

Our reporting

How we are meeting our stakeholders' needs for honest and transparent reporting on our environmental and social performance.

The findings of our External Review Committee



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What we did

For the second successive year, Shell has invited an External Review Committee to review its Sustainability Report. We concentrated on three main questions.

1. Has the company selected the most important topics for the Report?
2. How well has the Report dealt with these topics and responded to stakeholder interest?
3. Did Shell give us sufficient information and access to do our job effectively?

How we worked

We provided input into issue selection in 2006, and reviewed the Report outline late in 2006. Successive drafts of the Report were reviewed between December 2006 and March 2007. The Committee met in person twice; interviewed senior executives, including the Chief Executive and the head of Exploration & Production, and provided direct feedback to the Chief Executive and the Board's Social Responsibility Committee. The Committee's access to senior Shell decision-makers was exemplary, and Shell responded well to our questions and concerns.

Our review is limited to the printed Report. We welcome the additional links to supplementary information published on the web, but we have not reviewed them.

This is our own assessment of Shell's 2006 Sustainability Report. We express our views as individuals, not on behalf of our organisations. In addition to our comments on the company's reporting, we offered during our discussions with Shell staff our observations about how the company deals with key sustainability challenges.

In recognition of our time and expertise, an honorarium was offered, payable to us

individually or to the organisation of our choice, and Shell reimbursed us for the expense of our travel and accommodation.

Shell's reporting

Shell remains a leading reporter in this area and its 2006 Sustainability Report makes a valuable contribution to the welcome evolution of sustainability reporting.

We believe the Report includes the topics of greatest interest to Shell's stakeholders, and those with the greatest material impact on the company. The focus on the "energy challenge," particularly as it relates to climate change, prioritizes the most significant sustainability question facing Shell.

We are pleased that Shell has been responsive in the current Report to most of the comments provided in the Committee's letter reviewing the 2005 Sustainability Report. This applies particularly to Shell's clearer statement on the importance of meeting the energy challenge, and how it intends to do so. We refer again this year to the transfer of learning between projects, and the investment in renewables, which have not been addressed as fully as we would have hoped.

Dealing with the energy challenge

Shell's Report spells out the energy challenge very clearly, and explicitly acknowledges the need for concerted action to tackle climate change.

We welcome Shell's assertion that the debate on the science of climate change is over. The company has reported clearly on the emissions reductions achieved in its own activities in recent years, as well as the challenges that lie ahead. And it has said what types of government actions are needed to establish policy frameworks supporting effective action on climate. These are very important statements.



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However, in our view, the Report does not provide readers with enough information to judge whether the speed with which Shell is acting to tackle climate change is consistent with the challenge, which the company itself rightly describes as urgent. This is reflected in:

- Insufficient explanation of how the expected future rise in absolute annual emissions from Shell's operations is consistent with tackling climate change.
- The fact that no targets have been published for emissions reductions after 2010.
- Acknowledgement that an important part of the reductions to date have come from the ending of gas flaring, without telling readers enough about where future reductions will come once continuous flaring has stopped.
- Increased reliance on unconventional energy sources such as oil shale and oil sands, with high levels of CO₂ intensity, without sufficient explanation of how these higher emissions will be managed.
- Absence of sufficient information about the balance of spending in Shell's research and development activities to enable readers to assess Shell's commitment to develop renewable energy sources and greenhouse gas mitigation.
- Failure to set a target date for having one commercial scale alternative energy business in place. We also would like to see the company report more in the future on progress in the development of the three technologies it is targeting: biofuels, wind, thin-film solar.
- Finally, while Shell calls for more government action on climate change, it does not speak fully enough here about what it will do to help move policy frameworks in the desired direction.

Working in difficult conditions

The Report states that Shell's operations will

increasingly occur in complex locations, involving ever-more sophisticated technology, partnerships with other enterprises, and difficult social conditions. We are pleased that the Report focuses on two such locations, Sakhalin and Nigeria, which illustrate this trend well. We note that conditions in both locations were changing rapidly as the Report was being finalized.

We welcome Shell's commitment to uphold social and environmental performance across all its operations. But the Report does not provide sufficient insight into how this will be accomplished in complex or fast-changing environments.

Only brief mention is made of how Shell will implement its standards effectively in joint ventures where partners have significant influence over operations, as in Sakhalin. This question is particularly important where Shell holds a minority share in a project, and where it is dealing with partners that may not apply equivalent business principles concerning social and environmental performance. We would have liked to see more information on what sort of governance structures and operational controls Shell believes will help it deal with such situations.

Shell could have offered more perspective in the Report on how it transfers the experience of applying its social and environmental principles between projects throughout its operations.

Shell speaks with welcome candour about the overarching security concerns that aggravate interlocking human rights, development and governance challenges. These continue to have a serious impact on operations in the Niger Delta. Shell reports that there is a chance that it may not be able to meet its target to end flaring in Nigeria by 2009 because of

continuing unrest and lack of access to funding. We would have liked the Report to say more clearly how it will deal with the funding question, and in what way it will respond if civil conflict disrupts plans.

Safety

We would like to understand better how the company intends to refine its safety strategy in light of increased casualties this past year. This is particularly so in view of the Chief Executive's interview in this Report, in which he says that safety is a top priority for the coming year.

Human rights

In response to the Committee's feedback, Shell successfully shifted its human rights reporting to focus on the questions of greatest interest to stakeholders. This was a welcome and important change. We believe that readers also want to know how Shell selects guidelines on human rights issues, a question which applies especially to the company's approach to resettlement.

Conclusion

We thank Shell both for its commitment to reporting and its rare willingness to engage in this external review. The company has prepared its 2006 Report with seriousness of purpose and openness to our questions and concerns. Our critical comments are presented with the sole intention to enable further improvements in Shell's strong approach to reporting, and we are pleased to have had this opportunity to help the company advance in this direction.

Additional web content:

- More on our approach to environmental and social reporting.
- More about External Review Committee members (including the Committee Terms of Reference).

 www.shell.com/reviewcommittee