



Shell Foundation

(a Company limited by Guarantee not having a share Capital)

Trustees' Report and Financial Statements for the year ended 31 December 2003

Company Registered Number: 4007273

Charity Registered Number: 1080999

Trustees' report and financial statements for the year ended 31 December 2003

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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

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 2003

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 2003.

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).

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.
- Shell 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.

Report of the Trustees (continued) for the year ended 31 December 2003

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, issued in October 2000.

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.

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 2003 the Nominated Trustees were Dr Pieter Winsemius, Sir John Houghton, and Dr Enos Banda.

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 possibility is reviewed by the Nominated Trustees.

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 November 2003 Board meeting, and ensure that appropriate controls are in place to mitigate those risks. Potential risks identified include, for example, the poor financial performance of Shell Foundation's investments, which are reviewed by an investment sub-committee reporting regularly to the full Board.

Review of Activities and Achievements

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.

During 2003, donations of \$13.1 million were received from The Shell Petroleum Company Limited to cover the 2003 operating and grant-making costs of the Foundation (2002: \$12.3 million).

Report of the Trustees (continued) for the year ended 31 December 2003

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.

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 \$1million grant awarded to the Empowerment Through Energy Fund in 2003 is being treated as a pre-incorporation transaction of SAEF and payment of this grant will be made via SAEF.

- **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 have decided 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 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.

During 2003 Shell Foundation improved its systems in order to support the efficient administration of its grant -making activities:

- A new accounting system was implemented which has enhanced the Foundation’s management information capabilities.
- Both the presentation and content of the Foundation’s web site were enhanced. As well as news of its programmes and activities, the web site now includes the audited financial statements. Further information can be found at www.shellfoundation.org

Report of the Trustees (continued) for the year ended 31 December 2003

Details of all grants committed or awarded by the Foundation in the year ended 31 December 2003 are listed in the table below. The balance on the grants committed but not paid as at 31 December 2003 will be payable in subsequent financial years (see notes 4, 12 and 13).

PROGRAMME & THEME	GRANTEE	Total Funding* \$000 2003
SUSTAINABLE ENERGY PROGRAMME		
Biodiversity	Smithsonian Institution	20
Climate Change	London School of Hygiene & Tropical Medicine	0
	Minerals and Energy Policy Centre	(4)
	Beijing Energy Efficiency Centre	30
	Centre for Sustainable Energy	(0)
	Centre for Science Education	0
	Institute for International Environment & Development	(0)
	Imperial College of Science, Technology & Medicine	5
	The John Ray Initiative	8
Household Energy and Health	School of Public Health - University of California	215
	Department of Public Health University of Liverpool	214
	Intermediate Technology Development Group	33
	GIRA A.C	12
	Dometic Group	92
	Enterprise Works Worldwide	346
	GTZ Ethiopia	436
Energise	TVE International	50
	DFCU Group	600
	# Empowerment Through Energy Fund (ETEF)	1,000
Modern Energy Services	Centre for Renewable Resources	(8)
	Energy for Sustainable Development	1
	Chardust Ltd.	75
	RAPS Finance	1,000
	Ameco Environmental Services	225
	Energy & Development Research	(32)
	DFCU Group	2,250
	Electro Watts Ltd	75
	Shahstratronic Cont Pr Ltd	70
Sustainable Transport	World Resource Institute (WRI)	750
	Oikos International	2
	Sub-total	7,465

* Amounts shown as "0" are adjustments of less than \$500. Negative amounts (x) represent a reduction, usually due to the project being completed for less than the grant total originally awarded.

Pre-incorporation grant of SAEF (see Sustainable Energy Programme, page 6)

Report of the Trustees (continued) for the year ended 31 December 2003

PROGRAMME & THEME	GRANTEE	Total Funding* \$000 2003
SUSTAINABLE COMMUNITIES PROGRAMME		
Counter balance	Traidcraft Exchange	350,000
	China Foundation for Poverty A	100,000
	Integra Foundation	350,000
		Sub-total
		800,000
YOUTH ENTERPRISE PROGRAMME		
Livewire	Shell LiveWIRE Trust, Sri Lank	38,000
	Dialog - Educacao Tecnologica e	451
	Economic Development Ctr (CDE)	150,773
		Sub-total
		189,223
Grants Payable per Statement of Financial Activities		8,454,673

* Amounts shown as "0" are adjustments of less than \$500. Negative amounts (x) represent a reduction, usually due to the project being completed for less than the grant total originally awarded.

Pre-incorporation grant of SAEF (see Sustainable Energy Programme, page 6)

Grant Making Highlights

As shown above, the Foundation awarded new grant commitments of \$8.5 million in 2003. Grant payments of \$7.5 million were made during the year ended 31 December 2003 of which \$0.4 million was for projects approved in 2000, \$1.3 million for projects approved in 2001, \$2.8 million for projects approved in 2002 and \$3 million for new projects approved in 2003.

Highlights of Shell Foundation's grant making in 2003 included:

- with African banks in Uganda and South Africa to create two energy funds that provide 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.
- The launch of four new Household Energy and Health projects in Africa, that are aimed at minimising 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.
- The launch of three new community development projects - via the Sustainable Communities Programme - in Eastern Europe, India and China that will improve the livelihoods of poorer communities through enabling them to gain access to new markets for the products they produce.
- Shell Foundation's biodiversity project with the Smithsonian in Gabon was featured in a BBC television documentary.

Report of the Trustees (continued) for the year ended 31 December 2003

Financial Activities

The Statement of Financial Activities is set out on page 10 of the financial statements.

During the year net grants totalling \$8.5 million (2002: \$9.6m) were awarded by the Foundation to beneficiaries in support of projects fulfilling the objectives of the Foundation's programmes. Donations to unrestricted funds of \$13.1 million (2002: \$12.3 million) were more than sufficient to fund both the actual and the committed expenditure of the Foundation for the period and it is anticipated that the surplus will be utilised by the 2004 grant programme.

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.

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).

Overall investment performance of the endowment during 2003 showed a positive return of +18.3%, which was in line with the portfolio benchmark return. The strong performance was attributable to a significant rally in world equity markets 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.

At their June 2003 Board Meeting, the trustees formally approved the resignation of PricewaterhouseCoopers and the appointment of PricewaterhouseCoopers LLP (reflecting the auditors conversion to a limited liability partnership from 1 January 2003).

PricewaterhouseCoopers LLP will accordingly 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 LLP (South Africa) have agreed to become the external auditors for Shell Foundation's new 'not for profit' subsidiary, South African Energy Facility.

By order of the Board

Jyoti E Munsiff
Trustee
9th September 2004

Independent auditor's report to the member of the Shell Foundation

We have audited the financial statements which comprise the statement of financial activities, the summary income and expenditure account, the balance sheet, 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 The 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 the charitable company's affairs at 31 December 2003 and of its net incoming resources, including its 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
September 2004

Statement of financial activities for the year ended 31 December 2003

	Note	Unrestricted Funds 2003 \$000	Endowment Funds 2003 \$000	Total Funds 2003 \$000	Total Funds 2002 \$000
Incoming Resources					
Donations	2	13,148	–	13,148	12,300
Investment Income	3	156	8,290	8,446	8,340
Total Incoming Resources		13,304	8,290	21,594	20,640
Resources Expended					
<i>Cost of generating funds:</i>					
Investment management costs	5	–	(384)	(384)	(428)
Total costs of generating funds		–	(384)	(384)	(428)
Charitable Expenditure					
<i>Costs of activities in furtherance of the charity's objects:</i>					
Grants Payable:					
- Sustainable Energy Programme		(7,465)		(7,465)	(7,210)
- Sustainable Communities Programme		(800)		(800)	(1,987)
- Youth Enterprise Programme		(190)		(190)	(393)
Total Grants payable	4	(8,455)		(8,455)	(9,590)
Programme Support Costs					
- Sustainable Energy Programme		(792)		(792)	(1,137)
- Sustainable Community Programme		(454)		(454)	(232)
- Youth Enterprise Programme		(195)		(195)	(563)
Total Programme Support Costs	5	(1,441)		(1,441)	(1,932)
Management & administration		(1,695)		(1,695)	(1,231)
Exchange gains	5	203	50	253	62
Total charitable expenditure		(11,388)	50	(11,338)	(12,691)
Total resources expended		(11,388)	(334)	(11,722)	(13,119)
Net Incoming resources before revaluations and investment asset disposals					
Gains and (losses) on the revaluation and disposal of investment assets	9		34,363	34,363	(31,257)
Net Movement in Funds	14	1,916	42,319	44,235	23,736
Fund balances brought forward at 1 January 2003	14	4,012	232,122	236,134	259,870
Fund balances carried forward at 31 December 2003	14	5,928	274,441	280,369	236,134

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.

Summary income and expenditure account for the year ended 31 December 2003

	2003 \$000	2002 \$000
Gross Charitable Income	13,148	12,300
Charitable expenditure	(11,722)	(12,593)
Net surplus / (deficit) before investment asset disposals	1,426	(293)
Investment income	8,446	8,340
Realised gain/loss on investment asset disposals	0	(16,213)
Net surplus / (deficit) of income over expenditure for the year	766	(8,166)

Balance sheet as at 31 December 2003

	Notes	2003 \$000	2002 \$000
Fixed Assets			
Investments (at market value)	9	280,926	240,420
		280,926	240,240
Current Assets			
Debtors: amounts falling due within one year	10	4,428	3,559
Cash at bank & in hand	11	7,554	3,404
		11,982	6,963
Creditors: amounts falling due within one year	12	(9,036)	(6,524)
Net Current Assets		2,946	439
Total Assets less Current Liabilities		283,872	240,859
Creditors: amounts falling due after more than one year	13	(3,503)	(4,725)
Net Assets		280,369	236,134
Represented by:			
Endowment Funds	15	274,441	232,122
Unrestricted Funds	15	5,928	4,012
Total Funds		280,369	236,134

The accompanying notes form part of these financial statements.

The financial statements on pages 11 to 21 were approved by the trustees and signed on their behalf by:
Jyoti E Munsiff
 Trustee
 9th September 2004

Cash flow statement for the year ended 31 December 2003

	Notes	2003		2002	
		\$000	\$000	\$000	\$000
Net cash inflow from operating activities	16	3,013		4,458	
Returns on investments and servicing of finance					
Investment income received		6,427		7,105	
Investment income attributable to endowment funds		(6,391)		(7,096)	
Total returns on investments and servicing of finance			36		9
Capital expenditure and financial investment					
Purchase of investments		(27,152)		(217,011)	
Sale of investments		36,846		216,930	
Payments on forward foreign exchange contracts	9	(830,126)		(852,801)	
Proceeds on forward foreign exchange contracts	9	815,416		843,984	
Cash flow attributable to endowment investments		6,525		7,062	
Total capital expenditure and financial investment			1,509		(1,836)
Net cash inflow before financing			4,558		2,631
Financing					
Investment income retained within endowment funds		6,391		7,096	
Net cash outflow attributable to endowment investments		(6,525)		(7,062)	
Cash expended on endowment funds		(274)		(74)	
Total Financing			(408)		(40)
Increase in cash in the year			4,150		2,591

The accompanying notes form part of these financial statements.

Notes to the financial statements for the year ended 31 December 2003

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.

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.

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.

Notes to the financial statements (continued) for the year ended 31 December 2003

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.

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

	2003 \$000	2002 \$000
<hr/>		
Corporate Donations:		
Shell Petroleum Company Ltd	13,148	12,300
Shell Pensioenfonds Beheer B.V *	0	0
<hr/>		
	13,148	12,300
<hr/>		

* amount was less than \$500 in each year

Notes to the financial statements (continued)
for the year ended 31 December 2003

3. Investment income

	2003 \$000	2002 \$000
Interest on cash deposits	156	141
Fixed Interest Securities	5,369	5,808
Dividends	2,921	2,391
Total	8,446	8,340

4. Grants Payable

	2003 \$000	2002 \$000
Grants Payable brought forward	(9,917)	(5,587)
Payments	7,486	5,260
Grants Payable within 1 year	7,383	5,192
Grants Payable after 1 year	3,503	4,725
Total Grants awarded	8,455	9,590

A full list of grants awarded in the year ended 31 December 2003 is included in the Trustees' Report (page 7).

5. Resources expended

	Manpower related costs \$000	Other costs \$000	2003 \$000	2002 \$000
Investment management costs		384	384	428
Grants payable		8,455	8,455	9,590
Programme support costs	700	741	1,441	1,932
Management and administration	867	828	1,695	1,231
Exchange (gains)		(253)	(253)	(62)
Total	1,567	10,155	11,722	13,119

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 within programme support and management and administration include consultancy and professional fees of \$867,000; travel and accommodation expenses of \$291,000; and publishing expenditure of \$208,000.

Of the total exchange gains of \$253,000; \$183,000 related to year-end revaluation of funds held in GBP (pounds sterling), due to the strengthening of the pound against the US dollar in the period.

**Notes to the financial statements (continued)
for the year ended 31 December 2003**

6. Net incoming resources

	2003 \$000	2002 \$000
Net incoming resources is stated after charging:		
Auditors remuneration for audit services:	29	15

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.

7. Employee 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 three trustees totalling \$10,454 (2002 \$6,914 in respect of two trustees).

8. Taxation

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

**Notes to the financial statements (continued)
for the year ended 31 December 2003**

9. Investments

	Market Value 1-Jan-03 \$000	Purchases at cost/ Deposits \$000	Sale Proceeds/ Withdrawals \$000	Corporate Actions \$000	Gains/ (Losses) \$000	Market Value 31-Dec-03 \$000
Equities						
UK	8,342	406	(1,184)	148	1,968	9,680
Europe	12,829	1,524	(2,978)	0	4,836	16,211
North America	40,964	4,109	(8,792)	(167)	11,172	47,286
Japan		6,250	428	(929)	0	2,100
7,849						
Far East	758	84	(269)	0	150	722
Australasia	1,331	168	(138)	19	660	2,040
Other		50	84	(57)	0	38
115						
	70,524	6,802	(14,347)	0	20,924	83,903
Fixed Interest Securities						
UK public sector quoted	8,890	2,264	(4,020)	0	548	7,682
Overseas public sector quoted	83,731	39,268	(33,791)	0	10,100	99,308
Overseas quoted	108	0	(108)	0	0	0
	92,729	41,532	(37,919)	0	10,648	106,991
Pooled Investment Vehicles						
Overseas	70,459	2,216	(5,480)	0	21,257	88,452
	70,459	2,216	(5,480)	0	21,257	88,452
Forward Foreign Exchange Contracts	(5,128)	830,126	(815,416)	0	(18,466)	(8,884)
	(5,128)	830,126	(815,416)	0	(18,466)	(8,884)
Sub-Total	228,584	880,676	(873,161)	0	34,364	270,462
Cash Held for Investment	11,836	920	(2,309)	0	17	10,464
Totals	240,420	881,596	(875,470)	0	34,381	280,926

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

10. Debtors

	2003 \$000	2002 \$000
Amounts falling Due within one year:		
Other Debtors	4,428	3,559

**Notes to the financial statements (continued)
for the year ended 31 December 2003**

11. Cash at bank and in hand

	2003 \$000	2002 \$000
Cash at Bank	7,554	3,404

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

	2003 \$000	2002 \$000
Grants Payable	7,383	5,192
Trade Creditors - Shell International Ltd	454	169
VAT Accrual		364
Accruals - Shell International Ltd	1,199	799
	9,036	6,524

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.

13. Creditors: amounts falling due after more than one year

	2003 \$000	2002 \$000
Total Grants Payable	10,886	9,917
Less amounts falling due within one year (note 12)	(7,383)	(5,192)
	3,503	4,725
Represented by:		
Grants payable in greater than 1 year but less than 2 year	2,383	2,831
Grants payable in greater than 2 years	1,120	1,894
	3,503	4,725

14. Funds

	\$000 Balance Bfwd	\$000 Incoming Resources	\$000 Resources Expended	\$000 Investment gains/(losses)	\$000 Balance Cfwd
Endowment Funds	232,122	8,290	(334)	34,363	274,441
Unrestricted Funds	4,012	13,304	(11,388)	0	5,928
Total Funds	236,134	21,594	(11,722)	34,363	280,369

Notes to the financial statements (continued)
for the year ended 31 December 2003

15. Analysis of net assets between funds

	Unrestricted Funds 2003 \$000	Endowment Funds 2003 \$000	Total Funds 2003 \$000	Total Funds 2002 \$000
Fixed Assets				
Investments (at market value)	11,339	269,587	280,926	240,420
	11,339	269,587	280,926	240,420
Current Assets				
Debtors: amounts falling due within one year	0	4,428	4,428	3,559
Cash at bank & in hand	7,128	426	7,554	3,404
	7,128	4,854	11,982	6,963
Creditors: amounts falling due within one year	(9,036)	0	(9,036)	(6,524)
	(9,036)	0	(9,036)	
Net Current Assets/(Liabilities)	(1,909)	4,854	2,946	439
Total Assets less Current Liabilities	9,431	274,441	283,872	280,859
Creditors: Amounts falling due after more than one year	(3,503)	0	(3,503)	(4,725)
Net Assets	5,928	274,441	280,369	236,134

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

	2003 \$000	2002 \$000
Continuing activities		
Net incoming / (outgoing) resources – unrestricted funds	1,915	(152)
Investment income – unrestricted funds	(156)	(141)
Net unrealised exchange (gain) on unrestricted fund investments	(17)	(241)
Increase in net creditors - unrestricted funds	1,100	4,996
Effects of foreign exchange on unrestricted cash funds	171	(4)
Net cash inflow from operating activities	3,013	4,458

Notes to the financial statements (continued) for the year ended 31 December 2003

17. Capital commitments

The Foundation had no Capital Commitments as at 31 December 2003 (2002: \$ 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. 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.

20. Contingent liabilities

As at 31 December 2003 the Foundation had a contingent liability of \$3 million in respect of its support to EMBARQ (in addition to the grant of \$3.75 million which was awarded in 2002 and the grant of \$0.75 million awarded in 2003 which were included in charitable expenditure for 2002 and 2003 respectively). The award of further grants of up to \$3 million total, in four equal instalments of \$0.75 million each, is conditional upon the future performance of the Foundation's partner, 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 2003 there were no further contingent liabilities in the form of formal offers ("Letters of Understanding") issued but pending acceptance. All accepted offers of grants have been included in charitable expenditure for the year.