



**SHELL
FOUNDATION**

Shell Foundation

(a company limited by guarantee not having a share capital)

Trustees' report and consolidated financial statements for the year ended 31 December 2004

Company Registered Number: 4007273
Charity Registered Number: 1080999

Shell Foundation

Trustees' report and financial statements for the year ended 31 December 2004

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Additional copies of this report, the reports for prior years and further information regarding the activities of Shell Foundation may be obtained from the following web site:

www.shellfoundation.org

Shell Foundation

Trustees, directors, officers and advisors

Trustees (who are also directors)

Mr Jeroen van der Veer	Chairman	
Dr Enos Banda		Resigned 25 May 2004
Mr Malcolm Brinded, C.B.E.		Appointed 25 May 2004
Sir John Houghton		
Miss Jyoti Munsiff		
Sir Philip Watts		Resigned 3 March 2004
Dr Pieter Winsemius		

Principal Officers

H K Hoffman	Director
C West	Deputy Director
D H Sanger	Secretary
J L C Winterton	Chief Financial Officer

Registered Office

Shell Centre
London SE1 7NA

Auditors

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Solicitors

Allen & Overy
One New Change
London EC4M 9QQ

Bankers

Lloyds TSB Bank plc
71 Lombard Street
London EC3P 3BS

Investment custodian

JP Morgan Chase Bank
60 Victoria Embankment
London EC4Y 0JP

Report of the Trustees for the year ended 31 December 2004

The Trustees, who are also directors of the company for the purpose of the Companies Act, present their annual report and the audited financial statements for the year ended 31 December 2004.

The information with respect to trustees, directors, officers and advisors set out on page 3 forms part of this report. The financial statements comply with current statutory requirements, the Memorandum and Articles of Association, applicable Accounting Standards in the United Kingdom, the Statement of Recommended Practice (SORP) "Accounting and Reporting by Charities" issued in October 2000 and the Charities Act 1993.

Status and Administration

Shell Foundation ("the Foundation") is a charitable company limited by guarantee, incorporated on 31 May 2000 (company registration number 4007273) and registered with the Charity Commissioners as a charity on 2 June 2000 (charity registration number 1080999). The consolidated financial statements include the activities of Shell Foundation's 100% subsidiary, the South African Energy Facility. This subsidiary was incorporated in South Africa as a Section 21 "not for profit" company on 12th January 2004, with charitable objects similar to those of Shell Foundation.

Objects

The primary objects of the charity are stated in its governing document and include:

1. The protection and preservation of the environment and public health by means of education and research into the provision and use of energy in ways that reduce or eliminate harmful emissions. The Foundation has pursued this objective through grants made through its Sustainable Energy Programme.
2. The advancement of education of young persons and adults. This objective has not been the subject of a specific programme focus, but has been furthered in a number of grants made through the Sustainable Energy Programme.
3. The establishment in life of young persons aged not more than 30 years. This objective has been furthered through the Foundation's Youth Enterprise Programme.
4. The relief of poverty, suffering, hardship and distress. This objective has been furthered through grants made through both the Sustainable Energy Programme and the Sustainable Communities Programme.

The Foundation's Articles permit it to make grants to further these objects anywhere in the world, and its policy is to act as a truly international grant-making Foundation. Its grant-making policies specifically exclude:

- Capital schemes for building construction, purchase or renovation, or land purchase, other than where intrinsic to a wider project within the programme areas
- Endowments, debt reduction and fund-raising campaigns
- Projects with political or religious objectives
- Normally, funding for individual study tours or attendance at conferences.

Governance and Internal Controls

The Trustees are appointed by the sole member of the Foundation (The Shell Petroleum Company Limited), in consultation with the existing Trustees. Trustees serve for a period of three years, with possible re-appointment for further periods (without limitation) of not more than three years. The Trustees meet formally twice each year. They review and approve:

- A strategic plan and annual budget for the Foundation.
- The Foundation's financial results, variances from budget, investment performance, and non-financial performance indicators.
- Internal controls (including delegation of authorities and segregation of duties).
- Risks associated with the projects (both approved and potential) supported by the Foundation and appropriate mitigation measures in respect of those projects.

Shell Foundation

Report of the Trustees (continued) for the year ended 31 December 2004

Statement of Trustees' Responsibilities

The Trustees are responsible for safeguarding the charitable company's assets and hence for taking reasonable steps for the prevention and detection of fraud and breaches of laws and regulations. They are responsible for identifying and managing risk.

The Trustees are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the charitable company, and enable the Trustees to ensure that the financial statements comply with the Companies Act 1985 and the Statement of Recommended Practice: Accounting and Reporting by Charities.

The Trustees are responsible for the preparation of financial statements for each financial year that give a true and fair view of the charitable company's incoming resources and application of resources during the year and of its state of affairs at the end of the year. In preparing those financial statements the Trustees are required to:

- Select suitable accounting policies and apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State whether applicable accounting standards and statements of recommended practice have been followed.
- Prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the activities of the charitable company will continue.

The Trustees are responsible for the maintenance and integrity of the charitable company's website. Uncertainty regarding legal requirements is compounded as information is published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.

Risk Management

The Trustees have identified the major risks to which the Foundation might be exposed. Exposure is analysed by plotting on a matrix the likelihood of occurrence (vulnerability) of major risks against the potential consequences of occurrence (impact). The Trustees regularly review this matrix, most recently in their December 2004 Board meeting, and ensure that appropriate controls are in place to mitigate those risks.

Relationship with Royal Dutch Shell Group

To ensure clarity in the relationship of the Shell Foundation to the Royal Dutch / Shell Group of companies ("Shell Group"), the Board of Trustees includes independent members who have no direct relationship with the Shell Group, known as the "Nominated Trustees". They are selected for their experience of and eminence in the Foundation's field of activities and its objectives. During 2004 the Nominated Trustees were Dr Pieter Winsemius, Sir John Houghton, and Dr Enos Banda (who resigned during the year).

In addition, the Trustees explicitly recognised their charitable responsibilities in this regard by stating formally that the Foundation will not support activities that primarily benefit the commercial interests, meet the business requirements, or fulfil legal obligations of any Shell Group company. Any circumstance where this might be a significant possibility is reviewed by the Nominated Trustees.

The Shell Foundation was formally incorporated on 31 May 2000 and registered as a charity on 2 June 2000. Between incorporation and 31 December 2000, donations of \$259 million were received from Shell Group companies, of which \$256 million was in the form of an expendable endowment and the balance as unrestricted funds. The Foundation has continued to receive annual donations of unrestricted funds from Shell Group companies.

Review of Activities and Achievements

During 2004, donations of \$13.9 million (2003: \$13.1 million) were received from Shell Chemicals UK Ltd, a member of the Royal Dutch / Shell Group of companies, to cover the 2004 operating and grant-making costs of the Foundation.

Shell Foundation

During the year net grants totalling \$12.2 million (2003: \$8.5m) were awarded by the Foundation to beneficiaries in support of projects fulfilling the objectives of the Foundation's programmes. As anticipated, donations to unrestricted funds of \$13.9 million were less than the Foundation's total unrestricted expenditure of \$14.8 million for the period, the deficit being covered by the surplus brought forward from the prior year.

Shell Foundation currently has two main grant-making programmes:

- **The Sustainable Energy Programme:** This programme aims to reduce environmental impacts of energy use and increase the access of poor people in developing countries to energy services, to help them move out of poverty.
- **The Sustainable Communities Programme:** This programme supports local, practical projects, in partnership with local or international non-governmental organisations, to help marginalised communities and groups to improve their economic opportunities and their long-term sustainability.

In order to focus the Foundation's resources on the SEP and SCP programmes, the Trustees decided in 2003 to place less emphasis in future on the Foundation's third programme, the **Youth Enterprise Programme**. This programme stimulates the development of youth enterprise programmes around the world to advise young people in need and to help them acquire the skills and resources to establish themselves in business, while helping them also to understand the wider responsibilities and opportunities that their businesses present. The YEP grants awarded in 2004 represent the conclusion of initiatives that were already under preliminary discussion with potential grantees in 2003.

Consolidated details of all grants committed or awarded by Shell Foundation and its subsidiary SAEF in the year ended 31 December 2004 are listed in the table below. This excludes a grant of \$50,000 made by Shell Foundation to SAEF to cover ongoing operating costs such as external audit and company secretarial fees. The balance on the grants committed but not paid as at 31 December 2004 will be payable in subsequent financial years (see notes 4, 12 and 13).

Shell Foundation

<u>PROGRAMME & THEME</u>	<u>GRANTEE</u>	<u>Total Funding \$000</u> <u>2004</u>
Sustainable Energy Programme		
Biodiversity	UNESCO	200
Climate Change	Imperial College of Science and Technology	1
Household Energy and Health	School of Public Health - University of California	23
	Winrock International	20
	IT Power Ltd	400
	Venture Strategies for Health & Development	350
	Development Alternatives	412
	Appropriate Rural Technology Institute	490
	HELPS International	16
	Intermediate Technology Development Group	9
	Eco Ltd	25
	GIRA A.C. & Instituto de Ecologia	150
	Winrock International Kenya	75
	SCODE	200
	Aprovecho Research Center/ASAT	77
	BLH Strategies LLC	10
	National Industrial Credit Bank	500
	Crestar Capital India Private	174
	China Association of Rural Energy	56
	Dometic AB	145
	Children's Media Ltd	250
	HELPS International	375
Investment Partnerships	GroFin	975
	Aldwych International Ltd	267
	GroFin Mauritius Limited	1,500
	GroFin Risk Capital Facility	3,000
	The John Ray Initiative	8
Modern Energy Services	World Resource Institute (WRI)	65
	Forum for the Future	37
	EnergyNet Ltd	18
	Commonwealth Business Council	42
	Cap Jubly	23
	AHEAD Energy Corporation	20
Sustainable Transport	World Resource Institute (WRI)	472
	Sub-total	10,385
Sustainable Communities Programme		
Biodiversity	Whole Systems	200
Counter Balance	Le Quang Minh, Cantho University	50
	Entrepreneurial Development Institute	50
	China Foundation for Poverty Alleviation	230
	Asociata Integra Romania	150
	INTEGRA-BDS	150
	Fruits of the Nile Ltd	200
	Organic Exchange	150
Improved Resource Management	Tropical Wholefoods	17
	Sub-total	1,197
Youth Enterprise Programme		
Livewire	Economic Development Centre (CDE)	1
	Charities Aid Foundation	630
	Sub-total	631
	Total Grants awarded per Statement of Financial Activities	12,213

Shell Foundation

Report of the Trustees (continued) for the year ended 31 December 2004

Grant Making Highlights

As shown above, Shell Foundation (including SAEF) awarded new grant commitments of \$12.2 million in 2004. Grant payments of \$8.5 million were made during the year ended 31 December 2004 of which \$0.6 million was for projects approved in 2001, \$2.2 million for projects approved in 2002, \$2.8 million for projects approved in 2003 and \$2.9 million for new projects approved in 2004.

Highlights of Shell Foundation's grant making in 2004 included:

- To further the activities of the Sustainable Energy programme in southern Africa, particularly to facilitate the "Energise" theme, the Trustees resolved in October 2003 to establish a 'not for profit' section 21 subsidiary, limited by guarantee, in South Africa named the South African Energy Facility ("SAEF"). This subsidiary was incorporated in South Africa on 12th January 2004. The \$1 million grant awarded in 2003 to the Empowerment Through Energy Fund ("ETEF") in South Africa was treated as a pre-incorporation transaction of SAEF and payments have been made via SAEF in 2004. ETEF was winner of the Africa Investment Award for Best Initiative in support of the Millennium Development Goals in 2004.
- The two energy funds (ETEF and Uganda Energy Fund), previously established in South Africa and Uganda respectively, provided business support and funding for small local enterprises engaged in providing energy services of benefit to poorer communities, thereby pioneering a new approach to increasing access by the poor to modern energy services in ways that are financially sustainable. By the end of 2004, more than 300 small manufacturing enterprises had received finance and business training, creating over 1000 jobs.
- The Household Energy and Health projects aim to minimise the negative health effects suffered by poor women and children as a result of the inhalation of smoke from open indoor cooking fires - a problem that currently causes many premature deaths every year in developing countries. By the end of 2004 an estimated 200,000 households across eight countries had benefited from reduced exposure to Indoor Air Pollution - a figure that is expected to rise to more than a million by the end of the pilot phase.
- Shell Foundation's work continued to attract favourable interest from the media (e.g. BBC World) and from other NGOs.

Financial Activities

The Statement of Financial Activities is set out on page 11 of the financial statements.

Reserves

The medium term objective of the Trustees continues to be to build reserves to a level that provides a mature asset base capable of sustaining the funding of the entire annual programme of the Foundation. It is considered that the rate of annual growth on the original invested fund of \$256 million should be sufficient to attain the desired level of reserves by the end of 2010. In the meantime it is anticipated that the annual grant programmes will continue to be financed by annual donations from companies of the Royal Dutch / Shell Group.

Shell Foundation

Report of the Trustees (continued) for the year ended 31 December 2004

Investment Policy and Performance

The Trustees wish to make prudent investments consistent with meeting the Foundation's primary objective of reaching financial independence by December 2010. The flexibility offered by the funding arrangements outlined above permits an investment policy that is targeted towards a higher rate of return and will accept volatile short-term results in the expectation that the volatility will be more than compensated by superior long-term performance. To achieve this objective the selected strategy is to invest in a globally diversified portfolio of equity and bond markets (weighted 60% in equities and 40% in bonds). The Shell Foundation has the US Dollar as its base currency. In order to mitigate the risk associated with investing globally in multiple currencies, the investment portfolio is hedged back to US dollars by the fund managers through the use of forward foreign exchange contracts.

Investments are included at closing mid-market value at the balance sheet date. Overall investment performance of the endowment during 2004 showed a positive return of +10.3%, which was in line with the portfolio benchmark return. The good performance was attributable to the continuing rally in world equity markets, again coupled with robust global bond market returns. The Foundation closed the year within the estimated return range consistent with achieving the long-term financial objectives by December 2010.

Auditors

The sole member approved the adoption of Elective Resolutions on 28 March 2001, in accordance with the Companies Act 1985, to dispense with (a) the holding of Annual General Meetings, (b) the laying of Report and Accounts before general meetings each year, and (c) the annual re-appointment of Auditors.

PricewaterhouseCoopers LLP accordingly shall continue as Auditors of the Shell Foundation pursuant to section 386(2) of the Companies Act 1985. In accordance with section 253(2) of the Companies Act 1985, any Member or the Auditors may require the Report and Accounts to be laid before a general meeting by depositing a notice to that effect at the registered office of the Foundation not later than 28 days after the despatch of the accounts and reports to Members.

PricewaterhouseCoopers have audited Shell Foundation's new 'not for profit' subsidiary, South African Energy Facility, which is included within the consolidated financial statements.

By order of the Board

Jyoti E Munsiff
Trustee

27th September 2005

Independent auditor's report to the member of Shell Foundation

We have audited the consolidated financial statements which comprise the statement of financial activities, the summary income and expenditure account, the balance sheets, the cash flow statement, the related notes and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The trustees are also directors of Shell Foundation for the purpose of Company Law. Their responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Report of the Trustees.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's member in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume any responsibility for any other purpose, or to any other person to whom this report is shown, or into whose hands it may come, save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Trustees is not consistent with the financial statements, if the charitable company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Report of the Trustees.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the charitable company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the charitable company and group at 31 December 2004 and of the consolidated net incoming resources, including the consolidated income and expenditure, and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London 3rd October 2005

Shell Foundation

Consolidated Statement of financial activities for the year ended 31 December 2004

	Note	Unrestricted Funds 2004 \$000	Endowment Funds 2004 \$000	Total Funds 2004 \$000	Total Funds 2003 \$000
Incoming Resources					
Donations	2	13,850		13,850	13,148
Investment Income	3	187	9,573	9,760	8,446
Total Incoming Resources		14,037	9,573	23,610	21,594
Resources Expended					
<i>Cost of generating funds:</i>					
Investment management costs	5		(363)	(363)	(384)
Total cost of generating funds			(363)	(363)	(384)
<i>Charitable Expenditure</i>					
<i>Cost of activities in the furtherance of the charity's objects:</i>					
Grants Payable:					
-Sustainable Energy Programme		(10,385)		(10,385)	(7,465)
-Sustainable Communities Programme		(1,197)		(1,197)	(800)
-Youth Enterprise Programme		(631)		(631)	(190)
Total Grants Payable	4	(12,213)		(12,213)	(8,455)
Programme Support Costs					
-Sustainable Energy Programme		(1,343)		(1,343)	(792)
-Sustainable Communities Programme		(151)		(151)	(454)
-Youth Enterprise Programme					(195)
Total Programme Support Costs	5	(1,494)		(1,494)	(1,441)
Management & administration	5	(1,202)		(1,202)	(1,695)
Exchange gains		83	91	174	253
Total charitable expenditure		(14,826)	91	(14,735)	(11,388)
Total resources expended		(14,826)	(272)	(15,098)	(11,722)
Net (outgoing) / incoming resources before revaluations and investment asset disposals		(789)	9,301	8,512	9,872
Gains on the revaluation and disposal of					
Investment assets	9		18,809	18,809	34,363
Net Movement in Funds		(789)	28,110	27,321	44,235
Fund balances brought forward at 1 January 2004	14	5,928	274,441	280,369	236,134
Fund balances carried forward at 31 December 2004	14	5,139	302,551	307,690	280,369

All incoming resources, resources expended and resulting net movements in funds are derived from continuing activities. There are no recognised gains or losses other than those outlined in the Statement of Financial Activities.

The accompanying notes form part of these financial statements.

Shell Foundation

Consolidated Income and expenditure account for the year ended 31 December 2004

	2004 \$000	2003 \$000
Gross Charitable Income	13,850	13,148
Total Expenditure	(15,098)	(11,722)
Net surplus / (deficit) before investment asset disposals	(1,248)	1,426
Investment Income	9,760	8,446
Realised (loss) on investment asset disposals	(4,594)	(9,106)
Net surplus of income over expenditure for the year	3,918	766

Balance sheets as at 31 December 2004

	Note	Shell Foundation 2004 \$000	Shell Foundation 2003 \$000	Shell Foundation Group 2004 \$000	Shell Foundation Group 2003 \$000
Fixed Assets					
Investments (at market value)	9	308,694	280,926	308,694	280,926
Current Assets					
Debtors: amounts falling due within one year	10	6,256	4,428	6,256	4,428
Cash at bank & in hand		8,355	7,554	8,399	7,554
		14,611	11,982	14,655	11,982
Creditors: amounts falling due within one year	12	(11,077)	(9,036)	(11,089)	(9,036)
Net Current Assets		3,534	2,946	3,566	2,946
Total Assets less Current Liabilities		312,228	283,872	312,260	283,872
Creditors: amounts falling due after more than one year	13	(4,570)	(3,503)	(4,570)	(3,503)
Net Assets		307,658	280,369	307,690	280,369
Represented by:					
Endowment Funds – including a revaluation reserve of \$000 45,319 (2003 \$000 22,780)	15	302,551	274,441	302,551	274,441
Unrestricted Funds	15	5,107	5,928	5,139	5,928
Total Funds		307,658	280,369	307,690	280,369

The accompanying notes form part of these financial statements.

The financial statements on pages 11 to 22 were approved by the trustees and signed on their behalf by:

Jyoti E Munsiff
Trustee

27th September 2005

Shell Foundation

Consolidated Cash flow statement for the year ended 31 December 2004

	Notes	2004		2003	
		\$000	\$000	\$000	\$000
Net cash inflow from operating activities	16		2,22		3,01
Returns on investments and servicing of finance					
Investment income received		7,883		6,427	
Investment income attributable to endowment funds		<u>(7,837)</u>		<u>(6,391)</u>	
Total returns on investments and servicing of finance			4		3
Capital expenditure and financial investment					
Purchase of investments		(60,924)		(50,550)	
Less: Dividends reinvested		1,765		1,423	
Sale of investments		60,302		57,745	
Movement on investments debtor / creditor		(1,870)		1,076	
Payments on forward foreign exchange contracts	9	(1,235,900)		(830,126)	
Proceeds on forward foreign exchange contracts	9	1,227,720		815,416	
Cash flow attributable to endowment investments		<u>8,907</u>		<u>6,525</u>	
Total capital expenditure and financial investment					<u>1,50</u>
Net cash inflow before financing			2,27		4,55
Financing					
Investment income retained within endowment funds		7,837		6,391	
Net cash outflow attributable to endowment investments		(8,907)		(6,525)	
Cash expended on endowment fund fees		(355)		(274)	
Total Financing			<u>(1,42)</u>		<u>(40)</u>
Increase in cash in the year		813		4,144	
Non cash item relating to endowment		32		6	
Increase in cash in the year as per Balance Sheet			84		4,15

The accompanying notes form part of these financial statements.

Notes to the financial statements for the year ended 31 December 2004

1 Accounting Policies

Basis of Preparation

The financial statements are prepared in accordance with the Statement of Recommended Practice (SORP) "Accounting and Reporting by Charities", published in October 2000, and in accordance with applicable United Kingdom accounting standards and the Companies Act 1985.

The financial statements are prepared under the historical cost convention, as modified by the revaluation of investments. The financial statements are also prepared on a going concern basis.

The financial statements of Shell Foundation are prepared in United States dollars. This is because the local currency of Shell Foundation, defined in SSAP 20 as the currency of primary economic environment in which the Foundation operates, is US dollars, reflecting the high proportion of grants awarded and donations received in dollars and consequent dollar weighting of its investment funds.

Consolidation

The financial statements consolidate, on a line by line basis, those of Shell Foundation and its wholly-owned South African not for profit subsidiary, the South African Energy Facility. As permitted by paragraph 304 of the Charities SORP, no separate Statement of Financial Activities has been presented for the Foundation alone. The net incoming resources and net movement in funds of the Foundation were (\$000s) 9,317 (2003: (\$000s) 9,872) and (\$000s) 27,289 (2003: (\$000s) 44,235) respectively. The disclosures listed in paragraph 315 of the Charities SORP have not been given, as the subsidiary is not material to the group.

Fund Accounting

Funds held by the charity are either:

- General unrestricted income funds, that are expendable at the discretion of the trustees in furtherance of the charity's objects; or
- Expendable endowment funds, whose principal purpose is for investment to build the asset base of the Foundation to a sustainable level but which can be converted at the discretion of the trustees into expendable income when needed.

Incoming Resources

Donations and investment income are included in the Statement of Financial Activities when the charity is legally entitled to the income. Donated services, if applicable, are included in income at a valuation which is an estimation of the financial cost borne by the donor. There were no donated services during the year.

Investment income arising from expendable endowment fund investments is added to endowment funds. This reflects the fact that the income is currently reinvested, in accordance with the funding memorandum from the endowment donor, to meet the objective of building the endowment fund to a level capable of sustaining the entire annual programme of the Foundation.

Resources Expended

All expenditure is accounted for on an accruals basis and has been classified under headings that aggregate all costs related to the category. Where costs cannot be directly attributed to particular headings they have been allocated to activities on a basis consistent with the use of resources as follows:

- Premises and staff related costs are allocated on the basis of manpower effort expended.
- General overheads are included within management and administration.

Investment Management Costs

The costs of generating funds comprises investment management costs for both income generation and capital maintenance.

Notes to the financial statements (continued) for the year ended 31 December 2004

Grant Making Policy & Grant Commitments

As part of its risk control framework, Shell Foundation conducts due diligence assessments of prospective grantees (grant recipients), prior to awarding grants, to confirm that, at the time of commitment, there is an expectation that the project is likely to be successful and, therefore, that the grant commitment will be paid in full. Once a grantee's application has been approved (in accordance with Shell Foundation's governance procedures) the grant is formally committed by way of a Letter of Understanding (LOU), which is counter-signed by the grantee. The LOU notifies the grantee that a grant has been awarded and sets forth any terms under which the grant will operate. These terms help the Foundation to ensure that the grant is being used for the intended charitable purpose. Accordingly grant commitments are normally settled over a period of time in accordance with a payment schedule. From time to time, certain milestones must be met by the grantee to receive these scheduled grant payments. The expectation upon signing the LOU is that the grantee will be able to achieve the milestones. Progress against milestones is monitored, based on reports from the grantee, and where a grantee does not meet a milestone the payment of that instalment of the grant may be deferred until such time as the milestone has been met.

Grant commitments charged as charitable expenditure in the Statement of Financial Activities represent the new commitments awarded by the Foundation in the year, as evidenced by the LOUs signed in that year. Grant commitments for which expenditure was outstanding at the year-end are shown as liabilities in the Balance Sheet. The commitments are not discounted. In the event that Shell Foundation creates a valid expectation that it will enter into a new grant commitment (which would require the signing of a new LOU) upon the achievement of specified conditions which may or may not be met at some future time, then that potential commitment is treated as a contingent liability.

Programme Support Costs

Support costs comprise costs for processing grants and applications and for the administration and monitoring of projects. These costs include staff costs and associated overheads incurred on staff undertaking these activities. Staff costs comprise charges in respect of the services of employees of Shell Group companies in relation to Shell Foundation activities. The Foundation has no direct employees.

Management and Administration

Management and administration comprises direct and indirect costs for the running of the charity itself as an organisation as distinct from directly pursuing its charitable activities. Direct costs include such items as external audit, legal advice for trustees and costs associated with constitutional and statutory requirements. Indirect costs include a proportion of management (and other staff) time and overhead costs connected with it, for example office and communication costs (see note 5).

Value Added Tax ('VAT')

The charity is registered for Value Added Tax ('VAT') as part of a VAT Group. VAT incurred by the Shell Foundation on its expenditure is not recoverable as the charity does not make any taxable supplies. Irrecoverable VAT is recognised as part of the cost of acquisition of an asset or as part of an item of expense.

Gains and Losses on Foreign Exchange

Monetary assets and liabilities denominated in currencies other than dollars are converted to dollars at the rate ruling at the balance sheet date. Items of income and expenditure in non-dollar currencies are converted at transaction date exchange rate where known, or otherwise at the average rate for the period. Non-dollar items typically relate to UK operating costs, which are incurred in pounds sterling ("GBP"), as well as a small proportion of grants awarded in GBP. All realised and unrealised gains and losses on exchange are reflected in the Statement of Financial Activities.

Investments

Investments are included at closing mid-market value at the balance sheet date. Any realised and unrealised gains and losses on revaluation or disposals form part of the fund in which the investment is held at the time of the revaluation or disposal. Realised and unrealised gains and losses are combined in the Statement of Financial Activities.

Shell Foundation

Notes to the financial statements (continued) for the year ended 31 December 2004

Currency Hedging Policy

The Shell Foundation has the US Dollar as its base currency. In order to mitigate the risk associated with investing globally in multiple currencies, the investment portfolio is hedged by the fund managers through the use of forward foreign exchange contracts. Unsettled forward contracts are marked to market at the balance sheet date. All realised and unrealised gains and losses on forward foreign exchange contracts are combined in the Statement of Financial Activities with the gains and losses on the underlying investment portfolio.

2 Donations Received

	2004	2003
	\$000	\$000
Corporate Donations:		
Shell Petroleum Company Ltd		13,148
Shell Pensioenfonds Beheer B.V *		-
Shell Chemicals UK Ltd	13,850	
	13,850	13,148

* amount was less than \$500

3 Investment income

	Shell	Shell	Shell	Shell
	Foundation	Foundation	Foundation	Foundation
	2004	2003	Group	Group
	\$000	\$000	2004	2003
	\$000	\$000	\$000	\$000
Interest on Cash Deposits	187	156	187	156
Fixed Interest Securities	6,197	5,369	6,197	5,369
Dividends	3,376	2,921	3,376	2,921
	9,760	8,446	9,760	8,446

4 Grants Payable

	Shell	Shell	Shell	Shell
	Foundation	Foundation	Foundation	Foundation
	2004	2003	Group	Group
	\$000	\$000	2004	2003
	\$000	\$000	\$000	\$000
Grants payable brought forward	(10,886)	(9,917)	(10,886)	(9,917)
Payments	8,526	7,486	8,476	7,486
Grants payable within 1 year	10,053	7,383	10,053	7,383
Grants payable after 1 year	4,570	3,503	4,570	3,503
	12,263	8,455	12,213	8,455

A full list of grants awarded in the year ended 31 December 2004 is included in the Trustees' Report (page 7).

Shell Foundation

Notes to the financial statements (continued) for the year ended 31 December 2004

5 Resources expended

	Manpower Related Costs \$000	Other Costs \$000	2004 \$000	2003 \$000
Investment management costs		363	363	384
Grants Payable		12,213	12,213	8,455
Programme support costs	646	848	1,494	1,441
Management & administration	590	612	1,202	1,695
Exchange loss / (gain)		(174)	(174)	(253)
	1,236	13,862	15,098	11,722

Manpower Related Costs above comprise charges in respect of the services of employees of the Shell Group companies in relation to Shell Foundation activities. The Foundation has no direct employees.

Other Costs shown above within 'programme support' and 'management and administration' include:

	2004 \$000
Consultancy and professional fees	629
Travel and accommodation expenses	332
Publishing and communications expenditure	425
SAEF operating costs / professional fees	18
Other	56
	<u>1,460</u>

6 Net incoming resources

	2004 \$000	2003 \$000
Net incoming resources is stated after charging:		
Auditors remuneration for audit services	29	29
Other Professional advice	20	
	<u>49</u>	<u>29</u>

7 Employee and Trustee information

The Foundation has no direct employees.

No trustee received any remuneration from the charity during the year. The Foundation directly incurred or reimbursed travel expenses in relation to two trustees totalling \$2,000 (2003 \$10,454 in respect of three trustees).

No indemnity insurance for Trustees' liability has been purchased by the charity. However, because all Trustees are appointed by The Shell Petroleum Company Limited (the sole member) they are automatically covered by the Royal Dutch / Shell group of companies' Directors and Officers liability insurance policy. Insurance cover is permitted under clause 21 of the Foundation's Memorandum of Association.

Shell Foundation

Notes to the financial statements (continued) for the year ended 31 December 2004

8 Taxation

The Foundation is a registered charity, and as such is entitled to certain tax exemptions on income and profits from investments.

9 Investments – charity and group

	Market Value 01-Jan-04 \$000	Purchases at cost/ Deposits \$000	Sale Proceeds/ Withdrawals \$000	Corporate Actions \$000	Gains/ (Losses) \$000	Market Value 31-Dec-04 \$000
Equities						
UK	9,680	688	(1,322)	(31)	1,294	10,309
Europe	16,211	1,066	(1,895)	-	2,942	18,324
North America	47,286	4,682	(6,065)	169	4,359	50,431
Japan	7,849	1,102	(1,008)	-	1,121	9,064
Far East	722	189	(106)	-	156	961
Australasia	2,040	156	(307)	(138)	513	2,264
Other	115	29	73	-	15	232
	83,903	7,912	(10,630)	-	10,400	91,585
Fixed Interest Securities						
UK public sector quoted	7,683	1,433	(2,413)	-	538	7,241
Overseas public sector quoted	99,308	45,307	(38,164)	-	7,181	113,632
Overseas quoted	-	-	-	-	-	-
	106,991	46,740	(40,577)	-	7,719	120,873
Pooled Investment Vehicles						
UK	-	-	-	-	-	-
Overseas	88,452	4,332	(7,148)	-	10,839	96,475
	88,452	4,332	(7,148)	-	10,839	96,475
Time Deposits		1,940	(1,947)	-	7	-
Forward Foreign Exchange Contracts	(8,884)	1,235,900	(1,227,720)	-	(10,156)	(10,860)
Sub-Total	270,462	1,296,824	(1,288,022)	-	18,809	298,073
Cash Held for Investment	10,464	142			16	10,622
Totals	280,926	1,296,966	(1,288,022)	-	18,825	308,695

Corporate actions represent rights and bonus issues, stock splits and consolidations and similar movements.

Shell Foundation

Notes to the financial statements (continued) for the year ended 31 December 2004

10 Debtors – charity and group

	Shell Foundation	Shell Foundation	Shell Foundation Group	Shell Foundation Group
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
Amounts falling due within one year:				
Other Debtors	6,256	4,428	6,256	4,428

11 Cash at bank and in hand – charity and group

	Shell Foundation	Shell Foundation	Shell Foundation Group	Shell Foundation Group
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
Cash at Bank	8,355	7,554	8,399	7,554

For the purposes of the cash flow statement, cash includes cash on hand and in banks other than cash held as part of the investment portfolio.

12 Creditors: amounts falling due within one year

All Programme support expenses, investment management costs and Shell Foundation management expenses are initially incurred and paid through Shell International Ltd. These expenses are then recharged by invoice from Shell International to the Shell Foundation on a monthly basis.

	Shell Foundation	Shell Foundation	Shell Foundation Group	Shell Foundation Group
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
Grants Payable	10,053	7,383	10,053	7,383
Trade Creditors – Shell International Ltd	248	454	248	454
Accruals – Shell International Ltd	776	1,199	776	1,199
Accruals – Other	-	-	12	-
	11,077	9,036	11,089	9,036

Shell Foundation

Notes to the financial statements (continued) for the year ended 31 December 2004

13 Creditors: amounts falling due after more than one year – charity and group

	Shell Foundation 2004 \$000	Shell Foundation 2003 \$000	Shell Foundation Group 2004 \$000	Shell Foundation Group 2003 \$000
Total Grants payable	14,623	10,886	14,623	10,886
Less amounts falling due within one year (note 12)	(10,053)	(7,383)	(10,053)	(7,383)
	4,570	3,503	4,570	3,503
Represented by:				
Grants payable in greater than one year but less than two years	2,640	2,383	2,640	2,383
Grants payable in greater than two years	1,930	1,120	1,930	1,120
	4,570	3,503	4,570	3,503

14 Group Funds

	Balance Bfwd \$000	Incoming Resources \$000	Resources Expended \$000	Investment Gain/(losses) \$000	Balance Cfwd \$000
Endowment Funds	274,441	9,573	(272)	18,809	302,551
Unrestricted Funds	5,928	14,037	(14,826)		5,139
	280,369	23,610	(15,098)	18,809	307,690

15 Analysis of net assets between funds

	Note	Unrestricted Funds 2004 \$000	Endowment Funds 2004 \$000	Shell Foundation Group 2004 \$000	Shell Foundation Group 2003 \$000
Fixed Assets					
Investments (at market value)	9	13,861	294,833	308,694	280,926
Current Assets					
Debtors: amounts falling due within one year	10	-	6,256	6,256	4,428
Cash at bank & in hand		6,937	1,462	8,399	7,554
Creditors: amounts falling due within one year	12	(11,089)		(11,089)	(9,036)
Net Current Assets		(4,152)	7,718	3,566	2,946
Total Assets less Current Liabilities		9,709	302,551	312,260	283,872
Creditors: amounts falling due after more than one year	13	(4,570)	-	(4,570)	(3,503)
Net Assets		5,139	302,551	307,690	280,369

Shell Foundation

Notes to the financial statements (continued) for the year ended 31 December 2004

16 Reconciliation of net incoming resources to net cash inflow from operating activities

	Shell Foundation Group 2004 \$000	Shell Foundation Group 2003 \$000
Continuing activities		
Net incoming / (outgoing) resources - unrestricted funds	(789)	1,915
Investment income - unrestricted funds	(187)	(156)
Net unrealised exchange (gain) on unrestricted investment funds	(15)	(17)
Increase in net creditors – unrestricted funds	3,120	1,100
Effects of foreign exchange on unrestricted cash funds	95	171
	2,224	3,013

17 Capital commitments

The Foundation had no Capital Commitments as at 31 December 2004 (2003: \$ nil).

18 Capital

The Charity is a company limited by guarantee. The sole member has undertaken to contribute £1 to the assets of the company to meet its liabilities if called on to do so.

19 Related party transactions

The sole member of Shell Foundation is The Shell Petroleum Company Ltd ('SPCo'). At the year end SPCo was in turn, a subsidiary undertaking of N.V. Koninklijke Nederlandsche Petroleum Maatschappij (Royal Dutch Petroleum Company), which owned 60% of its share capital, the remaining 40% being owned by The "Shell" Transport and Trading Company, p.l.c. (ST&T) At the year end, the Company's ultimate Parent Company was therefore - N.V. Koninklijke Nederlandsche Petroleum Maatschappij (Royal Dutch Petroleum Company), which is incorporated in the Netherlands.

On 28 June 2005, the shareholders of Royal Dutch and ST&T approved proposals to unify the two companies under a single parent company, Royal Dutch Shell plc, which is incorporated in the UK. All necessary conditions to approve the unification were fulfilled by 20 July 2005 and consequently the ultimate parent company changed to Royal Dutch Shell plc on that date.

Of the Shell Foundation's current or former trustees listed on page 3, the following four are or were directors or officers of the Royal Dutch / Shell Group of companies: Sir Philip Watts, Mr Jeroen van der Veer, Miss Jyoti Munsiff and Mr Malcolm Brinded. The Royal Dutch / Shell group of companies has other charitable affiliates which are not formally related to Shell Foundation, such as The Shell Centenary Scholarship Fund in the UK and the Shell Oil Foundation in the USA.

Shell Foundation

Notes to the financial statements (continued) for the year ended 31 December 2004

20 Contingent liabilities

As at 31 December 2004 the Foundation had a contingent liability of \$2.25 million in respect of its support to the EMBARQ project, in addition to the grants of \$3.75 million awarded in 2002, of \$0.75 million awarded in 2003 and of \$0.472 million in 2004 (which were included in charitable expenditure for the respective years). The award of further grants of up to \$2.25 million in total, in three equal instalments of \$0.75 million each, is conditional upon the future performance of the grantee, World Resources Institute (WRI), meeting certain targets.

At any time the Foundation may be in discussion with potential grantees or may even have made formal offers of grants to grantees, which are pending their acceptance. As at 31st December 2004 there were no further contingent liabilities in the form of formal offers ("Letters of Understanding") issued but pending acceptance that have not been included in the Balance Sheet. All accepted offers of grants have been included in charitable expenditure for the year.

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