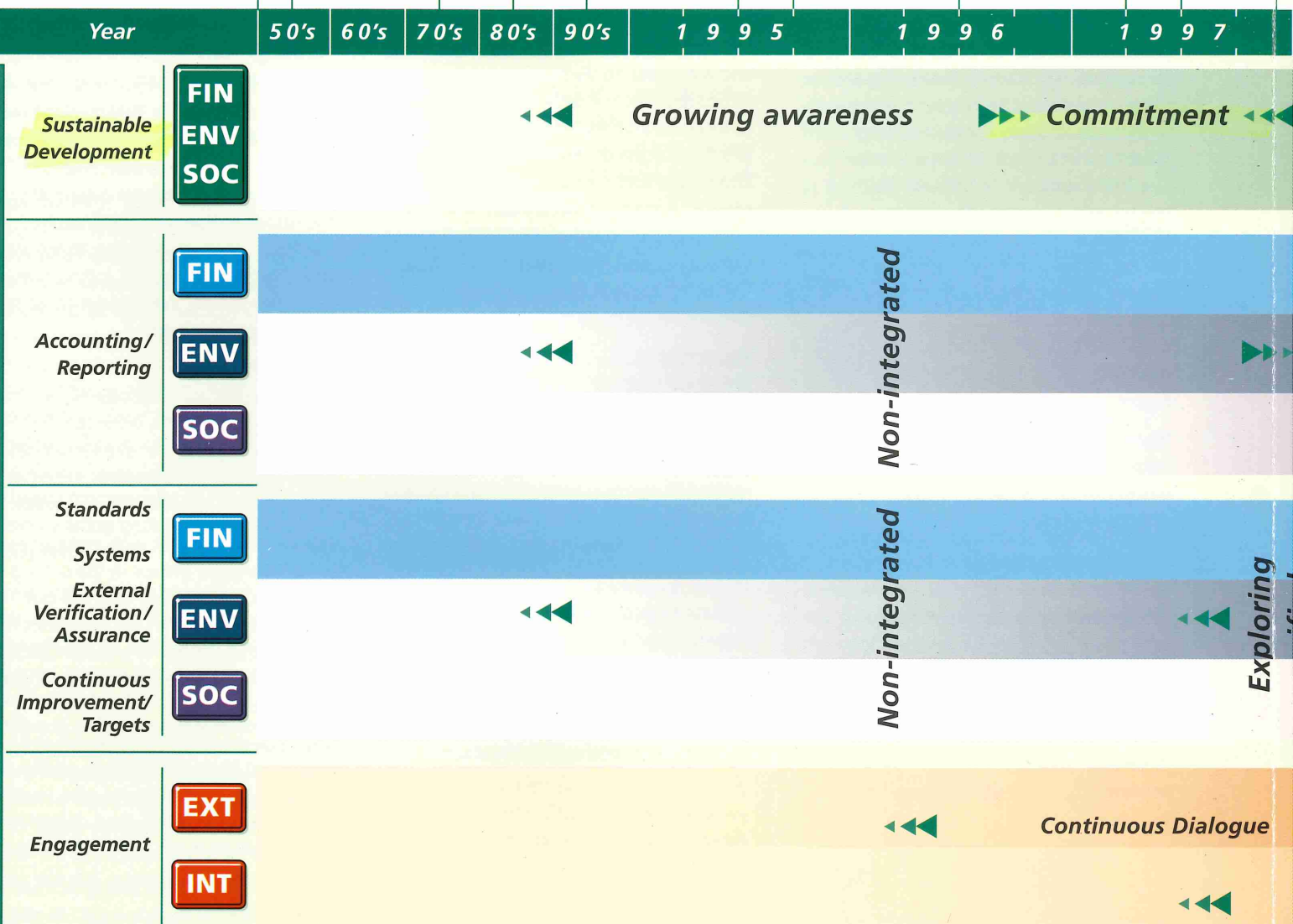
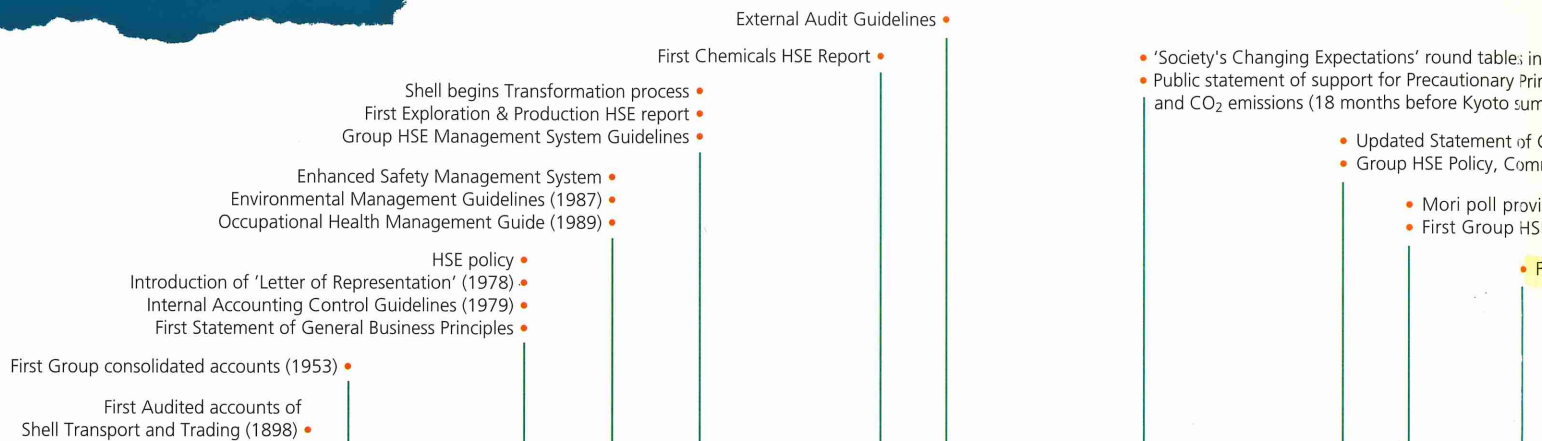


Cor Herkströter
(Chairman of the Committee
of Managing Directors)
April 1998



“An eventful and
exciting past,
but I find myself
only looking forward.”

Road Map



FIN Financial
 ENV Environmental
 SOC Social
 EXT External
 INT Internal

intensifies open dialogue
 Principle on Climate Change
 (summit conference)

General Business Principles
 Commitment and Procedure

Includes quantitative data on worldwide opinions of Shell
 HSE Report and Oil Products HSE Report

Formation of Social Responsibility Committee

- First presentation to Financial Analysts on non-financial aspects of Group performance
- Dialogue with network of experts in area of corporate ethics and social accountability
- Development of workshops/dialogue with Shell personnel on social accountability and Business Principles
- Integrated verification of Group HSE Report
- Implementation of certifiable HSE Management Systems by all Shell companies

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Understanding and exploring

Piloting and progressive implementation

Evolving

Integrated

**unified
 approach**

**Piloting and
 applying**

**Refining and
 extending**

**Unified
 Processes**

Extended Consultation

Increasing Co-operation

Alliances

Gaining Commitment

Building Awareness

Applying the Framework

Immature

Developing

Mature

Integrated

Road Map

Our goal is to have our responsibilities to stakeholders and society at large clearly seen as an essential part of the Shell culture and sustainable development integral to all decision making.

The Road Map details how we aim to achieve this. It places our plans in the context of past developments but more importantly charts the road ahead.

Our intention is to develop ways for consistently monitoring, measuring and reporting performance in a manner aligned to the expectations of society and our Statement of General Business Principles. This framework will encompass the three components of sustainable development (financial, environmental and social) and the Report will reflect the underlying values, systems and performance in an integrated manner. It will draw upon internal and external engagement activities. We call this framework of values and process our Social Responsibility Management System.

We will seek ways to collate and report meaningful performance measures which can be independently verified by external auditors.

We will explore options on how we can obtain an independent view (assurance) of whether we behave as we claim.

Relevant standards and measures of performance are mature in the financial area and becoming established for HSE. They are fragmented and inadequate in the social dimension. Those that do exist have not yet achieved internationally recognised status.

Much of our planned efforts will be pioneering. To implement the changes outlined globally, for a Group of such complexity, is a major undertaking. But we are determined. We will seek help and believe that through our efforts we will also have much to offer. We look forward to working with like-minded companies and organisations in furthering developments in this area.

The following details the key components to the challenge ahead and the Road Map overleaf provides the time line.

Sustainable development

Shell companies are fully committed to contributing to sustainable development and are under no illusions about the difficulties. There is little practical expertise in this field and implementation will be a lengthy process of developing in-house knowledge and learning from outside experts. A start has been made with the writing of a practical guide for Shell Exploration and Production companies. Our actions will at all times remain relevant to our commercial objectives.

Reporting

The reporting structure will gradually evolve towards an integrated approach reflecting the components of sustainable development. As yet there are no established methodologies or standards for doing this. We aim to play a constructive role in helping in their development internationally.

To ensure accuracy, Reports will be based on data backed by an external verification process, generated by a Social Responsibility Management System (of which future reports will be a part) and based on standards consistently applied throughout the Group.

The approach taken by Shell will be guided and enriched by an extensive process of internal and external engagement, which will influence decisions in daily operations and activities.

We shall also seek to develop an approach to calculating the 'net value' which Group companies add to the world in a given time frame by taking into account our contribution to the three components of sustainable development.

The concept of 'net added value' is not new but the challenge is how to apply it in practice to an enterprise the size of the Shell Group. It will require measures of performance different from those used in conventional financial accounting. If this approach is to have credibility or value in helping companies assess their overall contribution to society then the basis on which it is calculated will need to be broadly recognised and accepted.

We are under no illusions about the difficulties but we are determined to work with experts in the field to explore this approach. We believe that it has the potential to steer rational debate about the responsibilities of companies in the context of their contribution to sustainable development and to help focus on areas for improvement. We know it could take many years to achieve.

Standards

Social accountability standards are slowly beginning to emerge, although no universally agreed, comprehensive set exists yet. Current standards are limited in scope and do not meet all our needs.

We will seek to work with companies and other interested groups in the setting of standards. Our involvement will not necessarily mean that we will adopt or endorse the entirety of any standards set, unless there is a clear relevance to our businesses.

The objective is to establish ambitious standards which take into account the size and complexity of the Group's worldwide operations. We may need to create certain standards ourselves and select the rest from those which emerge. We will report on progress.

Social Accountability and Social Responsibility Management Systems

Terms are evolving and 'accountability' and 'responsibility' are often used to mean the same thing in the literature. In future both could be replaced with alternatives which more aptly describe the concepts and processes referred to.

For the purposes of this Report we use the term 'Social Accountability' to mean the over-arching ambition of an organisation to be accountable to its stakeholders and society at large. It embraces the need for an organisation to act responsibly in contributing to sustainable development, and be accountable for its performance through externally verified reporting to pre-determined standards and performance criteria. It also implies a suitable degree of transparency with regard to the basis on which decisions are made.

We use the term 'Social Responsibility Management System' to mean the framework of values and process by which the needs of social accountability are met. The sheer size of the Group, the complexity of its operations and the huge differences in social structures throughout the world, means that the systems will have to be tested in a number of operating companies first before they are adopted across the Group. Consultants Arthur D. Little (ADL) have been commissioned to help in assessing existing systems and develop thinking in this area.

Progress will probably be made in steps, both in terms of the scope of the framework and its application across Shell companies. We see that many components of the framework are already in place and that there is much best practice to embody.

There will be an inevitable need to design and adopt new procedures but we are determined to keep this to a minimum by using existing ones as far as possible.

Once the framework has been shown to be workable all Group companies will adopt it.

External verification

We distinguish between the accuracy of data, and the assurance process by which the quality of performance against stated objectives can be judged.

Accuracy. KPMG and Price Waterhouse – auditors to the parent companies – will check the integrity of the data generated by management systems. They have been chosen for their professional skills, their infrastructure which exists in over 100 countries in which we operate, and their familiarity with Shell management systems.

The scope of their verification will depend on the availability of consistently generated data. This is a new area for auditors and we realise that they will need to gain additional experience in the field.

Financial reports have been subject to rigorous audit processes for many decades on the basis of increasingly sophisticated control and audit mechanisms.

The Group HSE Report, and underlying HSE reports of the key businesses, are developing rapidly in the direction of reporting fully verified data generated on the basis of HSE Management Systems which will be in place in all Shell companies by the end of 1999 at the latest.

Assurance process. We have yet to resolve how assurance can best be achieved. There are a number of possibilities, including: the use of the traditional auditors who are developing their expertise in this area; the use of new firms who specialise in this form of assurance; inviting non-governmental and other organisations to review specific areas of the Group's activities; or a mixture of the three. We will explore all of these options.

Engagement

Engagement – encouraging a dialogue with critics and interested parties – is the essence of social accountability. Our aim is to gain the acceptance of those who have an interest in the Group's activities – our stakeholders – and to try to match or exceed their expectations of us.

We distinguish between internal and external engagement.

Internal engagement. A structured process of dialogue with employees has been tested. The aim is to find an effective means of engaging all staff in understanding what social accountability and sustainable development mean to them and on how these concepts can be embodied in the way we live up to the Business Principles in the daily conduct of our businesses.

External engagement. We see consultation with a broad group of non-governmental and other organisations and opinion formers as essential to the success of our social accountability plans. This involves understanding their expectations. Engagement is a two-way process, which gives us an opportunity to underline how we see our responsibilities and to set out the social boundaries of our commercial organisation.

The dialogue process could evolve from consultation to co-operation and eventually to some form of alliance with key stakeholder organisations. Finding the right partners is a difficult process and we will do it in a structured way, helped by independent experts. We may get it wrong occasionally and we are prepared to be corrected.

Our consultation process started several years ago and it will be accelerated in 1998. We will report on progress.

Auditors' Report

 KPMG Accountants

Price Waterhouse 

Royal Dutch/Shell Group Auditors

Report of Independent Verifiers

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

As requested, we have verified the assertions given in the section headed "Embedding Key Policies" on pages 6 and 7 of The Shell Report 1998, in particular with regard to the adoption, by Shell companies worldwide, of the revised Statement of General Business Principles ("the Principles"). Compliance with these assertions is the responsibility of management. Our responsibility is to report on the status of the adoption of the Principles based on our verification.

We conducted our verification, where applicable, in accordance with International Standards on Auditing as suitably adapted. As part of our work we reviewed, on a test basis, the Board minutes of Shell companies which represented 96% of the sales proceeds, 82% of net assets and 88% of the employees based on the data reported in the 1997 Financial Statements of the Royal Dutch/Shell Group of Companies. In addition, we reviewed the letters submitted by the Chairmen of the Boards of Shell companies and by the Country Chairmen confirming that the Principles had been formally adopted by their own companies. Our work did not include any additional steps with regard to the implementation of the Principles.

Based on our verification, we confirm that the assertions with regard to the adoption of the revised Statement of General Business Principles by Shell companies, are fairly stated in all material respects.

In addition, we have reviewed certain data in The Shell Report 1998 comprising dividend growth from 1988 to 1997, taxes payable over the 10 year period 1998 to 1997, the number of direct employees, employ remuneration and related costs for 1997 and the level of annual investment in research and technical services.

Based on our review we confirm that this data has been derived from the Financial Statements of the Royal Dutch/Shell Group of Companies for each of the 10 years in the period ended 31 December 1997, on which we issued unqualified audit opinions.

KPMG Accountants NV

Price Waterhouse

KPMG Accountants N.V., The Hague

Price Waterhouse, London

12 March 1998

Churchillplein 6
2157 JW The Hague
The Netherlands
31 (70) 338 2222

KPMG Accountants N.V., The Netherlands and Price Waterhouse, United Kingdom firm,
are acting jointly as auditors of the Royal Dutch/Shell Group of companies.
KPMG Accountants N.V. are registered with the Chamber of Commerce Amsterdam no. 263683.
The principal place of business of Price Waterhouse is at Southwark Towers,
32 London Bridge Street, London SE1 9SY where a list of partners' names is available for inspection.
Price Waterhouse is authorised by the Institute of Chartered Accountants in England and Wales
to carry on investment business.

No. 1 London Bridge
London SE1 9QL
United Kingdom
44 (171) 939 3000

Annex

Family of Reports

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

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

Financial and Operational Information

Annual publication containing five years' detailed financial and statistical information about the Royal Dutch/Shell Group of Companies.

The Shell Report

Annual publication summarising how the Group is meeting its responsibilities and matching stakeholders' expectations in relation to various economic, environmental and social issues.

Statement of General Business Principles

Booklet stating the fundamental principles on which the affairs of Group companies are conducted.

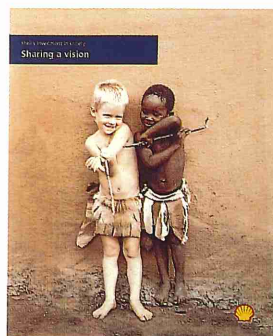
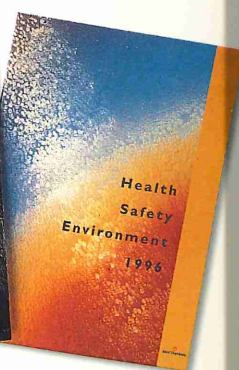
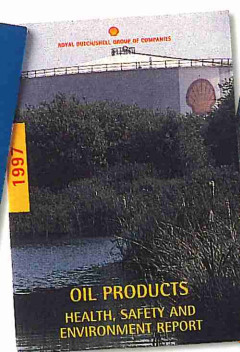
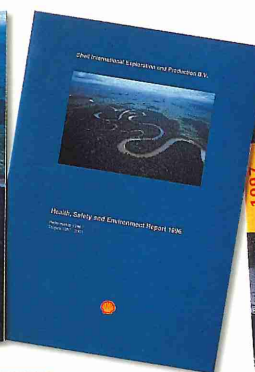
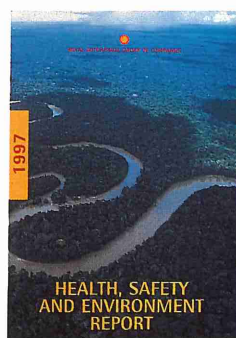
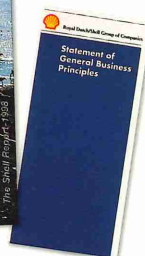
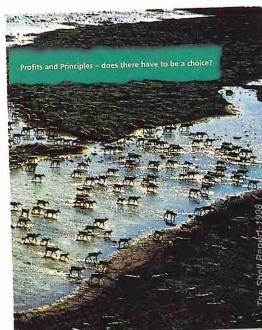
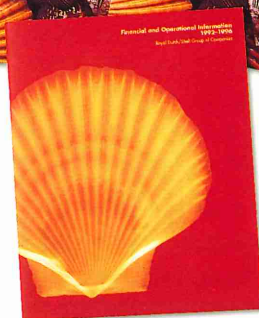
Health, Safety and Environment Report

Annual publication providing facts about Group companies' performance in the areas of health, safety and the environment. It also discusses Group views on pertinent issues related to those areas. Additional reports published by our major businesses – Exploration and Production, Oil Products and Chemicals – provide further HSE information.

Shell's Investment in Society

Annual publication describing the Group companies' social investment programmes, which aim to support the development of local communities and, at the same time, help Shell companies to be an integral part of the societies that they serve.

The above publications can be obtained from the address on page 55.



Structure of the Royal Dutch/Shell Group

Royal Dutch Petroleum Company (Royal Dutch) and The "Shell" Transport and Trading Company, p.l.c. (Shell Transport) have no operations of their own and virtually the whole of their income derives from their respective 60% and 40% interests in the companies known collectively as the Royal Dutch/Shell Group of Companies.

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

● Individuals and Institutions

There are some 600,000 shareholders of Royal Dutch and some 273,000 of Shell Transport. Shares of one or both companies are listed and traded on stock exchanges in eight European countries and in the USA.

● Parent Companies

As Parent Companies, Royal Dutch and Shell Transport do not themselves directly engage in operational activities. They are public companies, one domiciled in the Netherlands, the other in the United Kingdom.

The Parent Companies directly or indirectly own the shares in the Group Holding Companies but are not themselves part of the Group. They appoint Directors to the Boards of the Group Holding Companies, from which they receive income in the form of dividends.

● Royal Dutch/Shell Group of Companies

Group Holding Companies

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

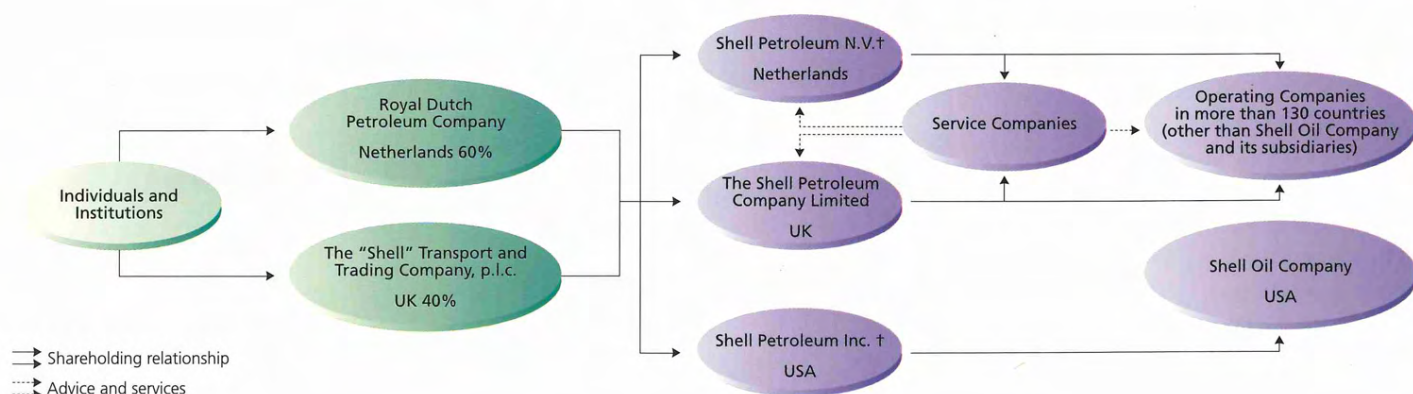
Service Companies

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

Operating Companies

Operating Companies are engaged in various activities related to oil and natural gas, chemicals, renewable resources and other businesses throughout the world. The management of each Operating Company is responsible for the performance and long-term viability of its own operations, but can draw on the experience of the Service Companies and, through them, of other Operating Companies.

Structure of the Royal Dutch/Shell Group



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

Service Companies' Organisation

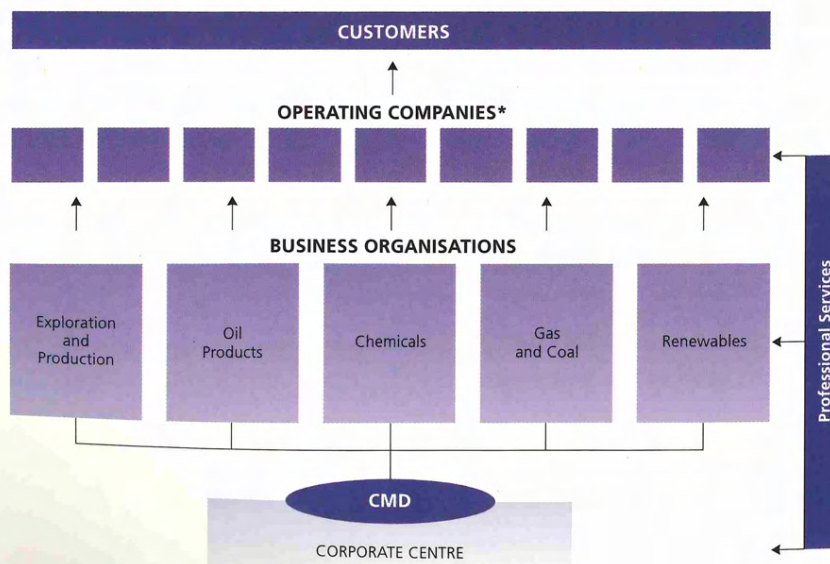
The Service Companies are structured to fulfil three principal tasks.

Firstly, through Business Organisations, they provide business and technical guidance as well as advice and services to Operating Companies, and they support the Group Holding Companies – Shell Petroleum N.V. (SPNV) and The Shell Petroleum Company Limited (SPCo) – in the exercise of their shareholder responsibility.

There are five Business Organisations – Exploration and Production, Oil Products (covering refining, trading, shipping and marketing), Chemicals, Gas and Coal, and Renewables.

Secondly, through a small Corporate Centre, the Service Companies assist the Committee of Managing Directors (CMD), consisting of the members of the Presidium of the Board of Directors of SPNV and the Managing Directors of SPCo, in setting overall Group direction, strategy and policies, in supporting key investment decisions and appointments, and in appraising overall performance.

Thirdly, through Professional Services, they provide advice and expertise in such areas as finance, legal and human resources to the Business Organisations, the Corporate Centre and the Operating Companies.



* outside North America

Shell Report Survey

■ This report gives a set of current, consistent data which was collected by a survey of Shell companies round the world. The survey covers 125 countries where there are Shell operations. The data embrace all Shell companies within each country, which are under operational control or fully consolidated, and joint ventures in which a Shell company is operationally responsible for the activities concerned.

Shell companies have an interest in operations in more than 130 countries. Those countries not included in the survey either fell outside the above definition or were small enough to have no material effect on the results. The results cover more than 99.5% of the staff and operations. The data has not been externally verified.

The companies in which Royal Dutch Petroleum Company and The "Shell" Transport and Trading Company, p.l.c. directly or indirectly own investments are separate and distinct entities. In this Report the expressions 'Royal Dutch/Shell Group' and 'Group' are used to refer to the companies of the Royal Dutch/Shell Group as a whole. The words 'Shell', 'we' and 'us' are used in some places to refer to the Group and in others to an individual Shell company or companies where no particular purpose is served by identifying the specific company or companies.

Recent speeches on climate change

Cor Herkströter – *Chairman of the Committee of Managing Directors, Royal Dutch Shell Group and President of Royal Dutch Petroleum Company*

"Reflections on Kyoto", World Economic Forum, Davos, Switzerland
2 February 1998

Mark Moody-Stuart – *Chairman of The "Shell" Transport and Trading Company, p.l.c. and a Royal Dutch/Shell Group Managing Director*

"Managing transition – energy supplies in the early 21st Century", Sanderstølen conference, Norway
4 February 1998

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Your comments will be taken into account and published on our website, if you so wish.

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