

The What, Why and How of
Corporate Social Responsibility
and Sustainable Development in Shell

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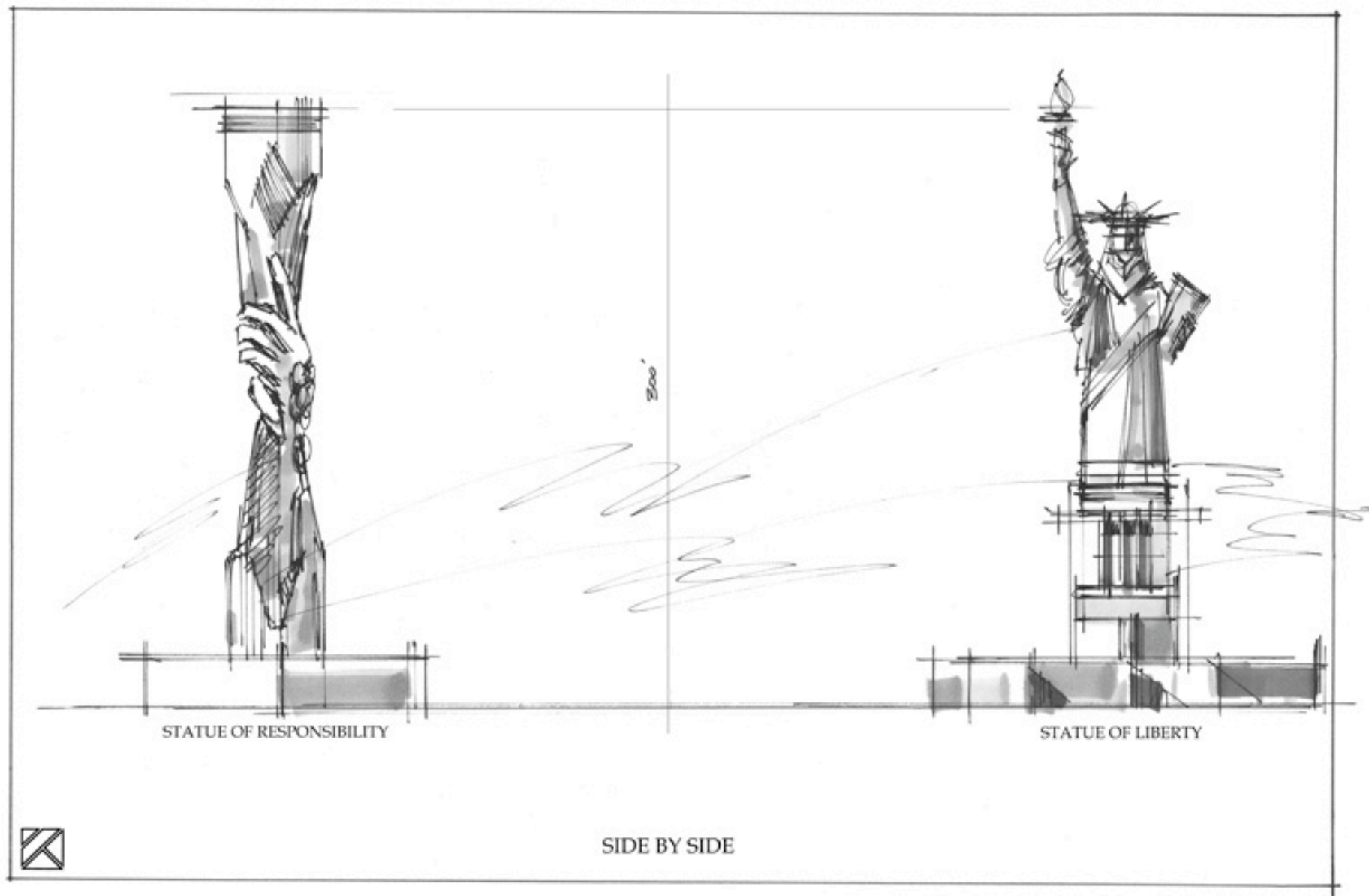


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Definitions of Corporate Social Responsibility

- **World Business Council for Sustainable Development:**

“CSR is the continuing commitment by Business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.”

- **EU Commission 2001 Green Paper on promoting European framework for CSR:**

“... a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment.”

“...a process by which companies manage their relationships with a variety of stakeholders who can have real influence on their license to operate...”

“...a framework to ensure that businesses integrate environmental and social considerations into their activities”

Corporate Social Responsibility - good or bad?

Milton Friedman, in 1970, in the New York Times Magazine
"The social responsibility of Business is to increase its profits":

"In a free-enterprise, private-property system, a corporate executive is an employee of the owners of the business. [His] responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom."

"..to say that the corporate executive has a "social responsibility" [...] must mean that he is to act in some way that is not in the interests of his employers."

"...that is why, in my book *Capitalism and Freedom*, I have called the doctrine of social responsibility... a fundamentally subversive doctrine in a free society.

There is only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."

The term creating "shareholder value" had, I believe, not yet been coined in 1970 but that is essentially how Friedman saw the responsibility of Business

Corporate Social Responsibility in the Law

- Dutch law (since the 1950ies - similar to Germany, the Rhineland model)

Directors must act in the interest of the company including the interests of its stakeholders – its stockholders, employees, suppliers and customers. Ambit evolves with time: now includes local community, the environment - even society at large?

- UK law (since 2006 - section 172(1) of the Companies Act)

Directors' duty is to promote the success of the company for the benefits of its members as a whole, and in doing so having regard to ... the likely consequences of any decision in the long-term, the interests of the company's employees, suppliers and customers, the impact of the company's operations on the environment, and the desirability of the company maintaining a reputation for high standards of business conduct

- US law (e.g. Delaware General Corporation Law, as defined by the courts)

Directors to act in furtherance of the interests of the corporation
Does this include the corporation's stakeholders other than its shareholders?

UK Companies Act 2006, Section 172 (1)

“[directors]... must act ... to promote the success of the Company, and in doing so have regard (amongst other matters) to:

- a. the likely consequences of any decision in the long-term
- b. the interests of the Company's employees
- c. the need to foster the Company's business relationships with suppliers, customers and others
- d. the impact of the Company's operations on the community and the environment
- e. the desirability of the Company maintaining a reputation for high standards of business conduct; and
- f. the need to act fairly as between members of the Company”

Corporate Social Responsibility - a no-brainer?

Milton Friedman, in 2005, in a debate with John Mackay on *"Rethinking the Social Responsibility of Business"*:

"..I shall try to explain why my statement that *"the social responsibility of business [is] to increase its profits"* and John Mackay's statement that *"the enlightened corporation should try to create value for all its constituencies"* are equivalent."

Jack Welch, former CEO of GE, in a recent interview (as quoted in the Financial Times of 7 April 2009): *"The shareholder value [model of capitalism] is the dumbest idea in the world."*

Corporate Social Responsibility – *a sine qua non* for survival?

“The Living Company”, by Arie de Geus, Harvard Business School Press, 1997

- Average life expectancy of businesses at large is between 10 and 15 years
- Average life expectancy of Fortune 500 companies is 40 to 50 years
- But examples like Stora in Sweden, Sumitomo in Japan or Shell show that some companies seem to be able to live on forever
- Mr de Geus attributes early mortality to too much focus on the bottom line
- Mr de Geus identifies four key characteristics of corporate longevity:
 - *sensitivity to the company's environment*
 - *cohesive, with a strong sense of identity*
 - *tolerant*
 - *conservative financing*
- “The dichotomy between profits and longevity is false”, Mr de Geus argues

Energy Demand and Supply

Between 2000 and 2050....

Global GDP will **quadruple**

World population will grow by **50%**

Demand for energy will **double**

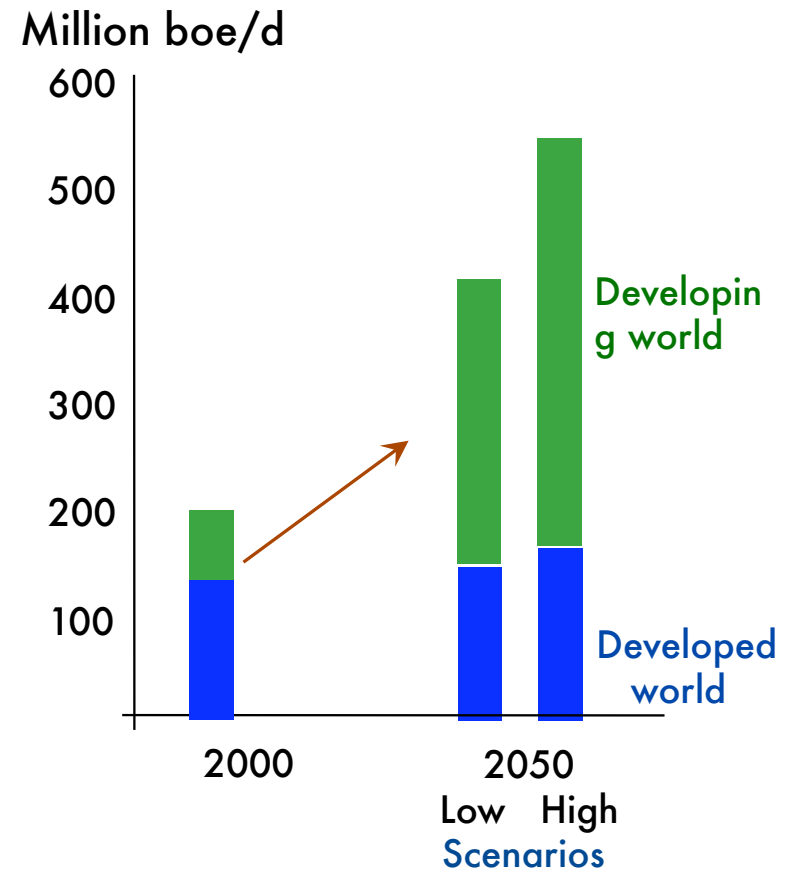
Meanwhile on the supply side...

No more **easy oil**

Increasingly **competitive environment**

CO2 challenge

Huge investments required of oil & gas industry - and a license to operate and grow



ROYAL DUTCH SHELL

- a few key facts

Roots of Royal Dutch and Shell Transport & Trading go back to 19th century

The two companies “amalgamated” their operations in 1907
Two parent companies, one in NL, one in UK.

Single parent company since 2004, based in NL, registered in UK.

Shell companies are active in more than 130 countries

More than 100.000 employees

More than 100.000 contractors and suppliers

More than 1.000.000 people in indirect employment

World’s largest retail network refuelling 200 vehicles every second

Involved in hundreds of joint ventures

Shell's Business Principles (first issued in 1976)

Areas of Responsibility

- To shareholders
- To customers
- To employees
- To those with whom we do business – partners, suppliers
- To society

These areas of responsibility are inseparable

Shell's Business Principles (current introduction)

We engage **efficiently, responsibly and profitably** in oil, gas, chemicals and other selected businesses and participate in the search for and development of other sources of energy to meet evolving customer needs and the world's growing demand for energy.

We believe that oil and gas will be integral to the global energy needs for economic development for many decades to come. Our role is to ensure that we extract and deliver them **profitably and in environmentally and socially responsible ways**.

We seek a **high standard of performance**, maintaining a strong **long-term** and growing position in the competitive environments in which we choose to operate.

We aim to **work closely with our customers, partners and policy-makers** to advance more efficient and sustainable use of energy and natural resources.

We commit to contribute to **sustainable development**. This requires **balancing short and long term interests, integrating economic, environmental and social considerations into business decision-making**.

Shell's Business Principles (the 8 principles)

- Long term profitability
- Competing fairly, ethically and within the law
- Business integrity - no bribes, no facilitation payments, no conflicts of interest
- Political activities - no donations but right to make position known
- Health, Safety, Security and the Environment
- Local communities - be good neighbors
- Communication and engagement
- Compliance with all applicable laws and regulations

Shell's Business Principles (it takes two to tango)

“We seek mutually beneficial relationships with contractors, suppliers and joint ventures and promote the application of Shell's Business Principles or equivalent principles in such relationships.”

“The ability to promote these principles effectively will be an important factor in the decision to enter into or remain in such relationships.”

Alignment on business principles/CSR safeguard Shell's reputation

Corporate Social Responsibility trends

- Intensification of compliance and business principles training
- More comprehensive codes of conduct
- More companies reporting on corporate responsibility
- Global toll free helplines
- Policies are expanding to cover contractors and suppliers
- External verification and implementation of internal assurance process

You can't manage what you can't measure



Meeting the energy challenge
The Shell Sustainability Report 2006

In 2006:

- Launched global **whistleblowing** line – **200** calls from **25** countries, **231** follow-up actions
- Terminated **41** contracts for violations of Shell General Business Principles
- Found **96** violations, dismissed **143** staff and contractors
- More than 100 countries have procedures to prevent **bribes and facilitation payments**
- **37** fatalities, **2.3** injuries/mln man hours



Corporate Social Responsibility Committee

- **The Royal Dutch Shell Board has a CSR Committee**
 - Wim Kok, former Dutch Prime-Minister
 - Hans Wijers, CEO AkzoNobel
 - Maarten van den Bergh, former Shell CFO
- **Its purpose is to review**
 - Shell's policies and conduct relating to the application of its Business Principles, including Sustainable Development and its HSE Policy
 - The effectiveness of Shell's Ethics & Compliance Programme and Code of Conduct
 - Major issues of public concern and how to deal with them

License to operate and grow - Reputation

Good Corporate Social Responsibility conduct

- earns your company the 'license to operate' and the 'license to grow'
- helps protect your company's reputation

A company's license to operate and reputation are probably its most valuable and vulnerable assets – assets which are uninsurable

Sustainable Development

What it means for the world

“Meeting the needs of the present generation without compromising the ability of future generations to meet their needs.”



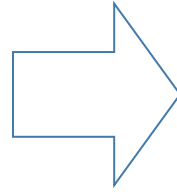
Gro Harlem Brundtland

The World Commission on
Environment & Development

Business as (un)usual?

Environmental and societal drivers

- ☐ Climate change reality
- ☐ Biodiversity threatened
- ☐ Land use competition
- ☐ Human rights tensions
- ☐ Wealth distribution inequality
- ☐ Water scarcity



New demands on business

- ☐ Government focus
- ☐ NGO capabilities
- ☐ Lender requirements
- ☐ Investor influence
- ☐ Community expectations
- ☐ Consumer demands



Contributing to sustainable development

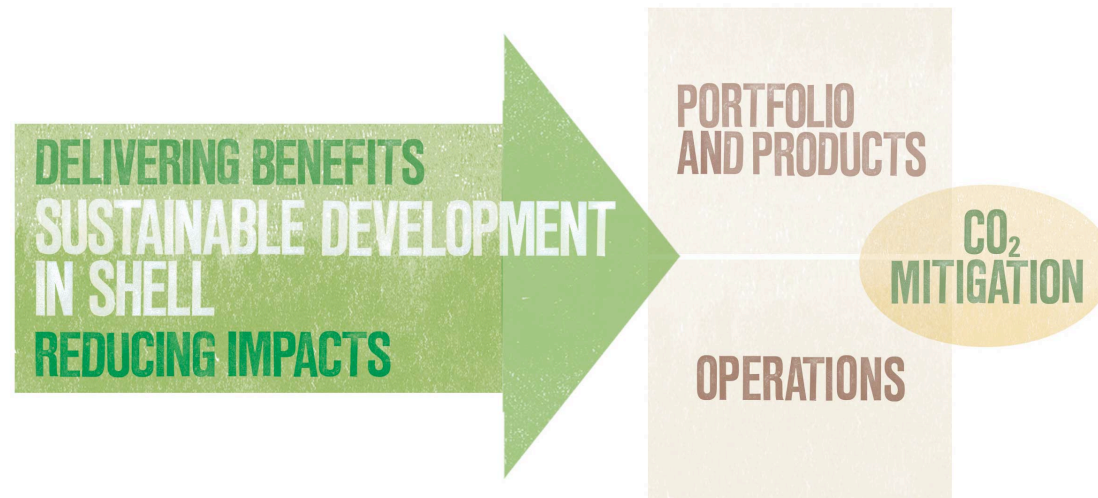
What it means for business



Sustainable development in Shell means

Helping meet the world's growing energy needs in economically, environmentally and socially responsible ways.

- In practice, contributing to sustainable development means **delivering benefits and reducing impacts** – both through our portfolio and products and our operations



How we contribute

DELIVERING BENEFITS
SUSTAINABLE DEVELOPMENT
IN SHELL
REDUCING IMPACTS

Portfolio & products



Frontier oil

- Unconventionals
- Deepwater

Cleaner power

- Natural gas /LNG
- Wind & solar

Sustainable mobility

- Gas to Liquid fuel
- Biofuels

CO₂
mitigation

Operations



Health & Safety

- Fatalities
- Product stewardship

Environment

- Emissions (incl GHGs)
- Spills

Social performance

- Employment and supply chain
- Human rights

Business ethics

- Bribery & corruption

It requires a different mindset

...based on our Principles

"...**balancing**
short and long term
interests..."

"...**integrating**
economic,
environmental and
social
considerations into
business decision-
making..."



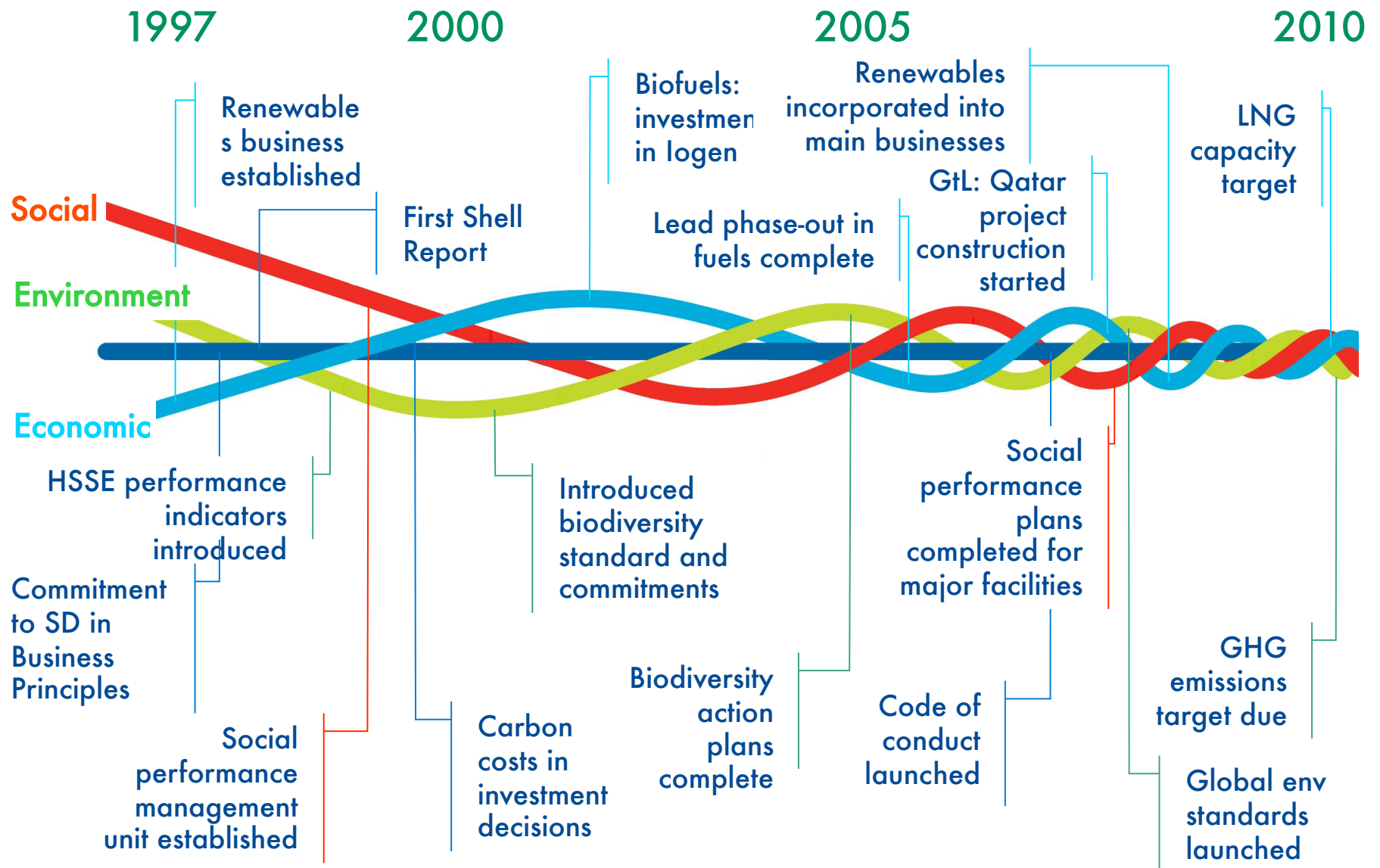
"Long term **profitability** is
essential..."

"...reduce the
environmental impact of our
operations, products and
services..."

"...be **good neighbours**...
manage the social impacts
of our activities... enhance
benefits to local
communities..."

"...regular dialogue and
engagement with our
stakeholders is essential..."

Our contribution in practice



How we contribute

The sooner the better



**Better
to...**

build benefits and
reduce impacts through
design and innovation
up-front...

**than
to...**

miss business
opportunities or
manage the
consequences



To summarize

For Shell, contributing to sustainable development

Is...

- ✓ About meeting future energy needs in economically, environmentally and socially responsible ways
- ✓ A mindset everyone in the company needs to have when doing their day-to-day business
- ✓ About designing projects and products responsibly from the start
- ✓ Critical to delivering our business strategy of more upstream, profitable downstream
- ✓ About people, planet AND profits
- ✓ Embedded in our Business Principles

Is not...

- ✗ Only social investment, operational HSSE or CSR
- ✗ Something for specialists or a stand alone set of tasks
- ✗ Just managing environmental and social consequences
- ✗ Optional or a 'nice-to-have' in places that can afford it
- ✗ People, planet VERSUS profits
- ✗ Guided by a separate set of SD Principles

Recognized leadership in sustainable development



“Royal Dutch Shell a leader in Energy ESG framework”

Goldman Sachs Enhanced Energy ESG Framework



FTSE4Good

