

Registration number: 8901312

Shell Pension Reserve Company (UK) Limited

Annual Report

and

Financial Statements

For the year ended 31 December 2018



Shell Pension Reserve Company (UK) Limited

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Shell Pension Reserve Company (UK) Limited

Strategic report for the year ended 31 December 2018

The Directors present their Strategic report on Shell Pension Reserve Company (UK) Limited (also referred to as the "Company") for the year ended 31 December 2018.

The Company is one of the entities within the "Shell Group". In this context the term "Shell Group" and "Companies of the Shell Group" or "Group companies" means companies where Royal Dutch Shell plc, either directly or indirectly, is exposed to, or has rights to, variable returns from its involvement with the Company and has the ability to affect those returns through its power over the Company. Companies in which Group companies have significant influence but not control are classified as "Associated companies". Royal Dutch Shell plc, a company incorporated in England and Wales, is known as the "Parent Company" of the Shell Group. In this report "Shell", "Shell Group" and "Royal Dutch Shell" are sometimes used for convenience where references are made to Royal Dutch Shell and its subsidiaries in general. These expressions are also used where no useful purpose is served by identifying the particular company or companies.

Business review

The principal activity of the Company is to provide custodianship of member company pension contributions. The Company holds these funds in a Contribution Reserve Account ("CRA") until such time as these are required to be returned to member companies, or to the Shell Contributory Pension Fund ("SCPF"), on trigger events driven by pension scheme funding ratios. The Company will continue with these activities for the foreseeable future.

The Company's total comprehensive income for the financial year was \$31.5 million (2017: \$125.9 million). This was principally due to the receipt of member company contributions of \$67.4 million (2017: \$70.6 million), net fair value loss on investments in quoted instruments at fair value through other comprehensive income (FVOCI) of \$27.7 million (2017: \$44.4 million gain) and foreign exchange loss of \$11.9 million (2017: \$14.0 million gain) primarily on a Sterling denominated bond portfolio.

The Directors consider that the year end financial position of the Company was satisfactory.

Principal risks and uncertainties

The Shell Group has a single risk based control framework - The Shell Control Framework - to identify and manage risks. The Shell Control Framework applies to all wholly owned Shell companies and to those ventures and other companies in which Royal Dutch Shell has directly or indirectly a controlling interest. From the perspective of the Company, the principal risks and uncertainties affecting the Company are considered to be those that affect the Shell Group. Accordingly, the principal risks and uncertainties of the Shell Group, which are discussed on pages 15 to 20 of Royal Dutch Shell's Annual Report and Form 20-F for the year ended 31 December 2018 (the "Group Report"), include those of the Company. The Group Report does not form part of this report.

Shell Pension Reserve Company (UK) Limited

Strategic report for the year ended 31 December 2018 (continued)

Key Performance Indicators

Companies of the Shell Group comprise the Upstream businesses of Exploration and Production, Integrated Gas and New Energies, and the Downstream businesses of Oil Products and Chemicals. The Company's key performance indicators, that give an understanding of the development, performance and position of the business, are aligned with those of the Shell Group. The development, performance and position of the various businesses is discussed on pages 29 to 61 of the Group Report and the key performance indicators through which the Group's performance is measured are as set out on pages 27 to 28 of the Group Report.

Human Rights

Respect for human rights is embedded in the Shell Group's Business Principles and Code of Conduct. This approach is informed by the Universal Declaration of Human Rights, the core conventions of the International Labour Organization and the United Nations' Guiding Principles on Business and Human Rights.

The Shell Group works closely with other companies and non-governmental organisations to continuously improve the way it applies these principles, with a focus on four key areas: communities, security, labour rights, and supply chain. The Shell Group has systems and processes in place for managing projects, contracting and procurement, recruitment and employment, security and social performance and requires all Group companies and contractors to respect the human rights of their workforce and neighbouring communities.

The Shell Group's Modern Slavery Statement provides more details about the process applied. It can be found at www.shell.com/uk-modern-slavery-act.html.

Approved by the Board on18 July..... 2019 and signed on its behalf by:

Gary Thomson

.....
G. Thomson
Authorised signatory for
Shell Corporate Secretary Limited
Company secretary

Shell Pension Reserve Company (UK) Limited

Directors' report for the year ended 31 December 2018

The Directors present their report and the financial statements for the year ended 31 December 2018.

The Directors' report and audited financial statements of the Company have been prepared in accordance with the Companies Act 2006.

Dividends

No dividends were paid during the year (2017: \$nil).

Future Outlook

No significant change in the business of the Company has taken place during the year or is expected in the immediately foreseeable future.

Directors of the company

The Directors, who held office during the year, and to the date of this report (except as noted) were as follows:

G. J. Archibald

M. Ashworth

M. Clark

M. Corrie

C. Mather (resigned 31 May 2018)

T. Morrison (appointed 1 June 2018)

Financial risk management

The Company's Directors are required to follow the requirements of Shell Group risk management policies, which include specific guidelines on the management of market, credit and liquidity risk, and advice on the use of financial instruments to manage them. Shell Group risk management policies can be found in the Group Report (see pages 103 to 104 and note 19).

Financial risks that are specific to the Company are discussed in note 3 of the Notes to Financial statements.

Shell Pension Reserve Company (UK) Limited

Directors' report for the year ended 31 December 2018 (continued)

Statement of Directors' responsibilities

The Directors acknowledge their responsibilities for preparing the Strategic report, Directors' report and the Company's financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to the auditor

Each Director has taken steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The Directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Approved by the Board on18 July..... 2019 and signed on its behalf by:

Gary Thomson

.....
G. Thomson
Authorised signatory for
Shell Corporate Secretary Limited
Company secretary

Independent Auditor's report to the Member of Shell Pension Reserve Company (UK) Limited

Opinion

We have audited the financial statements of Shell Pension Reserve Company (UK) Limited (the "Company") for the year ended 31 December 2018, which comprise the Profit and loss account, Statement of comprehensive income, Balance sheet, Statement of changes in equity, and the related notes 1 to 16, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent Auditor's report to the Member of Shell Pension Reserve Company (UK) Limited (continued)

Other information

The other information comprises the information included in the annual report set out on pages 1 to 4, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and the Directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Independent Auditor's report to the Member of Shell Pension Reserve Company (UK) Limited
(continued)**

Responsibilities of Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

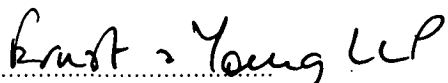
Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's member, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's member as a body, for our audit work, for this report, or for the opinions we have formed.



William Testa (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London

Date: 20 August 2019

Shell Pension Reserve Company (UK) Limited

Profit and loss account for the year ended 31 December 2018

Continuing operations

	Note	2018 \$ 000	2017 \$ 000
Turnover	5	68,605	71,937
Other operating (expense)/income		<u>(14,964)</u>	<u>13,258</u>
OPERATING PROFIT	7	53,641	85,195
Interest receivable and similar income	6	<u>17</u>	<u>-</u>
PROFIT BEFORE TAXATION		53,658	85,195
Tax on profit	9	<u>(150)</u>	<u>3,049</u>
PROFIT FOR THE YEAR		<u>53,508</u>	<u>88,244</u>

Shell Pension Reserve Company (UK) Limited

Statement of comprehensive income for the year ended 31 December 2018

	2018	2017
	\$ 000	\$ 000
Profit for the year	53,508	88,244
Other comprehensive income: Items that may be reclassified subsequently to profit or loss		
Changes in the fair value of investments in debt instruments at FVOCI with recycling	2,915	45,389
Tax on items relating to components of other comprehensive income	(86)	(7,741)
Other comprehensive income for the year	2,829	37,648
Items that will not be reclassified subsequently to profit or loss		
Changes in the fair value of investments in equity instruments at FVOCI without recycling	(27,817)	-
Tax on items relating to components of other comprehensive income that will not be reclassified to profit or loss	3,023	-
	(24,794)	-
Other comprehensive (loss)/income for the year, net of tax	(21,965)	37,648
Total comprehensive income for the year	31,543	125,892

Shell Pension Reserve Company (UK) Limited

(Registration number: 8901312)
Balance sheet as at 31 December 2018

	Note	2018 \$ 000	2017 \$ 000
Fixed assets			
Investments in quoted instruments	10	459,119	429,817
Current assets			
Debtors	11	1,747	2,309
Cash at bank and in hand		<u>334</u>	<u>545</u>
		2,081	2,854
Creditors: amounts falling due within one year	12	<u>(399)</u>	<u>(476)</u>
Net current assets		1,682	2,378
Creditors: amounts falling due after more than one year	13	<u>(9,677)</u>	<u>(12,614)</u>
Net assets		<u>451,124</u>	<u>419,581</u>
Equity			
Called up share capital	14	1,685	1,685
Other reserves		24,012	45,977
Profit and loss account		<u>425,427</u>	<u>371,919</u>
Total equity		<u>451,124</u>	<u>419,581</u>

The financial statements on pages 8 to 24 were authorised for issue by the Board of Directors on 18 July 2019 and signed on its behalf by:

G J Archibald

.....
G. J. Archibald
Director

Shell Pension Reserve Company (UK) Limited

Statement of changes in equity for the year ended 31 December 2018

	Called up share capital \$ 000	Other reserves \$ 000	Profit and loss account \$ 000	Total \$ 000
Balance as at 1 January 2017	1,685	8,329	283,675	293,689
Profit for the year	-	-	88,244	88,244
Other comprehensive income for the year	-	37,648	-	37,648
Total comprehensive income for the year	-	37,648	88,244	125,892
Balance as at 31 December 2017	1,685	45,977	371,919	419,581
Balance as at 1 January 2018	1,685	45,977	371,919	419,581
Profit for the year	-	-	53,508	53,508
Other comprehensive loss for the year	-	(21,965)	-	(21,965)
Total comprehensive income for the year	-	(21,965)	53,508	31,543
Balance as at 31 December 2018	1,685	24,012	425,427	451,124

Shell Pension Reserve Company (UK) Limited

Notes to the financial statements for the year ended 31 December 2018

General information

The Company is a private company limited by share capital incorporated in England and Wales.

The address of its registered office is: Shell Centre, London, SE1 7NA, United Kingdom.

1 Accounting policies

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework, which involves the application of International Financial Reporting Standards ("IFRS") with a reduced level of disclosure. The financial statements have been prepared under the historical cost convention, except for certain items measured at fair value, and in accordance with the Companies Act 2006.

As applied to the Company, there are no material differences between EU endorsed IFRS and IFRS as issued by the International Accounting Standards Board.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, except for the adoption of irrevocable election to recognise the equities at fair value through other comprehensive income without recycling to the profit or loss as per IFRS 9.

New standards applied

The adoption of IFRS 9 and IFRS 15 have had no material impact on the Company's retained earnings or balance sheet as at 1 January 2018.

The Company has applied IFRS 9 using the modified retrospective approach with no restatement of comparative information.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

Shell Pension Reserve Company (UK) Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

1 Accounting policies (continued)

The following exemptions from the disclosure requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- IFRS 7, 'Financial Instruments: Disclosures'
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of paragraph 79(a)(iv) of IAS 1 'Presentation of financial statements'
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - (i) 10(d) (statement of cash flows);
 - (ii) 10(f) (a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements);
 - (iii) 16 (statement of compliance with all IFRS);
 - (iv) 38A (requirement to present a minimum of two statements for each of the primary financial statements, including cash flow statements and related notes);
 - (v) 38B-D (additional comparative information);
 - (vi) 40A-D (requirements for a third balance sheet);
 - (vii) 111 (cash flow statement information); and
 - (viii) 134-136 (capital management disclosures)
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 17 and 18A of IAS 24, 'Related party disclosures' (key management compensation)
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more wholly owned members of a group.

Consolidation

The immediate parent company is The Shell Petroleum Company Limited.

The ultimate parent company and controlling party is Royal Dutch Shell plc, which is incorporated in England and Wales. Royal Dutch Shell plc is the parent undertaking of the smallest and largest group to consolidate these accounts.

The consolidated accounts of Royal Dutch Shell plc are available from:

Royal Dutch Shell plc
Tel: +31 888 800 844
email: order@shell.com
Registered office: Shell Centre, London, SE1 7NA

Shell Pension Reserve Company (UK) Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

1 Accounting policies (continued)

Taxation

Tax is recognised in profit or loss, except that tax attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income or directly in equity.

Current tax

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date for tax payable to HM Revenue and Customs, or for group relief to surrender to or to be received from other Group undertakings, and for which payment may be requested.

Deferred tax

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised when, on the basis of the most recent available evidence, it is regarded as probable that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the temporary differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset deferred tax assets against deferred tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Amounts relating to deferred tax are undiscounted.

Shell Pension Reserve Company (UK) Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

1 Accounting policies (continued)

Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in US Dollars (\$), which is also the Company's functional currency.

(ii) Transaction and balances

Income and expense items denominated in foreign currencies are translated into \$ at the rate ruling on their transaction date.

Monetary assets and liabilities recorded in foreign currencies have been expressed in \$ at the rates of exchange ruling at the year end. Differences on translation are included in the profit and loss account. Non-monetary assets and liabilities denominated in a foreign currency are translated using exchange rates at the date of the transaction. No subsequent translations are made once this has occurred. Differences arising in translation of debt instruments at FVOCI are recognised in other operating expense.

Financial instruments

Financial assets

Financial assets are classified at initial recognition and subsequently measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The classification of financial assets is determined by the contractual cash flows and where applicable the business model for managing the financial assets.

A financial asset is measured at amortised cost if the objective of the business model is to hold the financial asset in order to collect contractual cash flows and the contractual terms give rise to cash flows that are solely payments of principal and interest. Financial assets at amortised cost are initially recognised at fair value plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently the financial asset is measured using the effective interest method less any impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. All equity instruments and other debt instruments are recognised at fair value. For equity instruments, on initial recognition, an irrevocable election (on an instrument-by-instrument basis) can be made to designate these as at FVOCI (without recycling to profit and loss) instead of FVTPL. Dividends received on equity instruments are recognised as other income in profit or loss when the right of payment has been established, except when the company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income.

Shell Pension Reserve Company (UK) Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

1 Accounting policies (continued)

Investments in securities

Investments in securities (also referred to as “securities”) comprise equity and debt securities. Equity securities are recognised at FVOCI (without recycling). On sale, net gains and losses previously accumulated in other comprehensive income are transferred to retained earnings. Debt securities are recognised at fair value with unrealised holding gains and losses recognised in OCI. On sale, net gains and losses previously accumulated in OCI are recycled to profit and loss account and recognised in other operating income.

Impairment of financial assets

The impairment requirements for expected credit losses are applied to financial assets measured at amortised cost, financial assets measured at FVOCI and financial guarantees contracts to which IFRS 9 is applied and that are not accounted for at FVTPL and lease receivables under IFRS 15 that give rise to a conditional right to consideration. If the credit risk on the financial asset has increased significantly since initial recognition, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses. In other instances, the loss allowance for the financial asset is measured at an amount equal to the twelve month expected credit losses (ECLs). Changes in loss allowances are recognised in profit and loss. For trade debtors that do not contain a significant financing component, the simplified approach is applied recognising expected lifetime credit losses from initial recognition.

Financial liabilities

Financial liabilities are measured at amortised cost, unless they are required to be measured at FVTPL, such as instruments held for trading, or the Company has opted to measure them at FVTPL.

Turnover

Turnover represents amounts receivable in respect of member company contributions to the SCPF and interest received on debt instruments at FVOCI. Contributions are recognised when the right to receive payment is established. Dividends are recognised upon receipt.

Interest income is recognised using the effective interest rate method. When a loan or receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Shell Pension Reserve Company (UK) Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

1 Accounting policies (continued)

Netting off policy

Balances with other companies of the Shell Group are stated gross, unless both of the following conditions are met:

- Currently there is a legally enforceable right to set off the recognised amounts; and
- There is intent either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2 Critical accounting judgements and key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Provision for expected credit losses of trade debtors

The Company computes probability of default rates for third party trade debtors based on historical loss experience adjusted for current and forward looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. For intra-group trade debtors, the Company uses an internal credit rating to determine the probability of default. Internal credit ratings are based on methodologies adopted by independent credit rating agencies.

Fair value of financial assets and liabilities

Where the fair value of financial assets and liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is derived from observable markets where available, but where this is not feasible, a degree of judgement is required in determining assumptions used in the models. Changes in assumptions used in the models could affect the reported fair value of financial assets and liabilities.

3 Financial risk management

Credit risk

As part of the Company's investment portfolio, capital is allocated to government bonds. In order to manage the risk of counterparty default, the Company's policy is to ensure that investments are only made in issuers with significant credit quality through an investment grade credit rating. On this basis, the Company's exposure to credit risk is deemed to be low.

Shell Pension Reserve Company (UK) Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

3 Financial risk management (continued)

Interest rate risk

The Company is not exposed to variations in cash flow arising from movements in interest rates, as all investments are held in fixed rate instruments. Movements in interest rates may affect the fair value of available for sale financial assets to the extent that they impact benchmark yields on government bonds.

Foreign exchange risk

As part of the Company's investment portfolio, capital is allocated to GBP denominated bonds. The Company is therefore exposed to volatility arising on the re-translation of available for sale bond holdings into the Company's functional currency of USD.

Sensitivity analysis

Assuming other factors remained constant and that no further foreign exchange risk management action were taken, a 1% movement in exchange rate at 31 December 2018 would have resulted in an increase/(decrease) of profit before tax by \$1,903,000 (2017: \$1,716,000).

Liquidity risk

It is the Company's policy to ensure that it is adequately funded at all times, with investments made only to the extent of contributions received from member companies. All investments are traded on active markets and are therefore deemed to be highly liquid.

Other price risk

Through investments in listed securities, the entity is exposed to the effects of movements in the market prices of equities. The risk is minimised through the use of exchange traded funds, which are structured to mirror the movements in an underlying index, reducing exposure to the effect of adverse price movements on a specific security.

4 Financial instruments

The Company has no financial assets and liabilities measured at fair value through profit or loss.

5 Turnover

The analysis of the Company's turnover from continuing operations for the year is as follows:

	2018 \$ 000	2017 \$ 000
Contributions received from member companies	67,372	70,585
Interest receivable from investments in debt instruments at FVOCI	1,233	1,352
	<u>68,605</u>	<u>71,937</u>

Shell Pension Reserve Company (UK) Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

6 Interest receivable and similar income

	2018 \$ 000	2017 \$ 000
Interest from Group undertakings:		
Fellow subsidiary undertakings	<u>17</u>	<u>-</u>

7 Operating profit

Arrived at after charging/(crediting):

	2018 \$ 000	2017 \$ 000
Currency translation:		
Investment activity	11,856	(13,971)
Net loss on sale of investments in quoted instruments at FVOCI	2,791	985

The Company had no employees during 2018 (2017: none).

None of the Directors received any emoluments (2017: none) in respect of their services to the Company.

8 Auditor's remuneration

The Auditor's remuneration of \$11,824 (2017: \$14,082) in respect of the statutory audit was borne by another Group undertaking for both the current and preceding years.

There are no non-audit services rendered for the Company during the year (2017: none).

Shell Pension Reserve Company (UK) Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

9 Tax on profit

Tax charge/(credit) in the profit and loss account

The tax charge for the year of \$150,000 (2017: credit of \$3,049,000) is made up as follows:

	2018	2017
	\$ 000	\$ 000
Current taxation		
UK corporation tax	204	74
UK corporation tax adjustment to prior periods	(54)	-
Total current tax charge	<u>150</u>	<u>74</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	-	(3,123)
Total deferred tax credit	<u>-</u>	<u>(3,123)</u>
Tax charge/(credit) in the profit and loss account	<u><u>150</u></u>	<u><u>(3,049)</u></u>

Reconciliation of total tax charge/(credit)

The tax on profit before tax for the year differs from the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%).

The differences are reconciled below:

	2018	2017
	\$ 000	\$ 000
Profit before tax	53,658	85,195
Tax on profit calculated at standard rate (2018: 19.00%) (2017: 19.25%)	10,195	16,400
Effects of:		
Income exempt from taxation	(12,774)	(16,357)
Adjustments in respect of prior periods	(54)	-
Taxable income/(expense) not recognised	<u>2,783</u>	<u>(3,092)</u>
Total tax charge/(credit)	<u><u>150</u></u>	<u><u>(3,049)</u></u>

Shell Pension Reserve Company (UK) Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

9 Tax on profit (continued)

UK Finance Act (No 2) Act 2015 which introduced reductions in the UK corporation tax rate to 19% effective from 1 April 2017 and to 18% effective from 1 April 2020 was enacted on 15 November 2015.

UK Finance Act 2016 which introduced further reductions in the UK corporation tax rate to 17% effective 1 April 2020 was enacted on 15 September 2016.

Deferred tax liabilities

	Liability
2018	\$ 000
Other items	<u>9,677</u>
2017	\$ 000
Other items	<u>12,614</u>

Deferred tax movement during the year:

	At 1 January 2018 \$ 000	Recognised in other comprehensive income \$ 000	At 31 December 2018 \$ 000
Other items	<u>(12,614)</u>	<u>2,937</u>	<u>(9,677)</u>

Deferred tax movement during the prior year:

	At 1 January 2017 \$ 000	Recognised in income \$ 000	Recognised in other comprehensive income \$ 000	At 31 December 2017 \$ 000
Other items	<u>(7,996)</u>	<u>3,123</u>	<u>(7,741)</u>	<u>(12,614)</u>

The provision for deferred tax consists of the following deferred tax liabilities:

	2018 \$ 000	2017 \$ 000
Deferred tax liabilities due more than 12 months	<u>(9,677)</u>	<u>(12,614)</u>
Total deferred tax	<u>(9,677)</u>	<u>(12,614)</u>

Shell Pension Reserve Company (UK) Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

10 Investments in quoted Instruments

	Quoted bond investments at FVOCI \$ 000	Quoted equity investments at FVOCI \$ 000	Total \$ 000
Balance at 1 January 2018	168,919	260,898	429,817
Additions	96,958	36,447	133,405
Disposals	(60,413)	-	(60,413)
Amortisation of premium	(4,141)	-	(4,141)
Net movement in fair value	124	(27,817)	(27,693)
Foreign exchange loss	(11,856)	-	(11,856)
Balance at 31 December 2018	<u>189,591</u>	<u>269,528</u>	<u>459,119</u>

11 Debtors

Debtors: amounts due within one year

	2018 \$ 000	2017 \$ 000
Amounts owed by Group undertakings:		
Fellow subsidiary undertakings	617	945
Other debtors	<u>1,130</u>	<u>1,364</u>
	<u>1,747</u>	<u>2,309</u>

Amounts owed by Group undertakings are unsecured, have no fixed date of repayment and are repayable upon demand bearing interest rates ranging from 0.26% to 0.52%.

The Company has recorded amounts owed by Group undertakings and other debtors at amortised cost and investments in quoted bond and equity instruments at FVOCI. No assets were assessed as credit impaired.

12 Creditors: amounts falling due within one year

	2018 \$ 000	2017 \$ 000
Tax liability	<u>399</u>	<u>476</u>

The Company has recorded all financial liabilities at amortised cost.

Shell Pension Reserve Company (UK) Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

13 Creditors: amounts falling due after more than one year

	2018	2017
	\$ 000	\$ 000
Deferred tax liability	<u>9,677</u>	<u>12,614</u>

14 Called up share capital

Allotted, called up and fully paid shares

	2018		2017
No.	\$ 000	No.	\$ 000
Issued share capital of £1 each	<u>1,000,002</u>	<u>1,685</u>	<u>1,000,002</u>
			<u>1,685</u>

The Company's authorised share capital comprises ten million Class B shares and five hundred million Class A shares with a nominal value of £1 each. Of the total authorised capital, The Shell Petroleum Company Limited has subscribed to one Class A share and one million and one Class B shares. There are no differences between Class A and Class B shares.

15 Other reserves

	2018	2017
	\$ 000	\$ 000
Balance at 1 January	45,977	8,329
Movement in unrealized fair value (losses)/gains on quoted equity instruments	(27,693)	44,404
Deferred tax on fair value (losses)/gains	2,937	(7,741)
Realized fair value losses on sale of quoted bond instruments recycled from FVOCI to profit and loss account	<u>2,791</u>	<u>985</u>
Balance at 31 December	<u>24,012</u>	<u>45,977</u>

Shell Pension Reserve Company (UK) Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

16 Contingent liabilities

In the case of certain material events such as insolvency or non-payment of contributions, the Trustee is able to exercise its security over the CRA without the consent of the Shell group thus providing direct access to the funds.

In addition, the Company may be required to return the contributions received to member companies, or transfer these to the SCPF, should certain funding ratios within the pension scheme be met. At the balance sheet date, it is not anticipated that transfers will be made out of the CRA in the near future, although this will be monitored on an ongoing basis.